

Meeting with the Keidanren

Japan's Business Federation

20 July 2006

Tokyo, Japan

Address by Angel Gurría, Secretary-General, OECD

1. Introduction

Honourable Chairman Mitarai, Distinguished Members of Keidanren, Ladies and Gentlemen,

It is a great honour for me to be here today and I want to thank the Japanese business community for their warm welcome. In my remarks I will concentrate on what the OECD is doing for business in some of the key areas of the Organisation's work.

First, a few words about the OECD, an organisation that seeks to improve the quality of governance for business and markets. The OECD's mission is to promote:

- Open markets – by tackling barriers to cross-border investment and trade, and encouraging strong laws and policies for competition.
- A level playing field – by recommending fair and non-discriminatory policies towards foreign investment, encouraging privatisation and more transparent and efficient governance of state-owned enterprises, and promoting effective implementation of anti-corruption laws especially by countries with a substantial stake in international business transactions.
- And the OECD also promotes sound regulation – by supporting a predictable, cost-effective regulatory framework for business, and removing unnecessary government restraints on competition.

Business obviously has an enormous stake in the success of this OECD mission. We are honoured and delighted to have the business community's active engagement in so much of our work. The business community contributes to our work in so many ways: (i) it offers ideas, issues statements and engages in face-to-face consultations with our Committees in key areas like investment, competition, finance and pensions; (ii) it provides experts and expertise for programmes with non-OECD countries, especially emerging markets; and (iii) it contributes directly to the development of soft law principles, e.g. on corporate governance and responsible business conduct, and promotes these principles to the wider business community.

2. What the OECD is doing for business

Now for some specifics. Business has a stake in virtually all of the OECD agenda, but I want to highlight some particular areas – those of taxation, investment, anti-corruption, competition, corporate governance and public governance – including regulatory reform. I will

also say a few words about our work on in areas of counterfeiting and piracy as well as intellectual assets.

Taxation

Starting with taxation, I would stress that international tax policy is one of the big success stories of the OECD. By working with business and economies outside of the OECD, we have been able to strengthen our role in setting international tax standards that reduce tax barriers to trade.

The OECD has proven to be an indispensable forum to reach for high standards, rather than the lowest common denominator, in the international tax world. I need hardly explain to this audience the importance of the OECD's Model Tax Convention and its Commentary, which has served as the basis for the negotiation and interpretation of over 2500 bilateral tax treaties worldwide, and of the OECD's 1995 Transfer Pricing Guidelines, which have fostered common principles for addressing difficult transfer pricing disputes between countries across the globe. These critical instruments, which are regularly improved with the strong input of the Japanese government and business community, contribute immeasurably to the ability of business to operate internationally. We are now addressing key issues such as developing more effective dispute settlement mechanisms and reducing the risk of double taxation arising from the interaction between consumption tax systems around the world. With VAT now operated by 141 countries around the world, but without any global standards, this latter issue is a very real concern.

Japanese business also gains from the OECD's focus on transparency, information exchange, and combating fraud, non-compliance, and bribery. We are also active in identifying best practices for improving the effectiveness and efficiency of tax administration, resulting in improved service to business and reduced compliance costs. With the strong support of the Japanese government, our ongoing efforts to strengthen cooperation with non-OECD countries also helps to provide greater certainty of treatment in the tax area globally as countries adopt OECD models and standards. For example, our outreach programme delivers 50 plus events a year to Non-OECD countries and there is a heavy geographical focus in the Asian region, where Japanese businesses have significant interests.

Throughout our work we have been helped by the active involvement of BIAC and its constituent organisations such as the Keidanren.

My last point on tax is the issue of tax reform. I understand that this is one of the key political agenda items here in Japan. The OECD will be happy to share with the Japanese government and business, the difficulties faced, the benefits received and the lessons learned from experiences of other countries. Given its huge fiscal deficit, it is crucial for Japan to consider every available option, including a substantial cut in expenditure as well as necessary measures to increase its revenue. From a business point of view, it will be important that the tax reform does not reduce their ability to respond to fierce global competition. We will certainly keep a very close eye on any future developments on this important issue.

Investment

Now moving on to investment – the OECD promotes open, transparent and non-discriminatory investment policies not just in its Member countries, but also in China and Russia and regions such as the Middle East and North Africa (MENA). In doing so, the OECD builds on decades of experience with standard setting under the OECD Code of Liberalisation of Capital Movements and the OECD Declaration on International Investment and Multinational Enterprises.

We seek to involve large, non-OECD economies more closely in the dialogue on global investment issues - especially the BRICS. Now that these have joined the world economy, they have become major FDI destinations. They are now increasingly investing in their own region as well as the rest of the world. We have performed in-depth analysis in countries such as China and Russia.

We have now developed a promising new mechanism – the OECD Policy Framework for Investment. The PFI comprises the most comprehensive and systematic approach for improving investment conditions ever developed. It covers ten different policy areas and addresses 82 questions to governments to help them design and implement policy reform to create a truly attractive, robust and competitive environment for domestic and foreign investment. It is based in the rule of law, transparency, non discrimination, in tandem with human rights as well as public and corporate sector integrity. These are principles that must be championed by any country that wants a strong and functioning economy. These principles also provide the broad basis for international cooperation. In one of our programs, - the Southeast Europe Investment Compact – we are using this framework as a basis for developing a benchmark tool – for self evaluation and peer review - and this morning at the OECD Tokyo Policy Forum I launched the first formal event based on the PFI.

A few weeks ago, we had our first meeting at the OECD headquarters on the critical issue of governments raising barriers to investment in sectors considered to be related to national security or national pride. We expect this to be a major focus in our work on investment and have invited key non-OECD countries, like Russia and China, to participate.

We encourage all companies, including those based in non-OECD economies, to observe appropriate norms for business conduct by promoting the *OECD Guidelines for Multinational Enterprises*. These draw on widely-accepted international principles in such areas as human rights, consumer welfare, environmental protection, the fight against corruption, competition and disclosure of information. They enhance the climate for Japanese investors by encouraging the orderly and ethical conduct of international business. The *Guidelines* are compatible with Keidanren's *Charter for Good Corporate Behaviour*. Our work on responsible business conduct is becoming increasingly important in the context of rapidly rising outward investment from the BRICS.

Just to give you an example, we are now preparing to launch a co-operative project on the Chinese government's approach to responsible business conduct. This initiative enjoys strong support from both government and business in this country.

Anti-corruption

On the issue of anti-corruption – we are expanding our work in this area, and will do so in co-operation with the World Bank and other institutions such as the ADB and the OAS. Fighting corruption has to be top priority for all international organisations. We intend to play a leading role in this effort and will count on business for its advice and support.

Competition

Now moving on to competition – here the OECD work demonstrates that competition in markets leads to higher rates of growth and employment. Some of you may recall our study on the economic impact of reducing barriers in the transatlantic market. Greater competition in product and services markets was found to have greater potential for increasing growth in Europe than further reductions in barriers to trade and investment. The OECD plays a vital role in actively encouraging governments around the world to develop strong competition institutions and competition-friendly regulation.

Just one example - in China, the OECD has worked since 1996 with the team drafting China's new anti-monopoly law, which was sent in early June from the State Council to the National People's Congress.

OECD also develops best practices to encourage consistency, co-operation and effectiveness in applying competition laws for cartels, monopolies and mergers, and promotes improvements in competition-oriented economic regulation.

Corporate Governance

Good corporate governance is an essential element in an attractive investment environment. I think the OECD has had a major influence around the world in raising awareness of the importance of good corporate governance and in shaping new legal and regulatory regimes.

Better corporate governance is not an end in itself but is a way to avoid crises that reduce the confidence of savers and damage the legitimacy of business in the eyes of the public. Better corporate governance also contributes to growth, a major challenge for Japan even though the economy is now enjoying a cyclical upturn.

However, more is involved for the members of the Keidanren. Japan is a major investor abroad and almost surely your members have an extensive number of partnerships around the world with local companies, not to mention close relationships with suppliers. It is therefore fundamental for your members to be able to rely on contracts and on undertakings with foreign companies, not to mention their goodwill. Courts and an effective legal system are of course important, but at the end of the day it is the ability to trust your partners and foreign governments, which is key to business success. This is where good corporate governance, and the soft law developed by the OECD more generally, has an important role to play.

In addition to assisting its members to improve corporate governance, the OECD has a particularly active programme of working with and influencing non-members, including through

its Asian Roundtable on Corporate Governance and a special policy dialogue programme with China.

Public governance – including regulatory reform

Now turning to public governance issues – here the OECD is helping Japanese business in three ways: (i) by assisting countries to improve their regulatory frameworks, (ii) by helping major trading partners develop a better climate for investment, and (iii) by promoting integrity and corruption prevention in the public sector.

The quality of a country's regulatory framework is a key component of national competitiveness. Through its work on regulatory reform, OECD has been helping OECD countries reform their regulatory systems to improve competition, provide a clear structure for markets, reduce red tape and help create a level playing field for business and investment. Keidanren has been a vital partner in our work with Japan in this area, contributing to the peer review of Japan and its follow-up. We believe the business sector needs to be involved if we want to develop viable and effective regulatory frameworks. We look forward to continuing to work with you, in particular to help emerging economies improve their regulatory systems.

Transparency is a key ingredient of good regulatory practice, of course, but transparency in government in general is also good for business. It reduces the risk of corruption and makes it easier for citizens and businesses to deal with the administration. The OECD is helping governments in their efforts to become more open and transparent, and to instill a climate of integrity. We focus not just on good policy, but also on the effective implementation of that policy.

Counterfeiting and piracy

Finally, turning to counterfeiting and piracy, on which we are carrying out a major project and for which we recently received a mandate from the G8 in San Petersburg to strengthen the international legal framework to combat them. Our work shows that the production of counterfeit and pirated goods has become more sophisticated. The high returns on counterfeit and pirated goods are fanning corruption and criminal activity, thereby undermining law enforcement efforts. Links to organised crime and terrorist groups have been established; the extent of these links, however, is unknown.

At present, the outlook is not promising. While most countries appear to have adequate legal and administrative mechanisms for combating counterfeiting and piracy, enforcement actions have not been sufficient. Moreover, the penalties for engaging in counterfeiting and piracy are often not great enough to dissuade infringers. Prison terms are rare in many countries, and the relatively low fines, penalties and civil damages that are often levied on counterfeiters and pirates can be relatively easily absorbed as a “cost” of doing business. The first phase of the three-phase project is covering patent and design IPR infringements (in addition to trademark and copyright violations). This first phase should be completed by end-2006. The OECD will certainly contribute to coordinate efforts to fight this phenomenon globally.

Intellectual Assets & Value Creation

On the issue of intellectual assets and value creation – we presented a major study on this issue to the OECD Annual Council Ministerial Meeting on May 2006. Work to date shows that intellectual assets such as R&D, human capital, software and organisational capabilities make a substantial contribution to economic growth, but creating value from them depends on management capabilities, and government policies to enhance the efficient operation of capital markets, raise investment in human capital development, and improve disclosure standards and practices for listed companies. Understanding better and improving the contribution of intellectual assets to value creation is also one of Japan's top priorities in improving productivity performance, particularly outside the export oriented manufacturing segment of the economy.

3. Conclusion

Ladies and Gentlemen, my conclusions will very brief. We work a lot with business. We like working with business. Our unique relationship with the business community makes us stronger, wiser and more sensitive to the issues of the private sector. So we have established a truly mutually beneficial relationship which I want to reinforce in the future.

Thank you for your attention.