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**Council at Ministerial Level, 26-27 May 1999**

**BIAC STATEMENT TO THE 1999 OECD COUNCIL MEETING AT MINISTERIAL  
LEVEL**

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**BUSINESS STATEMENT TO THE 1999 OECD COUNCIL MEETING  
AT MINISTERIAL LEVEL  
26 - 27 May 1999**

***Introduction:***

1. The business community of the Member countries is pleased to present this statement to the 1999 OECD Council Meeting at Ministerial Level. The recommendations presented below represent the consensus views of the 35 national industry and employer organisations which are members of the Business and Industry Advisory Committee (BIAC) to the OECD on the principal policy issues to be discussed by Ministers.

2. The world economy has shown considerable resiliency following the global financial crisis which began in mid 1997. Although a number of economies continue to show signs of weakness, prospects for recovery towards the end of this year and into 2000 are generally quite good. Some East Asian and Latin American economies are starting to rebound well from the severe problems they experienced in 1998, and with the exception of certain sectors, the impact on OECD countries seems to have been tempered by continuing growth and import demand in the United States. Despite recent, well-publicised trade tensions between Europe and the United States, as well as protectionist political pressures at the national level, the major economies have managed to maintain relatively open markets which have served as an important engine for recovery from the crisis.

3. Nevertheless, the speed with which the financial crisis spread through emerging markets and the difficult adjustment costs experienced by the private and public sectors in those countries has raised many questions about the extent of capital market liberalisation, about the effects of globalisation, and about whether current rules and institutions are capable of promoting the maximum benefits of technological development and economic interdependence.

4. The business community represented here by BIAC believes that the OECD should play an active role in sustaining, restoring and building public and political support for an open multilateral system by continuing to promote the domestic policy reforms necessary for vibrant business environments and dynamic labour markets. The OECD provides unique analytical support and guidance which helps to promote understanding of the varied, often competing interests within our societies. The ultimate objective of such analytical work is to further the development of an open, transparent, rules-based commercial system within a vigorous, growing, global economy. Our priorities for OECD Governments in the coming year are as follows:

***Growth, Employment and Social Cohesion:***

5. A sound macroeconomic environment is necessary for sustained growth, job creation, increased productivity and improved living standards, all essential to strengthen social cohesion. The business community supports recent interest rate reductions in Europe and initiatives by

Japan to stimulate its economy through increased public spending and financial market reforms. However, as we have said on numerous occasions, there can be no meaningful job creation in Europe, nor lasting amelioration of the grave economic situation in Japan, without serious structural reforms. BIAC urges OECD Ministers to commit to vigorous reform efforts in both product and labour markets. At the same time, BIAC members remain concerned that inflation and interest rates are still too high in certain countries (e.g., Mexico) relative to other OECD Members, conditions which are hindering the development and job-creating capacity of small- and medium-sized enterprises.

6. We note that a number of OECD countries have endeavoured to introduce greater flexibility and reduce non-wage costs of employment to create more dynamic labour markets. However, unemployment, and in particular structural unemployment, is still far too high in many OECD Member countries, which underlines the importance of pushing ahead in all of the areas identified by the 1994 Jobs Study and related follow-up activities. Particular attention should be paid to the growing employment potential of new technologies, as well as to promoting self-employment and SMEs, which play an essential role in job creation. The public policy trade-off between employment and heavy regulatory rigidities and social cost structures is well understood. There is a real loss of capacity for job creation resulting from the diminution of entrepreneurship and innovation inherent in a more fluid labour market. The concept of lifelong learning, whereby individuals acquire skills and knowledge on an ongoing basis and are thus adequately equipped for working life, must be more fully introduced and practised in our societies. It is the sine qua non of real adjustment.

7. Although we recognise that many of the necessary reforms may be opposed by some, governments need to push ahead with reforms as rapidly as possible. There is thus a continuing need to conduct a frank and open dialogue on these issues at all appropriate levels. Ministers should reaffirm the importance of the Jobs Study conclusions and mandate the OECD to continue to forcefully promote implementation of the recommendations at the local and national levels.

8. In this context, we express our strong support for the OECD's excellent programme on regulatory reform. As the OECD has pointed out, regulatory reform is necessary to build in economic flexibility without undermining necessary regulatory objectives. This flexibility is needed to adjust to the high velocity of technological change, and the speed and global reach of today's commercial transactions. Business needs a more streamlined and efficient regulatory environment to realise the opportunities presented in global markets. Regulatory reform must overcome entrenched interests, which requires a horizontal approach and international dialogue. OECD analysis and data are indispensable to this effort. The main focus should be to promote adoption of proven regulatory reform practices of Member governments, while a second focus is to build support for them beyond the OECD. The OECD is the only organisation capable of devising a comprehensive multilateral approach to this issue. Thus, it is essential that it stay engaged in promoting and monitoring the progress of Member countries' regulatory reform efforts.

***Trade and Investment: Challenges and Opportunities for the Multilateral System, and Objectives for a new WTO Round:***

9. Following the financial crisis, OECD Governments must restore confidence in an open trade and investment system, and continue to pursue opportunities for further liberalisation which will promote economic growth and higher living standards throughout the world. We fully support the launching of new negotiations at the next WTO Ministerial in Seattle. We hope the new round, a shorter, more compact round, will advance implementation of the Uruguay Round commitments, including progress on key issues on the “built-in agenda”.

10. Among the principal business priorities for the next round of negotiations are tariff elimination in agreed upon sectors, reduction of tariff peaks, and extension of tariff bindings; accelerated reductions in tariffs such as those proposed to the WTO by APEC ministers; as well as further progress in tariff issues on the built-in agenda such as geographic expansion of zero-for-zero tariff cuts and tariff harmonisation agreements. Some progress on tariffs such as the second Information Technology Agreement and the new APEC Early Voluntary Liberalisation Sectors should be agreed at the Ministerial.

11. In the area of services, a top priority should be to broaden and deepen commitments made in the GATS agreement, and continue OECD work to remove domestic regulatory obstacles to cross-border trade and foreign direct investment in professional services. For example, BIAC urges OECD support for efforts to improve the WTO discipline for accounting so it is adopted in legally binding form. BIAC considers that Article VI of the GATS on domestic regulation is a potentially powerful tool for extending liberalisation beyond the border. We call on the OECD to develop additional ideas on how Article VI “disciplines” on domestic regulation might be used. We believe the OECD should identify the remaining barriers to trade in services among Members and compile them in a comprehensive, systematic way across all services sectors. The Organisation could also usefully develop yardsticks for measuring barriers to international transactions in services which would permit negotiators to better evaluate requests and offers on services, and assess the overall balance of concessions. Finally, protection of intellectual property rights and trade-related investment measures remain important issues. We thus call on OECD members to push for full implementation of the WTO Intellectual Property Agreement (TRIPs). BIAC does not favour re-opening the TRIPs agreement. If further negotiations on TRIPs should become part of the next Round, OECD Governments should support proposals to strengthen WTO disciplines on TRIPs.

12. BIAC strongly urges OECD Governments to make permanent their current declaration for a duty-free cyberspace at the WTO Ministerial. Ministers should declare open market access and national treatment for internet services in addition to committing to transparent, non-discriminatory and least trade restrictive rules with regard to electronic commerce. BIAC believes that services supplied by electronic means can take place in any of the four modes set out in the GATS framework for services supplied by non-electronic means. Accordingly, the supply of services by electronic technology is covered by the GATS in the same way as all other means of delivery. BIAC believes electronic commerce is simply another means of conducting business and that therefore current WTO rules, obligations, disciplines and commitments apply. The success of commerce conducted using electronic means depends in large part on the implementation and expansion of commitments for cross-border trade in various sectors. It is thus vital that the OECD

continue and expand the work it has undertaken in highlighting this issue and providing valuable analysis that will lead to a better understanding of the issue on the part of governments and their trade negotiators.

13. The OECD should focus on this very important trade-electronic commerce nexus in a number of sector specific contexts including, e.g., energy, health care, financial services, professional services, travel and transportation. We would also support a more extensive horizontal work programme on electronic commerce, featuring, for example, priority attention to economic analysis and developing the ongoing excellent substantive work on telecommunications. In particular, we recommend that OECD carry out a review of the impact of telecommunications, information services and infrastructures. Concerning future work on e-commerce, we recommend that the OECD focus its efforts on analytical support in subject areas where conclusive policy commitments may be premature.

14. BIAC also looks forward to the completed WTO study of transparency in government procurement practices which was mandated in Singapore. We urge OECD Governments to push for an agreement on transparency by the Seattle Ministerial. Such an agreement would increase transparency, openness and due process in government procurement by all WTO members, and would establish basic procedural guarantees for all WTO members and would apply to all procurement including national and subnational government authorities as well as state owned enterprises. This type of agreement would provide a foundation for further needed improvements in terms of increased membership, broader sector coverage and better transparency.

15. BIAC believes that WTO can play an important role by focusing its work on the simplification of trade procedures, on customs procedures and by supporting the WCO's effort to produce a revised and strengthened Kyoto Convention so that it becomes an enforceable and truly multilateral agreement. The draft revision of this horizontal annex now incorporates most of the substance of the ICCs International Customs Guidelines, which we cited last year as appropriate world business objectives for customs modernisation. The WTO Council on Trade in Goods has examined the proposals that can be taken under current WTO rules e.g., customs, transparency obligations under Article X of the GATT, to reduce customs-related barriers to trade. BIAC urges OECD Members to include rules on the simplification of customs procedures in the agenda of the impending multilateral negotiations.

16. Agricultural negotiations in the WTO scheduled to begin at the end of 1999 provide an excellent opportunity to confront the remaining barriers to trade in the agro-food sector by lowering tariff levels, attacking technical barriers to trade, reviewing the trade impact of sanitary/phytosanitary measures and quality standards, and imposing strict disciplines over export subsidies and export restrictions. In this regard, the OECD is well placed to consider these issues in the context of the trade policy challenges posed by developments in the area of biotechnology. Regional negotiations on agriculture under the framework of the New Transatlantic Marketplace, the FTAA, and APEC can give strong added impetus to WTO work. In approaching these regional and multilateral negotiations, we urge OECD and other WTO members to be mindful of the strong linkage between agricultural trade policy measures and domestic policy measures. As OECD Agricultural Ministers have stressed, "further reform of domestic and trade policies has to be compatible."

17. BIAC members were very disappointed that OECD Governments decided to halt negotiations of a multilateral agreement on investment. We believe that there will inevitably be such an agreement because it is an essential component to the framework of rules necessary for maximising the benefits of globalisation for all countries. We urge the OECD to continue discussions on key elements of an eventual agreement to promote mutual understanding among the various interests about specific areas of concern and ensure that none of the valuable work done within the context of the MAI is lost to inertia and unfounded allegations about the impact of an investment agreement on environmental and labour standards.

18. With the success of WTO disciplines on border barriers to trade, it is necessary to address public and private actions as well as other non-competitive practices that impede market entry. However, BIAC believes that a considerable effort is needed to achieve better understanding of the link between trade and competition policies and how conflict between the two policy areas can be dealt with before this issue can be effectively addressed in the WTO. BIAC supports the efforts of the WTO in this area but believes that the OECD is still the best forum to continue an examination of these linkages and to make practical progress on certain aspects such as hard-core cartels or price-fixing. The OECD has unique resources in this important area of future work and we encourage a process by which OECD analysis can be made available to the WTO study of this policy interaction.

19. The business community, represented here by BIAC, supports the efforts of the WTO Committee on Trade and Environment (CTE) and hopes that this work will lead to a clearer understanding of how trade rules apply to the use of trade measures in Multilateral Environmental Agreements (MEAs). The OECD's Joint Working Party on Trade and Environment can contribute importantly to WTO trade negotiations through its analysis of the environmental benefits of trade liberalisation. The Working Party should also give equal attention to assessing the trade effects of environmental agreements currently under negotiation. As the 1995 Report on Trade and Environment to OECD Ministers concluded, the mutual compatibility of environmental and trade policies is essential to realise the beneficial effects of trade liberalisation for both economic development and the environment.

20. BIAC restates its longstanding view that the ILO, not the WTO, is the competent body to deal with conditions of work, as acknowledged by WTO Members at the Singapore Ministerial. The countries represented at Singapore reaffirmed their commitment to observe internationally recognised labour standards. In June 1998, the ILO responded by adopting the Declaration of Fundamental Principles and Rights at Work and its follow-up, which commits the 174 Member countries of the ILO to respect, promote and realise the Principles concerning fundamental rights that are the subject of the seven fundamental ILO Conventions. Recognising that the world community needed to address the issue of worker's rights in a credible manner, the international business community fully supported the Declaration. We therefore urge OECD Ministers to acknowledge the achievement of the ILO in developing and promulgating the Declaration of Fundamental Principles and Rights at Work and its follow-up; and urge the ILO Member states to implement the Declaration in good faith. BIAC continues to believe it would be damaging to trade and investment, and counterproductive to the improvement of labour conditions, to introduce trade sanctions for violations of any agreed labour standards or to include binding social clauses in trade agreements or investment treaties.

21. We are pleased that the OECD has taken important steps to address other key challenges to the multilateral system. We applaud the fact that the OECD Convention criminalising bribery of foreign public officials has now entered into force. Corrupt practices result in substantial economic and social costs both for companies and for countries in which illicit payments and extortion are frequently encountered. The monitoring and follow-up programme of the OECD's Anti-Bribery Working Group is of critical importance to insure the effectiveness of the convention. We urge that adequate staffing and resources be provided for the monitoring programme and that BIAC and other groups be enabled to participate actively in the process.

22. We also welcome the OECD's efforts to develop Principles for Corporate Governance. Weak corporate governance can seriously undermine investor confidence and contribute to financial market volatility. BIAC believes that the OECD Principles will increase transparency and accountability of boards and managers to shareholders, especially in so far as they stress directors' responsibility for risk management and for the viability and solvency of their businesses.

23. BIAC supports the OECD Guidelines for Multinational Enterprises and the review process now underway. The Guidelines have been a useful, voluntary instrument to encourage companies to practice good corporate behaviour. Since their inception, the landscape has changed significantly. Broadly, multinationals practice good corporate conduct as espoused the Guidelines – it is good business for them to do so and helps them in the face of market competition. In recent years, reflecting changes in technology, participants in global markets are increasingly small and medium sized companies operating in countries all over the world. Any revision to the Guidelines must reflect these new realities. The new Guidelines must be flexible not only because of the inherent challenge of writing a single set of Guidelines for thousands of separate companies operating under different economic and cultural conditions, but also because markets change quickly and market participants must have the flexibility to anticipate and react to these changes. While the Guidelines contain a clarification procedure, the new Guidelines should establish a positive approach to the issues of corporate behaviour that promotes awareness of the self interest of the business community in their practice of the Guidelines. By focusing on the modernisation and promotion of the Guidelines, governments can demonstrate that it is in business' interests – particularly new entrants to the market – to follow and use the Guidelines.

24. The multilateral system continues to be seriously hampered by double or multiple taxation resulting from the simultaneous application of tax rules, despite efforts to reduce this problem. 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. Building on these efforts to reduce double taxation, international consensus on the application of tax rules to electronic transactions will prove indispensable for the fullest exploitation of the global trading potential of electronic business without introducing distortions. We appreciate the OECD's efforts towards these goals. On the other hand, we are concerned that the OECD's work on "harmful tax competition" might promote new obstacles to cross-border trade and investment by introducing new restrictions in the location and structure of international business activities.

25. BIAC supports sustainable development and the promotion of wider environmental awareness, recognising that the impact of human activity on the natural environment must be prevented from causing irreparable degradation. A dynamic and innovative industry supplying better environmental solutions is part of an evolving path to sustainability. A sound and feasible policy framework at the national and international levels is an essential prerequisite if the private sector, all the private sector – multinational and domestic, is to make its full contribution to the broad societal goals inherent in sustainable development. Sustainable development requires economic growth accompanied by improvements in public health, social welfare and sanitation. Economic development itself can therefore be considered a fundamental vehicle for environmental improvement and the means by which the considerable potential of advancing technology and better environmental practice is realised. Industry contributes to sustainable development by inventing, adopting and commercialising new and cleaner technologies, processes and products.

26. BIAC believes the OECD's work on sustainable development policy should promote consistency among the various elements of sustainable development and encourage business enterprise, innovation and ingenuity within the framework of competitive markets. Environmental policy and measures to stimulate improvement should be based on constructive dialogue between business and government, on the best available scientific knowledge and analysis, on a thorough assessment of technological options, and hence on a realistic appreciation of the costs, benefits and trade-offs between different environmental objectives.

***Conclusion:***

27. The business community, encompassing both large and small companies, is very supportive of the work and objectives of the OECD. We believe the Organisation has a fundamental and increasingly important role to play in promoting greater understanding of the complex issues confronting policy makers in both Member and non-Member countries and in helping to develop viable approaches for maximising the opportunities of globalisation. BIAC calls upon OECD Governments to use the 1999 Ministerial Meeting to reinforce the Organisation's capacity for balancing different interests and delivering high quality analysis and recommendations for ensuring better economic performance, sustained job creation and improved living standards throughout the world in the new millennium.