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**BIAC STATEMENT TO THE 1998 OECD COUNCIL MEETING AT MINISTERIAL
LEVEL**

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**BIAC STATEMENT TO THE 1998 OECD COUNCIL MEETING
AT MINISTERIAL LEVEL**

Introduction:

1. The international business community is pleased to present this statement to the 1998 OECD Council Meeting at Ministerial Level. The recommendations presented below represent the consensus views of the 34 national industry and employer organisations which are members of the Business and Industry Advisory Committee (BIAC) to the OECD.

2. We believe that the messages emerging from the 1998 Ministerial Meeting will be of considerable importance to the international economy. Fear and uncertainty about our governments' capacity to meet the challenges of change continue to undermine public support for liberal trade and investment systems. The OECD and its Member countries bear a special responsibility to restore confidence in an open multilateral system. Participants in this year's Ministerial must use the occasion to promote greater public awareness of the substantial new wealth and unprecedented opportunities for improved economic performance, employment creation and consumer welfare which globalisation is generating around the world. Equally important, Ministers must state very clearly their mutual determination to implement the necessary policy measures and reforms to ensure that all countries enjoy the maximum benefits of technological development and economic interdependence.

3. Without a strong statement of support for liberalisation from the world's most advanced economies, we believe there is a serious risk that opponents of more liberal trade and development will begin to have even more influence on the policy agenda, leading to serious tensions among long-standing trading partners, with unpredictable consequences for the world economy.

4. We consider that the following issues should feature prominently in Ministers' conclusions:

Strengthening the multilateral system requires a coordinated approach to the development of policies to support further liberalisation...

5. Multilateral Agreement on Investment (MAI): A strong commitment to conclude the MAI would signal OECD Governments' continuing support for an open multilateral trade and investment system. The international business community wants and needs a Multilateral Agreement on Investment which reflects the high standards expected of OECD countries, and which is signed by as many Non-OECD countries as possible. We will actively support an agreement which we consider truly adds value to the climate for international investment. We urge individual governments not to waste this opportunity by seeking broad and/or ambiguous general exceptions for politically-sensitive, country-specific issues which would be more appropriately covered by transparent, national reservations. As the negotiations approach conclusion, we urge governments to increase their efforts to publicise the anticipated benefits of the MAI to promote broader public support for the final agreement.

6. Further Trade Liberalisation: OECD Governments should also use the occasion of the 50th anniversary of the General Agreement on Tariffs and Trade to reinforce their support for further liberalisation by implementing, accelerating and completing the agenda established by the Uruguay Round. The WTO made good progress at Singapore in modifying its post-Uruguay agenda to address

issues facing business today. BIAC applauds the agreements reached in 1997 on Basic Telecommunications and Financial Services, which were business priorities. We urge OECD members to take every opportunity at the Geneva Ministerial to make progress on the WTO agenda. We would particularly support the launching of new negotiations to promote further tariff reductions. It is also important that the scope of WTO policy coverage be expanded to reflect the integrated nature of the private enterprise approach to commercial transactions in the global marketplace. We would also support continued efforts to reduce customs-related barriers to trade through further reform and simplification of trade and customs procedures.

7. Corrupt Practices: BIAC salutes the achievement of the OECD Convention criminalising bribery of foreign public officials. We expect OECD member governments to meet their commitments to establish such practices as a criminal offence under national laws by the end of this year. Corrupt practices result in substantial economic and social costs both for companies and for countries in which illicit payments and extortion are frequently encountered. Further work by governments is needed to address the serious problems of extortion and bribery on a global basis with the aim of achieving comparable national rules and regulations for all countries, not just OECD members.

8. Development Assistance: BIAC welcomes the OECD's efforts to untie official aid programmes, particularly with regard to the least-developed countries. Conditioning development assistance on the purchase of specific goods and services represents a significant anachronism in a world characterised by increasing liberalisation and more dynamic international competition. We note that the next G8 summit will consider abolition of such programmes and we urge OECD Ministers to endorse similar reforms to the development assistance programmes of all DAC members.¹

9. Electronic Commerce: BIAC supports OECD's efforts to engage in forthright and constructive discussions regarding electronic commerce. We believe that the development of electronic commerce should be led primarily by the private sector in response to market forces. Where carefully minimalist government action and/or a commitment to a conscious policy of non-interference is required, we believe that policy making should take place within a global framework comprising at least all of the OECD countries, developed at the multilateral level in consultation with the private sector. To that end, we urge government and business in all countries to co-operate and consider policy principles consistent with BIAC Policy Principles for Global Electronic Commerce.

10. International Taxation: Companies are increasingly hampered by international double or multiple taxation. National tax policies can decisively affect company operations now that intra-company transactions account for nearly half of all trade in some countries. For this reason BIAC continues its strong support for the OECD Transfer Pricing Guidelines and the recognition of the arms-length principle as the internationally accepted standard. We also strongly support the OECD's efforts to promote acceptance and implementation of the OECD Transfer Pricing Guidelines and Model Double Income Taxation Convention among Non-OECD countries. We note that the OECD has completed a study on harmful tax competition which is to be submitted for the consideration of Ministers. We were disappointed not to have been consulted on this report during its preparation, and we are thus concerned that the text may not take full account of various other important factors that distort competition such as state aids in different forms. We hope that the report makes a clear distinction between so-called harmful tax competition and efforts by countries to improve their tax legislation through legitimate reform.

¹ The CNPF reserves its position on this paragraph.

...combined with meaningful responses to societal concerns:

11. **Sustainable Development:** In its Statement to the 1998 Meeting of the Environment Policy Committee at Ministerial Level, BIAAC set out recommendations on how industry and government can work co-operatively to implement sustainable development in this era of globalisation. Business is an important actor in the pursuit of sustainable development and can make its contribution most effectively in the framework of economic growth, a competitive market and a conducive regulatory structure. BIAAC believes that innovation and technological improvements by the private sector are a key element in achieving sustainable development. Environmental policy should therefore stimulate innovation and be based on a constructive dialogue between business and government, on the best available scientific knowledge and analysis, and on a realistic appreciation of the costs and benefits involved. It is essential that policies and measures be designed to promote voluntary actions, which can reduce costs, increase flexibility and speed implementation. Economic growth is a fundamental element of environmental improvement and the means by which the considerable potential of advancing technology and better environmental practice is realised. The challenge of climate change, which will play an important role in the implementation of sustainable development, requires prudent, timely and global action over the long term. The targets set in Kyoto are challenging, but a number of issues still require further clarification. BIAAC supports the OECD in taking further steps to integrate sustainable development into its work programme, balancing economic, social and environmental aspects.

12. **The Social Dimension of Globalisation:** In a 1997 submission to OECD Ambassadors, BIAAC outlined appropriate measures to address the social impact of globalisation. We continue to urge Member governments not to react defensively to globalisation in deference to politically influential interest groups, but rather to articulate comprehensive policy frameworks and implement the necessary reforms to prepare their economies for the tremendous benefits that the further liberalisation can offer. As elaborated in our paper, such a framework should involve:

- **Implementing the Jobs Strategy Recommendations:** Labour market policies and their associated costs in some OECD countries effectively penalise private sector job creation, especially by small- and medium-sized enterprises. Unfortunately, although OECD Governments have continued to endorse the Jobs Study recommendations, implementation at the national level remains piecemeal at best. This must be changed. The fight against unemployment cannot be won by creating “artificial jobs”, but by implementing measures which promote sustainable, productive employment. People will only have confidence in globalisation if they see that it results in more and better job opportunities for them, not stagnation and insecurity.
- **Sound Macroeconomic Policies:** It is essential that OECD Governments maintain sound macroeconomic policies, including the continuing efforts to make sustainable reductions in government spending. The tremendous scale and mobility of international capital flows is now a dominant feature of the world economy. Although this vast pool of global capital offers substantial opportunities for economic growth and development in nearly every country, there is also a significant risk of financial market volatility if governments are not perceived to be maintaining appropriate macroeconomic policies. Such volatility creates another source of considerable uncertainty and can undermine confidence in a government’s ability to manage change effectively. More broadly, economic cycle volatility can also have an adverse effect on companies.

- **Education and Training:** Rapid changes in technology require a well-educated and adaptable work force. Those individuals who do not have access to and take advantage of effective, continuing education and re-training programmes will be marginalised in national labour markets, and as a result, will feel seriously threatened by global competition. Although BIAC recognises that individuals, together with employers, bear the primary responsibility for ensuring that labour force skills are updated as necessary, governments can and must help by taking steps to adapt their educational institutions to equip youth with the knowledge, skills and attitudes required to become lifelong learners.
- **Regulatory Reform:** Building on the OECD's work in this area, governments must undertake a complete and objective review of existing regulations taking into account international "best practices", and reform those that impede entrepreneurial initiative and economic dynamism including, in particular, the capacity for launching and succeeding in new business ventures. Introducing such a practice would be a major step towards ensuring that the benefits of globalisation accrue to the population at-large by promoting more durable employment opportunities for workers and a wider choice of quality goods and services for consumers at the best possible prices. In this regard, we fully support the plans to monitor and conduct country reviews of implementation of the Regulatory Reform report recommendations. However, we would urge that such reviews do not impose unreasonable administrative requirements on companies, thus threatening business competitiveness.
- **Social Safety Nets:** Although globalisation and technological advancements are providing many new job opportunities in our economies, some individuals may require targeted assistance to facilitate their re-integration to the labour market. Effective programmes, which reward individual incentive and responsibility with temporary financial support for enhanced adaptability and mobility, will foster a much greater sense of economic security and promote confidence in a government's ability to help people cope with change.
- **Good Governance:** Vague and inconsistent approaches to policy development and implementation undermine peoples' confidence in their political leaders' ability to understand and respond to their needs. Most important, in our view, is the need to clearly articulate policy objectives to the general public and then to ensure transparent mechanisms for evaluating performance, control and accountability in implementation. Although the precise methods may vary according to specific national circumstances, we believe that Member governments should draw upon the recommendations of the OECD Public Management Service to play a more active role in promoting constituents' support for policy goals and the means of achieving them. In this regard, we believe governments must promote the social benefits of globalisation in a realistic and objective way, avoiding partisan polemics which undermine public understanding and support for trade and investment liberalisation.

13. Ageing Populations: In this context, we fully support the work of the OECD on the economic implications of ageing populations. In our view, one source of uncertainty about the impact of globalisation on economic security involves the demographic trend towards ageing populations and the continuing questions about governments' ability to finance the same level of care and support enjoyed by previous generations. Although continuing efforts to make sustainable reductions in public sector deficits will help ensure that future generations are not overly burdened by the cost of supporting tomorrow's elderly, there is also a significant need for pension reform so that there is a more appropriate balance between public assistance, individual savings and company pension plans. BIAC would be pleased to work with the OECD to develop strategies and appropriate legal frameworks for stimulating private initiatives in this area.

Conclusion:

14. It is obvious that globalisation is irreversible and that it offers tremendous benefits to the world economy and overall living standards. BIAC welcomes efforts by the OECD to promote such benefits and calls upon OECD Governments to use the 1998 Ministerial Meeting to reaffirm their commitment to an open international trade and investment system, and to promote greater public understanding of and support for policies which will maximise our economies' capacity for adapting to technological change and the competitive pressures of globalisation.