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The past year has been extremely challenging for the world economy. Open markets for trade and investment are being threatened by rising protectionist pressures. The world economy has been stumbling under the weight of financial turbulence and a resulting slowdown. The price of food, oil and metals is at an all time high. The dangers of climate change have climbed to the top of the political agenda.

As this Annual Report sets out, the OECD has been at the very heart of efforts to help countries generate innovative solutions by taking the lead on analysing, diagnosing and developing policy options for the benefit of its members and for the world at large.

The United States is witnessing a severe economic downturn. The European Union is struggling to cope under the resulting impact and the burden of a strong euro. We are experiencing a global crisis of confidence. Oil, gold, metals and food prices are hitting record levels because, among other reasons, they are now being used as stores of value instead of the usual financial assets.

Fortunately, emerging economies are still growing strongly. However, this expansion cannot last long if things continue deteriorating in the OECD economies. In a global economy there are no “decouplings”. Developing countries will also suffer if we do not find solutions fast, because they still get most of their export earnings, foreign investment, loans and remittances from North America, Europe and Japan.

The sub-prime crisis has revealed the vulnerability of the current financial system. Innovation in finance, such as the securitisation of almost any form of debt into a tradable asset, might have helped spread risk, but it also introduced new weaknesses. National and international institutions, including the OECD, need to react quickly and effectively in order to anticipate crises and improve the communications regarding the issues at stake.

Correctly harnessed, innovation will be key to helping us overcome current difficulties. The new mandate from ministers to develop an Innovation Strategy recognises its position at the very core of all OECD activity. Our challenge will be to deliver a set of policy tools and recommendations to understand the potential of innovation and boost it. This will include the means to identify and benchmark innovation capacity and performance. The Strategy will also address the relationship between innovation and entrepreneurship, economic growth, social progress and global issues such as health and climate change.
Climate change – the fierce urgency of now

Climate is a major planetary challenge. It is testing our capacity for co-operation and our creativity as policy makers. The OECD Environmental Outlook to 2030 shows that the ambitious and comprehensive policies necessary to tackle climate change are achievable, available and affordable. It explains that to put us on the path to stabilising greenhouse gases at an acceptable level in the atmosphere would reduce global growth by about one-tenth of 1% per year (on average) from now to 2050. This is not cheap, but it is an affordable cost, given our expectations for growth and living standards in the coming years and given that the cost of inaction would be far higher.

Countries have a range of financial and economic instruments at hand to limit emissions. But the right solutions require that every country participate, together with strong political will from both developed and developing countries, and the best technical expertise.

The OECD has been working on the economics of climate change for several decades. We stand ready to continue our support to policy makers in identifying, developing and implementing effective and least-cost policies to tackle climate change. The OECD’s Ministerial Council Meeting, to be held in June, will address climate change head-on, gathering ministers from the major emerging economies at the same table with their OECD counterparts. Only through such dialogue can we move the global agenda on climate change forward, towards an economically, environmentally and socially sustainable development.

Open markets under threat

As OECD work has clearly demonstrated, the Doha Development Agenda provides a welcome opportunity for more open trade to contribute to the growth of the world economy, and in particular to improve the economic prospects of developing countries. But despite repeated deadlines, WTO members have yet to reach an agreement. Of all the global challenges facing the international community, agreeing on further trade liberalisation should be the least difficult one to solve. The rising tide of protectionist sentiment only heightens the urgency to do so.

Public concerns in some OECD countries about security issues have been used as an excuse for the emergence of unjustified protectionist measures against some foreign investment transactions. This is a dangerous, threatening trend, which could set us back in our efforts of many decades to build an open international investment regime. The OECD has been working on a “Freedom of Investment Initiative” to define disciplines and principles that will allow host countries to protect legitimate national security interests, while minimising restrictions on international investment flows.

The most recent manifestation of protectionist sentiment has arisen in connection with sovereign wealth funds (SWFs), whose size and ownership have raised important questions. Some potential recipients fear SWF investment decisions could be motivated more by political objectives
than profit considerations, with security-sensitive and other “strategic” assets among those targeted for investment. Again, the OECD has led the way in responding pragmatically and rationally to a complex issue.

Last year, at a meeting involving G7 finance ministers and authorities from the SWF countries, the OECD was tasked with developing voluntary guidelines and best practices for recipient countries’ policies towards investments by these funds. The outcome of our deliberations has been a commitment by OECD countries to keep their investment frontiers open to these funds as they do to other investors. Recipient governments and markets will quite rightly want to be reassured that SWFs’ investment decisions are dictated solely by commercial motives and that they will adhere to high standards of transparency and governance. For decades, however, the OECD has developed rules and guidelines promoting the freedom of capital movements and an open international investment regime as main drivers of economic growth. These same principles should be applied to investments coming from SWFs, which can bring benefits to home and host countries alike.

International migration flows are also under the protectionist spotlight. Since the 1960s, net migration to the OECD has tripled, and demographic pressures associated with ageing populations are likely to lead to even faster growth in the future. Managing migration in ways that will produce benefits for both the host and home countries is a delicate task. Public concerns can be addressed more easily if governments are able to identify and deal with the specific issues arising from migration. Major common challenges include attracting immigrants to match current and future labour needs and, once the immigrants have arrived, integrating them and their families into our economies and societies. The OECD’s work and experience on this subject is considerable and growing steadily, as we are constantly working to provide more accurate information and a better understanding of patterns of immigration.

A new and more relevant OECD

The OECD is undergoing historical change. In the “pursuit of relevance” on the challenges of our time, we are becoming a real hub of dialogue on global issues – a hub where we share experiences and knowledge to improve our economies and to build a more harmonious globalisation. The OECD’s strength lies in its ability to help governments solve complex problems by addressing the multiplicity of dimensions that characterise today’s global challenges.

Economic reforms are never painless; but the cost of delaying them can be considerable. OECD work on the political economy of reform is a new and important area for the Organisation, as an increasing number of governments are asking us to help design, promote and implement structural reforms to improve their economic performance. This is like walking an extra mile with our policy advice. To get the most out of our analysis, the OECD stands ready not only to identify possible solutions to policy issues, but to help in the approval of reforms and its implementation, hand in hand with its member countries. Improving global governance and co-operation among international institutions is another relevant task.
The Organisation is also strengthening its capacity to develop concerted responses to global challenges by becoming more proactive, open and representative. Only last year, OECD ministers initiated a two-tier process of enlargement and enhanced engagement with ten new countries. These economies account for nearly half the world’s population, 15% of global exports and a combined GDP of USD 5.8 trillion. Accession talks with Chile, Estonia, Israel, the Russian Federation and Slovenia are already well advanced. In parallel, we are enhancing our co-operation with Brazil, China, India, Indonesia and South Africa with a view to possible membership, recognising their weight in the world economy.

We are convinced that we need to work with these countries to successfully address any global issue. It is already helping the OECD become more sensitive to diversity and to better understand the many different paths that lead to growth and development.

The OECD is also now better connected, reaching out to a wide range of actors and institutions. Through our Partnership for Democratic Governance, the OECD is also assisting developing countries in building their governance capacity and improving service delivery to their citizens. At the G8 Summit in Heiligendamm, the OECD was asked to become a “platform” for a dialogue between G8 countries and five major emerging economies. We have already strengthened our longstanding mandate to assure policy coherence on development.

Late last year, I had the opportunity, along with the heads of four other international economic organisations, to meet with German Chancellor Angela Merkel to discuss how to provide coherent solutions to pressing global challenges. It became clear that in order to stem the growing opposition to globalisation, international organisations need to increase their coordination, relevance, efficiency and legitimacy.

In this respect, I am delighted that we are working with other international organisations to help them in their missions. For example, under the initiative of the UN Secretary-General, the OECD was invited to join the Steering Group that monitors progress on the Millennium Development Goals, which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015. Regrettably, progress towards achieving these goals is far from satisfactory.

Whilst we must strive to do better, it is important to take time to recognise what has been achieved so far and what still lies before us. Herein lies the value of this Annual Report, drawing together the many aspects of the Organisation’s work. After two years at the OECD, I am confident we are on the right track, but I feel that our job has just begun.
The OECD at a glance

OECD share of world GNI (current USD): 78%
OECD share of world trade: 68%
OECD share of world population: 18%
OECD GDP growth in 2007: 2.9%
OECD share of world official development assistance: 94%
OECD contribution to world CO₂ emissions: 49%
OECD share of world energy production: 34%
OECD share of world electricity consumption: 59%

* See the Global relations chapter, page 72.
The OECD: what is it?

The OECD traces its roots to the Marshall Plan. Today, it groups 30 member countries committed to democratic government and the market economy and provides a forum where governments can compare and exchange policy experiences, identify good practices and promote decisions and recommendations. Dialogue, consensus, peer review and pressure are at the very heart of OECD.

The Organisation’s mission is essentially to help governments and society reap the full benefits of globalisation, while tackling the economic, social and governance challenges that can accompany it. It places a high priority on deciphering emerging issues and identifying policies that work in order to help policy makers.

In addition to the analysis and advice it provides on a vast range of economic issues, the OECD is one of the world’s largest and most reliable sources of comparable statistical, economic and social data. OECD databases span areas as diverse as national accounts, economic indicators, trade, employment, migration, education, energy and health.

The OECD produces internationally agreed instruments, decisions and recommendations to promote rules of the game in many areas such as combating bribery in international business transactions, information and communications policy, taxation and the environment. Non-members are invited to subscribe to these agreements and treaties.

Helping ensure development beyond the OECD’s membership has been part of the Organisation’s mission from the start. The Organisation maintains active relationships with business, labour, civil society and parliamentarians. These stakeholders benefit from and make valuable contributions to the work of the OECD. It also shares expertise and exchanges views with more than 100 other economies.

In May 2007, OECD countries agreed to invite Chile, Estonia, Israel, Russia and Slovenia to open discussions for membership of the Organisation and offered enhanced engagement, with a view to possible membership, to Brazil, China, India, Indonesia and South Africa.

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Fast facts

**Established:** 1961
**Location:** Paris, France
**Membership:** 30 countries
**Budget:** EUR 342.9 million (2008)

**Secretariat staff:** 2 500
**Secretary-General:** Angel Gurría
**Publications:** 250 new titles/year
**Official languages:** English/French
Budget and finance

The OECD budget and the content of its work programme are established every two years by the OECD’s governing Council. The Organisation’s planning, budgeting and management are organised on a results-based system. All completed results are monitored and evaluated. The budget for 2007 was EUR 341.8 million, and the budget for 2008 is EUR 342.9 million.

The OECD’s financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS) – indeed, the OECD was the first international organisation to adopt them – and audited by external auditors. A Board of Auditors is responsible for independent external control of the OECD’s accounts and financial management. The Board is made up of four members of national audit offices in member countries, named by the Council. It certifies the accounts and the Council then approves the Secretary-General’s management.

The complete statements of financial position, financial performance and cash flow are available on the OECD website.

Scale of contributions, 2008

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Selected events

Meeting with Heads of International Organisations

Visit to Japan

Partnership for Democratic Governance

(Left to right)
WTO Director General Pascal Lamy, World Bank President Robert Zoellick, IMF Managing Director Dominique Strauss-Kahn, ILO Director General Juan Somavia and OECD Secretary-General Angel Gurría at a special conference hosted by the German Chancellor, Angela Merkel, in Berlin in December 2007.

(Left to right)
German Chancellor Angela Merkel welcomes Angel Gurría at the G8 meeting in Heiligendamm in June 2007.

(Left to right)
OECD Secretary-General Angel Gurría is greeted by Japanese Prime Minister Yasuo Fukuda before their meeting in Tokyo in December 2007.

(Left to right)
OECD Secretary-General Angel Gurría and US Secretary of State Condoleezza Rice at the launch of the Partnership for Democratic Governance in New York in October 2007.
Globalist of the Year

OECD Secretary-General Angel Gurría receives the Globalist of the Year award from the Canadian International Council’s chair Jim Balsillie in Toronto in October 2007.

Visit to Estonia

Estonian President Toomas Hendrik Ilves welcomes OECD Secretary-General Angel Gurría during a visit to Estonia in February 2008.

Visit to Israel

Prime Minister of Israel Ehud Olmert meets with OECD Secretary-General Angel Gurría during a visit to Israel in November 2007.

Visit to Chile

President of Chile Michelle Bachelet greets OECD Secretary-General Angel Gurría during a visit to Chile in November 2007.
Spotlight

Subprime mortgage and structured products crisis

The OECD focused on the complex maze of products based on securitisation, often referred to as structured products (such as Collateralised Mortgage Obligations, or CDOs), as the main risk facing financial markets and economies during 2007. The subprime crisis hit with force over the summer, and has darkened the outlook for 2008, particularly in the United States and Europe. CDOs and the institutions that issued them are at the heart of this crisis. As mortgage defaults began to rise, the value of the securities based on them fell. Shorter-term investors and depositors withdrew from these securities, leaving sponsors with the difficult job of finding new funders or taking the securities onto their own account. Banks, including those not directly affected, stopped lending to one another due to uncertainty: first, about which firms might be holding the declining securities, and second, about the size of losses.

Central banks have responded forcefully to this lack of market liquidity. However, the most important potential consequence of the crisis, including for the real economy, is through “credit crunch” mechanisms. In short, if banks have to write off capital as assets go bad, capital adequacy requirements prevent them from lending or expanding their balance sheets again until their capital can be rebuilt. This takes time and in the meantime, less lending will mean slower growth.

The main determinant of the size of the credit crunch is the size of the losses on the underlying mortgages, i.e. the mortgage default less the recovered amount from the sale of the home. In October, the OECD estimated that this amount could be as high as USD 300 billion. This is a very large amount when we think, for example, that the ten largest investment banks have about USD 550 billion in tier 1 capital, and capital adequacy ratios (the ratio of a bank’s capital to its risk-weighted credit exposure) have to be maintained. Since then, mortgage bond and equity prices have fallen sharply, and a sense of panic has become pervasive. Calculations of the losses using market prices has therefore become less reliable – as price discovery in the liquidity crisis has become more problematic.

The size of the losses may be somewhat greater than the original USD 300 billion estimate, but not nearly as much as is implied by market prices. The main near-term options are (i) cutting interest rates and liquidity operations; (ii) loan negotiations; (iii) socialising some of the losses with “haircuts” and guarantees; and (iv) allowing time for banks to rebuild capital. Sovereign wealth funds (see box page 65) and hedge funds, with excess capital, might be prepared to inject money into institutions, which would shorten this adjustment period; as would governments buying shares. This latter “risk-taking” role is perhaps one of the most effective ways that the crisis could be shortened.

There is also uncertainty about who will be left “holding the bag”: will most of the losses be borne by banks forced to bring assets back onto their balance sheets? Will bond and mortgage insurers be liable for a good part of the bill? Another major uncertainty is the strength and duration of the credit crunch, and the impact it will have on US and global growth. This will depend not only on the ultimate size of mortgage losses and the deleveraging that follows, but on other induced effects too. For example, non financial companies might be drawn into the crisis if they are forced to refinance their debt at high cost or (worse) if their access to credit is shut off.

Once the immediate crisis is contained, and financial markets return towards a more normal functioning, policy makers will have to consider the structure of a financial system that is better suited to avoiding excessive leverage and risk. Amongst the issues that the OECD and other international bodies will analyse and discuss going forward are:

- the viability of smaller specialised mortgage lenders, and the future of the originate-and-distribute model for larger institutions;
- the possible need to re-examine some aspects of capital adequacy rules and other regulations;
- valuation and accounting methods;
- liquidity management tools.
Spotlight

The economics of climate change

The long-term impacts of climate change include increased intensity and frequency of heat waves, droughts, storms and floods, which will cause damage to key infrastructure and crops and raise risks to human health and life. This, in turn, will have social and economic consequences. The costs of a failure to address climate change, though uncertain, are expected to be significant. Estimates vary from less than 1% to more than 10% of world output, depending on coverage of issues, modelling and valuation approaches.

At the same time, there will also be costs associated with the policies used to address climate change. OECD is working to help governments identify and implement least-cost policies to reduce greenhouse gas emissions and limit impacts, as well as to integrate adaptation to climate change into all relevant policy areas. Analysis in the 2008 OECD Environmental Outlook to 2030 indicates that, assuming efficient policy instruments are employed, ambitious climate change targets can be achieved at a relatively affordable cost relative to expected economic growth and the costs of inaction.

The analysis suggests that successfully addressing climate change will require a mix of policies in most countries, with the exact combination likely to differ depending on specific circumstances. In order to keep the costs of action low, market-based instruments such as carbon taxes or emissions trading schemes should be prominent in the mix. These instruments can help to put a “price” on greenhouse gas emissions that is the same across sectors, gases, and countries. This would minimise the total cost, ensure mitigation action takes place where it is most efficient, and provide an incentive for further technological innovation. Linking existing emissions trading schemes, and strengthening and scaling up the Clean Development Mechanism (CDM), can help to contribute to a global carbon market.

But market-based instruments will need to be complemented by other policy instruments, such as regulations and standards, support for R&D into climate-
friendly technologies, information-based instruments (e.g. fuel efficiency labels for vehicles), and voluntary approaches. At the international level, sector-based approaches may be used to address concerns about possible impacts of climate policies or carbon leakage on competitiveness, as well as to engage some of the major developing country economies early on. Some form of burden-sharing will be essential to encourage low-income countries to reduce their emissions significantly.

Tackling climate change on a global scale and in a cost-effective manner will also require further technological innovation and a greater up-take of existing climate-friendly technologies. Policies that put a price on greenhouse gas emissions provide powerful incentives for eco-innovation, making low-carbon technologies cost-competitive relative to carbon-intensive ones. Business subsidies aimed at developing new technologies and subsidies to consumers for climate-friendly goods and services (such as feed-in tariffs for electricity from renewables) are easier to stomach politically, but they risk "locking-in" technologies or practices that may later prove inefficient. For example, a number of countries have recently developed policies to support the development and use of first generation biofuels, locking-in a technology which initially looked quite promising. However, this early generation of biofuels is now raising concerns as to its economic-effectiveness, impact on food prices, and environmental performance. Subsidising the “good” is inherently more costly to taxpayers than pricing the “bad”.

Developing countries are disproportionately vulnerable to the impacts of climate change, in part because they are more dependent on natural resource sectors and often lack the infrastructure, financial resources and capacity to adapt to a changing climate. A recent OECD study on the vulnerability of major port cities shows that the population at risk from coastal flooding due to climate change could triple by 2070. Right now, nine out of ten of the most vulnerable port cities (according to population exposure) are in developing countries. Mumbai, for example, has the largest number of people exposed to this risk. Although OECD cities are also at risk from a changing climate, they are in a better position to anticipate potential threats and make timely investments in order to reduce them.

Recognising this difficult challenge for developing countries, OECD is examining how they can best adapt to the unavoidable impacts of climate change that are now locked-in as a result of past emissions. OECD analysis shows that a significant portion of official development assistance provided by OECD donor countries is potentially affected by climate risk. Through the OECD Development Assistance Committee (DAC), the Organisation is looking to provide guidance on how best to integrate adaptation to climate change into development co-operation activities in order to essentially “climate-proof” development aid.

OECD finance and economics ministers clearly recognise the important economic aspects of the challenge of climate change and have decided to discuss the issue at their annual meeting in June 2008. Discussions will focus on the policy toolkit that can be used to reduce greenhouse gas emissions at least cost, as well as on the incentives for major economies to participate in ambitious climate change policies. Overall, the work aims to help countries put the post-2012 climate architecture on a solid economic footing.
Economic growth, stability and innovation

Economic growth

Recent developments

The global economic expansion, which by last year had become the longest and strongest in decades, lost some of its momentum in late 2007, in the face of several strong headwinds. These include the turnaround in many countries of the housing cycle, the financial market turmoil that erupted in the US sub-prime mortgage market, but has since spread well beyond, and soaring commodity prices. The ensuing challenge for policy makers is compounded by the relatively high inflation rates recorded in many OECD economies.

Rising inflationary pressures

Inflationary pressures have mounted in the course of 2007 in many OECD countries and beyond. Most visibly, this reflected rapidly rising energy and other commodity prices, driven by demand from the dynamic Chinese and Indian economies. Rising food prices reflect poor cereal harvests and increased use of biofuels.
Emerging giants: India follows China

With its large population – around one-sixth of the world total – and rapid economic growth over the past two decades, India has become one of the world’s largest economies. In 2007, the Indian economy was also one of the fastest growing, with real GDP expanding by nearly 9%.

India’s strong and improved economic performance largely stems from the market-oriented reforms it has implemented over the past two decades. Opening up to the world economy has been key: the combined value of India’s imports and exports has increased from 13% of GDP in 1985 to 49% in 2006.

Despite increased openness, India’s market share in world exports of goods and services is still only one-sixth that of China. However, India’s export share of GDP has almost doubled in the past decade, following a path similar to China’s, but with a ten-year lag, broadly consistent with the time difference in implementing main structural reforms in the two countries.

India has diversified its trading relationships in recent years. The United States remains its single largest partner, accounting for about 10% of India’s exports and imports, but with a declining trend. The share of trade with China has almost trebled since 2000 and China has become India’s second largest partner. Trade with other Asian countries has also been growing rapidly, and in 2006 ASEAN and other Asian countries accounted for over half of India’s exports and 35% of imports.

Foreign direct investment (FDI) into India has been growing rapidly as of late. In contrast, FDI, as a share of GDP, has recently moderated slightly in China. In 2006, FDI stood at 2.0% and 2.3% of GDP in India and China respectively. Outward investment is also on the rise, with Indian firms acquiring some European and US-based firms.

DID YOU KNOW…
that the share of exports in India’s GDP almost tripled in the past two decades?

DID YOU KNOW…
that China will soon become the world’s largest energy consumer, ahead of the US?
The pick-up in inflation has also been driven by the narrowing margins of product and labour market slack after a prolonged spell of robust growth. Following the onset of the financial turmoil, central banks have injected liquidity and eased their policy stance, or put policy rates on hold. But they face difficult trade-offs between upside risks to price stability and downside risks to activity and possibly to financial stability.

There is a need to use windfalls wisely

On the fiscal front, revenues have tended to be buoyant in recent years. To a large extent, this has reflected, with some lags, high corporate profits, rising asset prices and vigorous growth in high incomes – factors which are set to weaken. In some countries, including Germany and the United States, the windfalls have translated into faster-than-budgeted consolidation. But in others, they have been used to raise spending or cut taxes, and further efforts are called for in order to regain fiscal room for manoeuvre. Specifically, with rapidly ageing populations, pension and healthcare system reforms are a matter of urgency in most countries.

Reforms for growth and innovation

Pushing ahead with structural reforms in a number of other areas is also needed to help foster sustainable growth. OECD analysis and recommendations, featuring notably in the annual Going for Growth report and Economic Surveys, have recently focused, among other things, on the importance of further labour, product and financial market reform, and of education.

One channel through which reforms in these areas boost longer-run growth is innovation. OECD countries’ innovation performance is uneven and the OECD is currently in the process of developing a comprehensive Innovation Strategy, pulling together the extensive expertise it has already built up in this field. Another crucial dimension of sustainable growth relates to climate change. The OECD is working in close co-operation with the International Energy Agency to help determine the best means to encourage member and non-member countries to reduce and mitigate greenhouse gas and other pollutant emissions.

While the need for reform is often widely recognised, implementation usually remains a challenge. One hurdle is that there may be tensions between policy goals, not least when social objectives are seen to conflict with economic priorities. Another is that the short-run costs of reform frequently and conspicuously affect well-identified groups, whereas the benefits, though larger, typically come later and are more diffuse. Greater transparency is therefore desirable, allowing the various stakeholders to better understand the benefits and costs of reform, as well as the costs of inaction.

OECD work on the political economy of reform has also shown how sound public finances facilitate the introduction of structural reforms. At present, OECD-wide efforts are under way to help pin down the best reform strategies, including through the in-depth analysis of some specific successful and less successful reform attempts.
Until recently, no clear set of guidelines was available to help governments consider the market impacts of regulations. To overcome this, OECD set about developing a methodology for policy makers to identify unnecessary restraints on market activities and develop alternative, less restrictive measures that still achieve government policy objectives.

The result of the Organisation’s work is the Competition Assessment Toolkit, a comprehensive and practical guide for use by governments and competition authorities. A number of countries are already using the method, including Australia, Korea, Mexico and the United Kingdom. Feedback from their experiences will ensure that it evolves in line with users’ needs and expectations.

Want to know more?

Key activities

**Competition:** [www.oecd.org/competition](http://www.oecd.org/competition)

**Country economic reviews:** [www.oecd.org/eco/surveys](http://www.oecd.org/eco/surveys)

**Cross-country structural policy analysis and advice:**

**Multilateral macroeconomic surveillance:**
[www.oecd.org/oecdeconomicoutlook](http://www.oecd.org/oecdeconomicoutlook)

Key publications

**Economic Outlook**

**Economic Studies**

**Economic Surveys** (member countries and selected non-member countries)

**Going for Growth**

**OECD Journal of Competition Law and Policy**

Key events

Latin American Competition Forum in Puebla, Mexico, September 2007

Release of the inaugural *OECD Economic Survey of India*, New Delhi, September 2007

Joint Conference with the International Monetary Fund on structural reforms in Europe, OECD Headquarters, March 2008

This edition examines European economic challenges such as pushing ahead with the internal market.
Science, technology and innovation

Recent developments

More and more OECD governments are giving firms tax breaks to drive innovation while cutting their direct spending on business research and development (R&D), and are also encouraging public research organisations to commercialise their inventions. Two-thirds of the 30 OECD member countries offered businesses tax subsidies in 2006, up from 12 in 1995, and most have tended to make it more generous over the years.

Direct government funding financed an average of 7% of business R&D in 2006, down from 11% in 1995.

Emerging economies, including Brazil, India, Singapore and South Africa, also offer a generous and competitive tax environment for businesses investing in R&D.

Globalisation and technological advance are increasingly affecting how firms in OECD countries operate, compete and innovate. Competition is global, knowledge is spread more widely, R&D investments are increasing and the life cycles of products are shortening. In addition, large emerging economies like China and India have integrated into the world economy. To meet these new challenges, companies in OECD countries are adopting new approaches to innovation processes, organisational models, finance and decision-making.

Indicators of internationalisation are trending upwards. Trade in both goods and, especially, services have increased significantly since the early 1990s. Foreign direct investment has also progressed steadily. In manufacturing,
The evolving nature of innovation

Today, a more open model of innovation is developing; one that relies on access to knowledge originating from outside traditional public or private sector boundaries. Research and development is becoming more internationally mobile; industry-science relationships are globalising; and new global players are emerging, challenging OECD economies to remain competitive. New models to share intellectual property rights – such as patent pools and other collaborative mechanisms – and new technology-based strategic alliances are developing on an unprecedented scale. Non-technological innovation is also becoming ever more important, especially in services. And innovation is being “democratised” so that users of goods and services – both firms and individual consumers – are increasingly contributing to innovation.

The Internet and high-speed computing are providing major opportunities for such democratisation, particularly through new forms of research, business and social networking as well as through content creation. These trends favour a technology-based business environment where new productive activities are emerging and established boundaries between businesses are shifting. Connectivity and networking promote rapid advances in biotechnology and nanotechnology, as well as convergence of nano-, bio- and information technology. For example, digitisation of information and content raises productivity of drug development, helps discover new drugs and has even nurtured new “knowledge markets”.

These developments are compelling policy makers to take a closer look at the way they understand innovation, and at how their policies can shape it. OECD is at the forefront of the effort to develop new facts and evidence in this area and will help governments respond with new approaches to foster innovation.
firms under foreign control represent as little as 3% of total turnover in Japan, to as much as 75% in Ireland. They account for a smaller share of employment, because they are more capital intensive than domestic firms, but for a bigger share of exports, because they tend more to serve the international market than local companies.

In 2007, policy interest in science, technology and innovation issues intensified in comparison to previous years. In May, OECD ministers endorsed the development of an OECD Innovation Strategy. The following month, at their summit in Heiligendamm, the G8 called on the OECD to strengthen its focus on international scientific co-operation and to support a new international dialogue on innovation.

**Fostering innovation**

The landscape for science and innovation is changing. Major non-OECD countries such as China and India have become major platforms for scientific discovery and innovation. The way that companies innovate is also evolving constantly (see box page 26) and work is underway to examine how policies will need to adapt. Specific technology fields such as the Internet, biotechnology or nanotechnology, are also advancing rapidly. To keep up with these changes, the OECD must constantly hone its analysis of these areas. A new OECD working party was established in 2007 to help foster the responsible development of nanotechnology.

The OECD also provides country-specific advice on innovation. OECD Reviews of Innovation Policy have now been completed for Switzerland, Luxembourg, New Zealand, South Africa and Chile, and are underway for several other countries, including China.

**The Innovation Strategy**

The OECD Innovation Strategy aims to develop an effective multidisciplinary approach to address countries’ needs for more comprehensive, coherent, and timely policies for promoting and assessing innovation as a driver of growth and productivity, equity and development. The Strategy will also suggest approaches for harnessing innovation to address global challenges, such as climate change, health, and energy.

The OECD Innovation Strategy is expected to lead to a set of general, whole-of-government principles for promoting innovation, as well as country-specific advice and new data for policy-making. It is being developed in consultation with governments, the private sector, academia, labour, international organisations and civil society.

**Charting the future of the Internet economy**

Already, a world without the Internet has become as unthinkable as a world without telephones. Can the benefits of this extraordinary technology be multiplied while meeting the thornier challenges that have surfaced? The OECD continues to pave the way for answers to key questions such as how networks can enable economic and social activity and innovation, how to protect and empower users and consumers online, and how to adapt to a new environment in which platforms for voice, video and data converge.
In 2007, the OECD completed studies on the future of the Internet economy and user-created content while gathering up-to-date data on developments in broadband access and use. The OECD also adopted a Recommendation on Effective E-authentication. Looking ahead, the future of the Internet economy will be the subject of an OECD ministerial meeting which will take place in June in Seoul.

**Protecting consumers online**

The OECD examines ways to best protect consumers from unfair commercial practices and unsafe products. Much of the Organisation’s current work focuses on the opportunities and challenges associated with innovation in ICT and the related growth in e-commerce. Assuring security and trust in online transactions are key concerns.

**Life sciences: transforming innovation**

Innovation in the life sciences needs to be looked at as a virtuous cycle with interactions and continuous feedback throughout. The checks and balances within the innovation system – intended or not – modulate the efficiency and effectiveness of that cycle. One of the most challenging examples, and one of the most difficult to get right, is the way human genetic information is used in driving innovation and delivering better and more effective health outcomes. In this area alone, the OECD has developed a significant body of international soft law and continues to carry out forward-looking policy analyses.

OECD work in the life sciences increasingly focuses on efficiency in innovation and innovation outcomes. For example, new approaches to creating research networks contribute to upstream innovation efficiency. These approaches may have a significant impact on new drug development as well as on eco-efficient bioprocessing (and hence bioproducts) through industrial biotechnology.

The OECD Bioeconomy to 2030 project is using long-term scenarios to explore how biotechnology-related developments in health, agriculture and industry are likely to change economies and societies. In particular, the project is looking at what changes may be required in policy frameworks to ensure that the benefits of the bioeconomy are reaped in full over the coming decades.

**Strengthening global science policy networks**

The OECD, through its Global Science Forum (GSF), focuses on areas requiring long-term international co-operation between public research policy organisations. In 2007, the GSF sponsored an intergovernmental dialogue on best practices to address misconduct in research. It is also promoting the development of a “Global Earthquake Risk Map” based on a standardised methodology for assessing the risk to lives and property. A new GSF activity is devoted to international co-operation on strategic long-range road-mapping of large research infrastructures (e.g. accelerators, neutron sources, telescopes, research vessels, supercomputers).
Anticipating future science policy needs

Many aspects of daily life on the surface of the planet, including telecommunications, cash machines, meteorology, air traffic control, transport routing, disaster management and even stock markets, are increasingly dependent on earth observation and navigation satellites. But the space sector suffers from a lack of robust statistics and data. During 2007, the OECD, through its International Futures Programme (IFP), began to address this gap by publishing internationally comparable indicators on the space industry, its downstream activities, and its wider economic and social impacts, including on employment, R&D and hi-tech spin-offs.

DID YOU KNOW… that, as a slice of GDP, India’s space budget is second only to that of the USA?

Want to know more?

**Key activities**

Biotechnology: [www.oecd.org/sti/biotechnology](http://www.oecd.org/sti/biotechnology)
Global Science Forum: [www.oecd.org/sti/gsf](http://www.oecd.org/sti/gsf)
Information, Computer and Communications Policy: [www.oecd.org/sti/ict](http://www.oecd.org/sti/ict)
Information economy: [www.oecd.org/sti/information-economy](http://www.oecd.org/sti/information-economy)
International Futures Programme: [www.oecd.org/futures](http://www.oecd.org/futures)
Nanotechnology: [www.oecd.org/sti/nano](http://www.oecd.org/sti/nano)
Science and technology policy: [www.oecd.org/sti/stpolicy](http://www.oecd.org/sti/stpolicy)
Science, technology and innovation indicators: [www.oecd.org/sti/measuring-scitech](http://www.oecd.org/sti/measuring-scitech)
Technology and innovation policy: [www.oecd.org/sti/innovation](http://www.oecd.org/sti/innovation)

**Key publications**

- Integrating Science & Technology into Development Policies: An International Perspective
- Main Science and Technology Indicators
- OECD Communications Outlook 2007
- OECD Information Technology Outlook 2008 (forthcoming)
- OECD Reviews of Innovation Policy
- OECD Science, Technology and Industry Outlook 2008 (forthcoming)
- OECD Science, Technology and Industry Scoreboard 2007
- Participative Web and User-Created Content: Web 2.0, Wikis and Social Networking
- Science, Technology and Innovation Indicators in a Changing World – Responding to Policy Needs
- The Space Economy at a Glance

**Key events**

- High level forum on medicines for neglected and emerging infectious diseases: policy coherence to enhance their availability, Noordwijk-aan-zee, The Netherlands, June 2007
- Innovation indicators for policy making and assessment, OECD Headquarters, June 2007
- OECD-MOST conference and business symposium on China’s innovation system, Beijing, August 2007
- Ministerial meeting on the future of the Internet economy, Seoul, June 2008
Industry and entrepreneurship

Recent developments

Over the past ten years, innovation has become increasingly globalised, a trend that is likely to continue. International co-authorship of scientific publications tripled between 1995 and 2005. Cross-border co-operation on inventions nearly doubled as a share of total inventions worldwide between the 1991 to 1993 and 2001 to 2003 periods.

In all OECD countries, innovation is more geographically concentrated than population due to the existence of local clusters and dynamic regional economies. California and Tokyo are by far the most inventive regions in ICT and biotechnology, whereas in Europe several regions have quite similar performances.

Industry’s use of the Internet is now standard in most OECD countries. Typically, 90% of businesses with ten or more employees have Internet access and half have their own web site.

DID YOU KNOW…
that local clusters can create a very favourable environment for start-ups, inward investment and firm growth?
The weight of intellectual assets in investment and value creation has been soaring at a time when value chains are becoming increasingly globalised. As a result, policy makers are striving to flesh out a new understanding of industrial policy. To help them, the OECD provides measures of innovation and globalisation, such as improved firm-level indicators, and new analytical tools that help policy makers understand competitiveness issues or problems that require collective action – for example, the growing problem of counterfeit and pirated products.

The OECD is currently producing estimates of accumulated intellectual assets at the national accounts level, and examining their impact at the regional, cluster and firm level. Complementary work is exploring how software can enable economy-wide structural innovations. It also looks at the sectoral impacts of research and development (R&D), innovation, market environments and globalisation.

Given today’s rapid rate of globalisation, economies must be able to move up the value chain in order to stay competitive. An OECD report, Staying Competitive in the Global Economy, provides a balanced perspective of the costs and benefits of globalisation in this respect (see box below). Related studies on offshoring published in 2007 help clarify the scope of this phenomenon, particularly in business services. The reports caution against drawing hasty conclusions regarding the extent to which offshoring has an impact on jobs. Also, new work on sustainable manufacturing initiatives aims to clarify the role of eco-innovation in addressing global sustainability challenges.

DID YOU KNOW… that the value of counterfeit and pirated products traded internationally could have amounted to up to USD 200 billion in 2005?
SMEs and entrepreneurship

Policies aimed at encouraging sustainable economic growth must take into account the role played by high-growth small and medium enterprises (SME) and vibrant entrepreneurship. Globalisation and technological advances increase competitive pressures, making SME investment in innovation and intellectual assets particularly necessary. Policies should be adapted to the reality of SMEs and be well-tailored to local conditions.

OECD work underlines the important role played by local innovation systems and clusters in generating and attracting highly-skilled labour, centres of research excellence and efficient government-industry-research collaborations. In this context, the OECD is undertaking a series of reviews of SME and entrepreneurship issues and policies at national and local levels, examining in particular the links between entrepreneurship, innovation, SME growth and internationalisation.

In many OECD countries, tourism is a growing contributor to employment, economic performance and service sector growth. The OECD is currently looking at how culture and tourism at national and local levels can boost competitiveness and make territories more attractive to visitors. An OECD report, Tourism in OECD Countries 2008: Trends and Policies, examines how globalisation is affecting the participation of SMEs involved in tourism.

Promoting local growth

Cities and localities need flexible policies that are adapted to local conditions and allow for cross-sector co-ordination if they are to remain competitive in the age of globalisation. Economic development and labour market policies need to be well co-ordinated. The OECD is currently preparing a study of such policies in 11 member and non-member countries. Globalisation has also led to a renewed impetus for financial tools; the OECD recently hosted an international conference to examine the role of mutual and co-operative banks in financing local economic development.

Shipbuilding

The shipbuilding industry has been recently experiencing very high demand. However, there are warning signs that this demand is dampening, and the resulting overcapacity could mean significant downstream problems for shipbuilding. Given such a scenario, greater emphasis will be given to discussions with key players on the possible restart of negotiations on a new Shipbuilding Agreement. Over 2007, OECD work on shipbuilding has also focused attention on transparency in the industry.

Steel

Rapid economic development in emerging economies is underpinning strong growth in the steel industry. As the industry is a heavy polluter, the OECD has focused much attention on the environmental challenges that it poses. Topical issues such as the consequences of industry consolidation and raw
material problems have also been considered. In the future, the OECD will work to enhance the transparency of steel-related government subsidies and may examine the role played by R&D and innovation in the long-term health of the steel industry.
In 2007, for the first time in many years, average unemployment rates in the OECD area fell below 6%. Nevertheless, faced with labour shortages and pressures on pension funding due to ageing populations, one in three OECD countries has cut unemployment benefits in the last six years with a view to encouraging unemployed people to find jobs. For example, a single long-term unemployed person in Germany receives about EUR 4,000 per year less in benefits than would have been the case in 2001, while in the Slovak Republic it is EUR 2,200 less.

Net replacement rates (the level of benefits which unemployed people typically receive with average after-tax earnings, taking into account different family types and unemployment durations) across most OECD countries fell from 59% in 2001 to 55% in 2005. The Nordic countries are the most generous, with levels above 70%. In Greece, Italy, Turkey and the United States, where benefits for the long-term unemployed are very low or non-existent, the index of generosity is below 30%.

High unemployment, exclusion and poverty tear at the fabric of society and unravel economies. The OECD helps governments find ways to boost employment and improve social welfare by reforming labour markets, tackling poverty and exclusion, adjusting social systems to ageing societies and ensuring that children get the best possible start in life.
Debate about the impact of globalisation is characterised by a paradox. Economists highlight a lesson from economic history: more open markets tend to be associated with greater prosperity. Yet in many OECD countries, there are fears that trade results in job losses and wage competition from foreign workers.

Current fears can be explained to a large extent by the unprecedented scale of globalisation, exemplified by the emergence of Brazil, China, India and Russia as major trade and investment partners, and novel forms of trade such as the ICT-enabled “offshoring” of service jobs.

A second factor is that the current wave of economic integration is accompanied by wide earnings inequality and perceptions of increased job insecurity. OECD analysis presented in the OECD Employment Outlook 2007 so far concludes that the contribution of globalisation to earnings inequality or job insecurity is quite modest, as compared with other drivers such as technological change. Some key statistics such as job tenure – the average length of time that people spend in the same job – do not in fact show a trend towards greater instability. But addressing these concerns is crucial. Governments must put in place policies to assure that workers do generally benefit from international economic integration and structural reforms.

National policy makers do play a major role, as illustrated by the fact that countries with similar trade and foreign direct investment (FDI) patterns have widely different employment and unemployment rates and wage disparities. The 2006 Restated OECD Jobs Strategy provides a benchmark for creating more and better jobs. The bottom line is that well-designed domestic policies enhance the benefits from freer trade and investment policies, strengthen public support for them, and promote a perception that globalisation is an opportunity for all.
Employment policies that work

OECD countries are increasingly adopting best-practice labour market policies which complement temporary income protection by promoting a rapid entry or return to work, but more needs to be done.

Employment policy reviews in 2007, such as Jobs for Youth and Sickness, Disability and Work: Breaking the Barriers, focused on activation of the unemployed and other groups in the labour market that can be brought into work, better management of sickness and disability systems, and youth transitions from education to work. Recent work pays close attention to labour markets in middle-income countries with a focus on issues such as erratic social protection, ineffective employment regulation and the low efficiency of tax collection.

Reforming pension systems

Pension reform is an ever-growing challenge. In the past 12 months, workers have gone on strike against proposed pension changes in a number of OECD countries, among them France, Greece and the United Kingdom. The dilemma facing governments remains unchanged. On the one hand, population ageing is pushing up the number of people receiving pensions and reducing the number of people of working age who can pay for them. On the other, some people are reaching retirement age with insufficient pensions, either public or private.

The OECD report, Pensions at a Glance 2007, shows how governments have been trying to balance fiscal and social pressures in their pension systems. One striking finding is that there have been major changes in the pension systems of 16 OECD countries since 1990, reducing average lifetime pensions for a full career worker by over 20%. Countries such as France and Sweden have combined cuts in the average level of pensions with protection for low-wage workers. In Germany and Japan, pensions have been reduced for low earners as well. Such schemes will be socially sustainable only if the amount of private savings for retirement is increased.

Promoting family policies

After long being overshadowed by concerns about pensions and unemployment, governments are now taking family policies far more seriously than they once did. They are right to do so. Inadequate family policies lead to low female employment rates and low fertility rates. They reduce gender equity and can even harm child development.

A major new report, Babies and Bosses: Reconciling Work and Family Life, shows that governments are indeed spending more on families and children, but criticises countries for the lack of effectiveness of much of this spending. Few countries link their policies together coherently. Parental leave, child care policies, out-of-school-hours care for school-age children and flexible working arrangements are often seen as separate issues with separate funding streams.

DID YOU KNOW…

- that in 2007, the OECD average unemployment rate fell below 6%, its lowest rate for more than 20 years?
- that Sweden spends over 31% of GDP on social programmes, a full ten percentage points above the OECD average?
hours of work can help ensure that parents (in practice, usually mothers) do not need to choose between work and family life.

**Enhancing human capital**

Governments across the OECD face the challenges of maintaining competitiveness in a global knowledge economy, increasing flexibility and responsiveness of their labour markets, stimulating workforce participation and dealing with the challenges and consequences of population ageing. Skill formation is central to policy agendas in these areas. The new OECD Programme for the International Assessment of Adult Competencies (PIAAC) will provide high-quality comparative information regarding the key cognitive and workplace skills required for successful participation in today’s economies. By assessing the level and distribution of adult skills in a coherent and consistent way across countries, PIAAC will provide much-needed evidence that will help governments evaluate training policy and design more effective interventions.

**Migration for employment**

Both permanent and temporary international migration continued to increase in recent years, mainly driven by labour migration. This is due, in particular, to increased migration within the European Union following enlargement, and to record-high immigration to southern Europe, where immigration responds to labour market needs. Spain, for example, now has the second highest rate of immigration in the OECD after the United States.

As a result, the management of migration flows is becoming a top priority. Most OECD countries now have policies in place to attract highly-qualified migrants and international students, but many are reluctant to admit lower educated migrants, despite structural shortages in many sectors such as domestic services, care-giving, hospitality and construction.

Among the highly-qualified, one group that has received much attention is that of health professionals, partly due to fears of a medical “brain drain” from developing countries. Work undertaken by the OECD and the World Health Organisation and presented in the 2007 International Migration Outlook shows that some origin countries (such as the Philippines for nurses and India for doctors) play a prominent role in providing healthcare workers to OECD countries. But intra-OECD mobility is also significant, particularly from Germany and the United Kingdom. Still, Caribbean countries and a number of African countries have particularly high emigration rates of doctors, sometimes complicating the delivery of basic healthcare to their populations. However, in large origin countries such as China and India, the number of health professionals working abroad is low relative to the domestic supply. All considered, migration to OECD countries cannot account for the health workforce shortages in developing countries; and stopping the outflow, were possible, would alleviate but not solve the shortage of health professionals that these countries face.

DID YOU KNOW…

that, on average, about one in two highly-educated immigrants in OECD countries is inactive, unemployed or confined to a job for which he or she is overqualified?
Want to know more?

Key activities

Active labour market policies:
www.oecd.org/els/employment/almp

Employment and labour markets:
www.oecd.org/els/employment/outlook

Family and child well-being statistics:
www.oecd.org/els/social/family/database

Health workforce and migration:
www.oecd.org/health/workforce

Immigrants and the labour markets:
www.oecd.org/els/migration/integration

Migration statistics:
www.oecd.org/els/migration/statistics

Pension system reforms:
www.oecd.org/els/social/ageing/pag

Sickness and disability benefits:
www.oecd.org/els/disability

Social indicators:
www.oecd.org/els/social/indicators

Social protection systems:
www.oecd.org/els/social

Youth and the labour market:
www.oecd.org/els/employment/youth

Key publications

Benefits and Wages
International Migration Outlook 2007
Jobs for Immigrants, Vol. 1
Jobs for Youth: Belgium, Spain, Slovak Republic
Modernising Social Policy for the New Life Course
OECD Employment Outlook 2007
Pensions at a Glance
Sickness, Disability and Work: Breaking the Barriers, Vol. 1 and Vol. 2
Society at a Glance

Key events

Conference on Life Risks, Life Course and Social Policy, OECD Headquarters, June 2007
Seminar on the Integration of Immigrants into the Labour Market, Lisbon, June 2007
Education

Recent developments

Finland once again took the number one spot in OECD’s three-yearly Programme for International Student Assessment (PISA) test of the abilities of a sample of 15-year-old secondary school students, followed by Hong Kong (China) and Canada in second and third place.

The latest PISA survey also demonstrated that some countries have seen significant improvements in student performance since 2000. Korea further increased its strong reading performance between 2000 and 2006 by 31 score points, the equivalent of almost an entire school year, mainly by raising the proportion of top-performers. Poland increased its reading performance by 29 score points over the same period. Mexico and Greece saw significant improvements in mathematics performance between 2003 and 2006. However, across the OECD area as a whole, learning outcomes have generally remained flat, while expenditure on education in OECD countries rose by an average of 39% between 1995 and 2004.

The survey also revealed widespread pessimism among secondary school students about environmental challenges and limited enthusiasm for scientific careers.

Half a million students from 57 countries participated in the latest PISA survey, which focuses particularly on students’ abilities in comprehending and tackling scientific problems. It also provides an update on performance in reading and mathematics compared with surveys in 2000 and 2003.
Improving school leadership

Expectations for schools and schooling are rising in OECD countries. As a result, school leaders are increasingly challenged to adapt to new demands and changing environments. The transformation of education systems in response to rapid technological change, economic globalisation and increased migration and mobility has radically changed the role of school leaders.

Recently, an OECD initiative on improving school leadership brought together 22 countries and regions to explore the roles and responsibilities of school leaders under different governance structures. Participants considered policies and conditions best placed to develop and support effective school leadership. The final report on this activity was released in April 2008. It provides policy directions on how to improve school outcomes by enhancing school leadership. Policy recommendations include redefining and redistributing school leadership, actively preparing current and future leaders, and enhancing the professional aspects of their role through strengthened recruitment, more appropriate wage structures and greater career perspectives. An OECD publication on systemic leadership, considering new approaches to sharing leadership within schools and across school systems, will also come from this work. This publication will feature case studies on innovative school leadership practices in Austria, Australia, Belgium’s Flemish community, Finland and the United Kingdom (England).

DID YOU KNOW…
that between 5% and 40% of students in OECD countries drop out of school?
Raising education system effectiveness

Reviews of national policies for education, conducted by a team of independent international experts and undertaken at the request of participating countries, provide analytical assessment of education policies and practices and offer policy recommendations. In 2007, the OECD published the reviews Basic Education in Turkey; Tertiary Education in Portugal; Quality and Equity of Schooling in Scotland; and, under the Programme for Co-operation with Non-Member Economies, Higher Education in Kazakhstan and Review of National Policies for Education: Higher Education in Kazakhstan. The latter was produced in collaboration with the World Bank. Follow-up visits of the Policy Reviews of Education policies for Students at Risk and those with disabilities in South Eastern Europe were carried out in order to disseminate further policy recommendations.

Evidence-based education policy

Governments rely on solid information to make decisions about their education systems. The annual publication, Education at a Glance, offers a statistical basis for policy debate and decisions. The 2007 report included new material on financial and human resources invested in education, access to education, participation and progression, as well as on the economic benefits of education.

Equity in education

The expansion of education systems has not enabled all young people to reach their full potential. OECD’s PISA assessments show that, in many countries, an unacceptably large number of young people are failing to acquire basic skills. They also demonstrate that education results are too influenced by social background. The recent publication, No More Failures: Ten Steps to Equity in Education, advances ten steps in an agenda for enhancing equity in education. It argues that equity in education is a key objective of education systems which should be addressed on three fronts: the design of education systems, educational practices and resourcing. In June 2007, an international conference on equity in education was held in Trondheim, Norway, to help countries improve education equity policies and share information on their practices.

Tertiary education, a pillar for economic growth

Over the last decade, the tertiary education systems of many OECD countries have experienced rapid growth. With tertiary education increasingly seen as a fundamental pillar for economic growth, these systems must now address the pressures of a globalising economy and labour market. With 24 participating countries, the OECD thematic Reviews of Tertiary Education examine how the organisation, management and delivery of tertiary education can help countries achieve their economic and social objectives. Key questions included sustainability, quality, funding, and governance. In 14 countries, external reviewers carried out an in-depth analysis of tertiary education policies. These are being published individually.
Higher education institutions are under increasing pressure to compete nationally and internationally. However, they often lack incentives to focus on regional needs. Rankings based on international research performance are not balanced by evaluations of teaching quality or social and economic impact. In 2007, the OECD completed the first phase of work on the contribution of higher education to regional development. So far, 14 regional reviews have been completed and posted on the web. The synthesis report, *Globally competitive, locally engaged: higher education and regions*, was published in September in English, French and Spanish and launched in Valencia, Spain.

**Research and innovation in education**

The Centre for Educational Research and Innovation (CERI) focuses on medium-term issues. In 2007, CERI published a number of major reports. Among these, *Understanding the Brain: the Birth of a Learning Science* explores the implications for education of neuroscientific research. Other reports address the emerging issue of “open educational resources”, the links between education and social outcomes, and the internationalisation of higher education.

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**Want to know more?**

**Key activities**

- Educational facilities and infrastructure: [www.oecd.org/edu/facilities](http://www.oecd.org/edu/facilities)
- Equity in education: [www.oecd.org/edu/equity](http://www.oecd.org/edu/equity)
- Innovation in education: [www.oecd.org/edu/peri](http://www.oecd.org/edu/peri)
- Institutional governance and management: [www.oecd.org/edu/higher](http://www.oecd.org/edu/higher)
- Learning outcomes and skills assessment (PISA): [www.pisa.oecd.org](http://www.pisa.oecd.org)
- Teaching and learning effectiveness: [www.oecd.org/edu/talis](http://www.oecd.org/edu/talis)

**Key publications**

- *Cross-border Tertiary Education: A Way towards Capacity Development*
- *Education and Training Policy, No More Failures: Ten Steps to Equity in Education*
- *Education at a Glance 2007: OECD Indicators*
- *Giving Knowledge for Free: The Emergence of Open Educational Resources*
- *Higher Education and Regions: Globally Competitive, Locally Engaged*
- *OECD Reviews of Tertiary Education*
- *PISA 2006: Science Competencies for Tomorrow’s World*
- *Reviews of National Policies for Education*
- *Understanding the Brain: The Birth of a Learning Science*
- *Understanding the Social Outcomes of Learning*

**Key events**

- International Conference on Fair and Inclusive Education, Trondheim, Norway, June 2007
- International Conference on Globally Competitive, Locally Engaged – Higher Education and Regions, with the Universidad Politécnica de Valencia, Valencia, Spain, September 2007
OECD countries have made significant progress in addressing many environmental problems over the past decades according to the second review of the implementation of the OECD Environmental Strategy for the First Decade of the 21st Century. This review shows that, with total environmental expenditure amounting of 1% to 2% of GDP, environmental policies in OECD countries have brought significant benefits at a reasonable cost to their economies.

However, countries are not on track to achieve the goals of the Strategy by 2010. This is largely because the absolute scale of economic activity continues to increase, outweighing efficiency gains and placing additional pressure on the environment.

Ambitious policy reforms are needed to avoid an otherwise grim environmental outlook to 2030. The OECD Environmental Outlook to 2030 (see box page 44) demonstrates that ambitious environmental goals are achievable and affordable compared to the expected economic growth and costs of inaction. Setting priorities for the coming decades, the Environmental Outlook highlights four key areas where urgent actions are particularly needed: climate change, biodiversity loss, water scarcity and health impacts of pollution.

The economic and social costs of policy inaction to address environmental problems are significant and are already affecting OECD economies directly (e.g. through healthcare costs) as well as indirectly (e.g. through reduced labour productivity. The costs of delaying action could be significant,
especially where policy inaction has long-term or irreversible environmental implications. Governments have a responsibility to create the right incentives for businesses and consumers to make choices that can help prevent future environmental problems.

The OECD provides governments with the analytical basis to develop environmental policies that are effective and economically efficient, including through country performance reviews, data collection, policy analysis, and projections. Links to specific policy areas such as agriculture, transport and development co-operation are examined.

DID YOU KNOW...
that world GDP is expected to nearly double to 2030 and more than triple by 2050, and achieving ambitious climate goals could cost only 0.5% of that accumulated growth in 2030, and 2.5% in 2050?

Innovation can help provide solutions to some of the key environmental challenges. The OECD is working to identify ways to promote eco-innovation, and to define and measure it. Analytical work is underway examining the effects of taxes and regulation on eco-innovation, with best practices drawn from inventories of country policies used to promote it. Indicators to measure

**Eco-innovation**

Policy solutions for the future of the environment

How will economic and social developments drive environmental change to 2030? What policies are needed to address the main environmental challenges? How can OECD and non-OECD countries best work together to tackle these challenges?

The *OECD Environmental Outlook to 2030* provides analyses of economic and environmental trends in the coming decades and simulations of policy actions to address the key challenges. Without new policies, we risk irreversibly damaging the environment and the natural resource base needed to support economic growth. The costs of inaction are high. But policy solutions to the key environmental problems – including climate change, biodiversity loss, water scarcity and the health impacts of pollution and toxic chemicals – are both available and affordable compared to the various estimates of costs of inaction and assuming cost-effective policies are put in place starting from today. The *OECD Environmental Outlook* highlights a mix of policies that can address these challenges in a cost-effective way.

The focus of this *Outlook* is expanded from the 2001 edition to reflect developments in both OECD countries and Brazil, Russia, India, Indonesia, China, South Africa (BRICS), and how they might better co-operate on global and local environmental problem-solving.

Joined by ministers from these countries and from candidate countries for accession, OECD environment ministers met in April 2008 and discussed the efficient and effective policy solutions highlighted by the *Outlook*, the costs and consequences of policy inaction, competitiveness impacts of climate policies and how to promote eco-innovation to help move towards a low-carbon society.

DID YOU KNOW...
that already 63% of the populations of Brazil, China, India and Russia combined are living under water stress and this share will increase to 80% by 2030?

This publication analyses economic and environmental trends to 2030, and simulations of policy actions to address these key challenges.
eco-innovation based on patent activity have been developed in the areas of vehicle emissions abatement, renewable energy, and wastewater abatement. The OECD facilitated an industry-government policy dialogue on promoting innovation in globalised markets in the fields of energy efficiency and renewable energies. New work is underway to identify measures to facilitate trade and the transfer of climate change mitigation technologies.

**Material flows and sustainable materials management**

Prosperity can lead to increased demand for materials and resources, and associated environmental impacts from their extraction, transportation use and disposal. With globalised markets, such impacts can also have international dimensions. Using these resources more efficiently is one answer. To do so, countries need a knowledge base on material flows and more integrated approaches towards natural resource, waste and materials management. In April 2008, an OECD-United Nations Environment Programme (UNEP) conference on resource efficiency and another OECD workshop on sustainable materials management addressed these issues. The results provide an OECD input to the G8 initiative on the 3 Rs (Reduce, Reuse and Recycle).

**Safety testing of manufactured nanomaterials**

Nanomaterials are used in products as diverse as tennis rackets and sun screens. While their use provides many benefits, OECD countries are addressing their possible safety implications. OECD and non-OECD governments are working with industry, pooling expertise and funding to test the human health and environmental safety effects of nanomaterials. As nanomaterials are often new forms of traditional chemicals, the OECD Guidelines for the Testing of Chemicals will be the basis for the tests. OECD has a wealth of experience with developing methods for the safety testing and assessment of chemical products.

**Globalisation, transport, and environment**

Transport underpins economic and social development, allowing more efficient allocation of resources and increased mobility for people. Yet, there are challenges related to the environmental impacts of transport, and globalisation can aggravate them.

The OECD is helping countries address these environmental challenges while allowing the development of the transportation activities needed to service a globalising economy. A Global Forum on Sustainable Development on these issues will be held in Guadalajara, Mexico, in November 2008, and a major report will be published as a result.

**Household behaviour and environmental policy**

Environmental pressures from households are significant, and their impacts are likely to intensify over the coming years. An ongoing OECD project is seeking a better understanding of household environmental behaviour in
five areas: residential energy use, water consumption, personal transport, organic food consumption, and waste generation and recycling. A household survey on environmental behaviour has been implemented covering the five areas and ten countries: Australia, Canada, Czech Republic, France, Italy, Korea, Mexico, the Netherlands, Norway and Sweden. Experts from selected participating countries are examining differences in environmental behaviour across types of households and their response to environmental policy measures (e.g. waste charges, waste collection and recycling services, energy price, energy efficiency labelling, fuel taxes, technical standards, organic food labelling). Policy recommendations will be formulated for the design of efficient and effective environmental policies targeted at households and the results will be presented at a conference in 2009.

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**Want to know more?**

**Key activities**

- Biosafety-Biotrack: [www.oecd.org/biotrack](http://www.oecd.org/biotrack)
- Chemical safety: [www.oecd.org/ehs](http://www.oecd.org/ehs)
- Climate change: [www.oecd.org/env/cc](http://www.oecd.org/env/cc)
- Environmental country reviews: [www.oecd.org/env/countryreviews](http://www.oecd.org/env/countryreviews)
- Environmental data and indicators: [www.oecd.org/env/indicators](http://www.oecd.org/env/indicators)
- Water: [www.oecd.org/water](http://www.oecd.org/water)

**Key publications**

- Business and the Environment: Policy Incentives and Corporate Responses
- Cost of Inaction
- Economic Aspects of Adaptation to Climate Change (forthcoming)
- Environmental Performance Reviews: Australia, Belgium, China, Denmark, Hungary (forthcoming), New Zealand, Switzerland, Turkey (forthcoming)
- Environmental Policy and Technological Change
- Financing Water Infrastructure (forthcoming)
- Globalisation, Transport and Environment
- Instrument Mixes for Environmental Policy
- Material Flows and Resource Productivity (forthcoming)
- OECD Environmental Outlook to 2030
- Policies for a Better Environment: Progress in Eastern Europe, Caucasus and Central Asia

**Key events**

- OECD Environment Ministers Meeting, OECD Headquarters, April 2008
- OECD-UNEP Conference on Resource Efficiency, OECD Headquarters, April 2008
- G8 Environment Ministers Meeting, Kobe, Japan, May 2008
- Conference on the Economics of Climate Change, OECD Headquarters, October 2008
- Global Forum on Sustainable Development: Transport and the Environment in a Globalising Economy, Guadalajara, Mexico, November 2008
Improving health systems is a growing concern in OECD countries. Health expenditure accounts for 9% of income on average across OECD countries, and considerably more in some economies. Not surprisingly, OECD members are increasingly looking for ways to improve health system performance. The OECD uses economic analysis to fill gaps in international understanding of health-system performance and looks for ways to improve it by helping policy makers implement good practices.

Reforming health systems

Several OECD countries are actively engaged in reforms to improve the performance of their health systems. Their experience points to the need for developing a solid evidence base on what has worked well and what has not worked as desired. International sharing of knowledge about the impact of health-system policies helps better benchmarking of good practices internationally.

Monitoring performance

Investing in internationally comparable data and performance indicators will continue to be essential for monitoring the performance of health systems in OECD countries. Shortcomings in healthcare quality impose unacceptable costs for societies, increasingly drawing the attention of policy makers. The development and testing of healthcare quality indicators by the OECD will help policy makers investigate ways to improve health systems’ performance and citizens’ quality of life. Better standards, particularly through the implementation of international health accounting for expenditure and finance data, will also be an indispensible tool to guide international comparisons.

DID YOU KNOW…

that health spending accounts for 9% of GDP on average in OECD countries?
Coping with growing health costs

Today, people enjoy longer and healthier lives. Partly as a result, population ageing, technological innovation and growing expectations for better coordinated and patient-oriented health services will put pressure on health systems. Health expenditure is expected to absorb an increasing share of national income in all OECD countries.

In an effort to face up to such health cost increases, policy makers are increasingly placing emphasis on improving value for money in health

Monitoring healthcare quality indicators

The quality of healthcare, measured by the provision of recommended interventions or actual health outcomes, is improving in OECD countries. Reflecting the initial results from the OECD Health Care Quality Indicators project, Health at a Glance 2007 reports that, across OECD countries, only 10% of people hospitalised after a heart attack die within 30 days of being admitted to hospital, down from 20% in the 1980s. And only 10% of patients admitted to hospital following ischemic stroke die there within 30 days, thanks to better treatment for dissolving blood clots and to the creation of new stroke units.

However, the prevention and management of chronic illness is a growing challenge for health policy in OECD countries. Despite increasing rates of diseases such as asthma and diabetes, care for these conditions is often suboptimal. Annual eye exams are widely accepted as standard care for diabetics, yet only about half actually have their eyes checked. Given today’s treatment options for preventing acute asthma attacks, asthma sufferers should be effectively treated by their primary care providers. Yet, on average, 6 out of 10 000 adults in OECD countries are admitted to hospitals for asthma every year. Health at a Glance 2007 also shows considerable variation in the quality of healthcare across countries, with no country performing better than others on all measures.

DID YOU KNOW…
that the number of doctors in OECD countries has increased by 35% over the past 15 years to 2.8 million?

DID YOU KNOW…
that nowadays, survival rates five years after a diagnosis for breast cancer are highest in Australia, Canada, Finland, Iceland, Sweden and the United States, reaching more than 85%?
and long-term care systems, partly by orientating public policy to prevent unnecessary illness and thus reduce costs. Better co-ordination of healthcare service delivery and use of information and communications technology will encourage efficiency improvements. Innovation in health systems and health services also offer the potential for greater choice and improvements in the treatment of disease.

**National policies, international consequences**

Domestic health policies can have significant external impacts. For example, domestic pricing and reimbursement policies for pharmaceuticals can affect the availability of medicines outside national borders, and can have an impact on innovation. Similarly, the international recruitment of health professionals can help relieve the growing demand for health professionals, but can also have a negative impact in the source country (see page 37).

Improving global health is a shared responsibility. Environmental degradation can harm public health, particularly that of children. Enhanced global cooperation is necessary in order to achieve sustainable social, economic and environmental conditions worldwide. Poor health status reduces the potential for social and economic progress in all societies, but this is even more so in developing countries. Donors and the international community are putting growing emphasis on the effectiveness of aid policies directed to health systems in developing countries in order to better meet the targets set by the Millennium Development Goals. The impact of the AIDS epidemic on human and economic development, particularly in Africa, is a dramatic demonstration of the need for action. But there are other neglected and emerging infectious diseases. This calls for the international community and public and private sector partners to join in efforts to stimulate innovation and accelerate the development of medicines, vaccines and diagnostics for these diseases.

**Want to know more?**

**Key activities**

Economics of health: [www.oecd.org/eco/structural/health](www.oecd.org/eco/structural/health)
Health and chemical safety: [www.oecd.org/ehs](www.oecd.org/ehs)
Health and health spending statistics: [www.oecd.org/els/health/data](www.oecd.org/els/health/data)
Health provision: [www.oecd.org/health](www.oecd.org/health)
Performance of health systems: [www.oecd.org/els/health/policy](www.oecd.org/els/health/policy)

**Key publications**

Facing the Future: Korea’s Family, Pension and Health Policy Challenges
Health at a Glance
OECD Health Data 2007
The Noordwijk Medicines Agenda, Paris, OECD 2007

**Key event**

OECD High-Level Forum “Medicines for Neglected and Emerging Infectious Diseases: Policy Coherence to Enhance their Availability”, Noordwijk-aan-Zee, The Netherlands, June 2007

DID YOU KNOW…

that more than half of the doctors and nurses from many African and Caribbean countries actually practice in OECD countries and not at home?
International trade and taxation

Trade, agriculture and fisheries

Recent developments in international trade

The international trade policy environment has been marked by uncertainty surrounding the Doha Round negotiations, reflecting questions about political will as well as popular doubts regarding the benefits of globalisation. OECD work on trade and agriculture continued to provide analytical support to the negotiations, underlining the clear welfare gains made when all countries participate in broad trade liberalisation of agriculture, industry and services. An important finding is that developing countries stand to capture larger gains relative to GDP than do developed countries. Moreover, liberalisation facilitates the production networks that enhance competitiveness, providing incentives for innovation and international outsourcing of input goods and services.

OECD member countries agreed to adopt a set of principles and guidelines designed to ensure that loans supported by their Export Credit Agencies (ECAs) are in line with sustainable development objectives. The guidelines support efforts by the International Monetary Fund (IMF) and the World Bank to help developing countries avoid a renewed build-up of debt following the substantial debt relief provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). The agreement (Principles and Guidelines to Promote Sustainable Lending in the Provision of Official Export Credits to Low Income Countries) sets out commitments for ECAs who wish to provide commercial (i.e. non-aid) credits to public borrowers in low-income countries who face challenges in managing their external debt.
Focusing on services, which today represent over 70% of OECD economies and employment, the OECD has initiated a major project to develop a Services Trade Restrictiveness Index (STRI). This tool will assess services reform and the benefits of further liberalisation while providing better data and policy information. Considering trade in goods, analysis shows that more should be done on customs procedures and technical regulations in order to improve market access.

The growth of regional and bilateral trade agreements has attracted considerable attention. This is because they are regarded as more flexible tools for expanding the scope of liberalisation. Although experience shows that they are for the most part trade creating, there remains a consensus that such agreements are basically distortive and second-best compared to multilateral liberalisation.

The OECD is currently examining changes in the structure of global trade due to the emergence of Brazil, Russia, India, Indonesia, China and South Africa (BRICs) as new major international competitors. The nature and implications of these changes will be the subject of a Global Forum on Trade on 25-26 June 2008.

Since 2005, the OECD, in partnership with the World Trade Organization, has established a monitoring system aimed at delivering “more and better Aid for Trade”. The first global monitoring report, issued in November 2007, points to this initiative as an important vehicle for helping developing countries, particularly the least developed, take advantage of opportunities provided by trade reforms.

Subsequently, donors have announced expanded efforts; partner countries are increasingly prioritising trade in their development strategies; and the Paris Declaration on Aid Effectiveness is recognised as the guiding principle for delivery. Next year’s monitoring will start tracking progress of the implementation and impact of Aid for Trade.

Two OECD recommendations on export credits will bring greater transparency, accountability and efficiency to official support measures and a more active role in the wider objectives of fighting bribery in international transactions, as well as help mitigate the possible environmental impact of big infrastructure projects in sensitive locations and sectors. The groundbreaking Sector Understanding on Civil Aircraft, signed in Rio de Janeiro in July 2007, includes Brazil, a major regional aircraft producer, as one of its participants. This is the first time any non-OECD country joins OECD countries in an export credit agreement. The Understanding brings together the world’s major civil aircraft exporting countries and covers all types of civil aircraft. It aims to limit government support for export deals in order to end acrimonious trade disputes and encourage manufacturers and airlines to focus on price and quality, rather than on financial packages of government support.
Recent developments in agriculture

Prices for agricultural commodities have exploded in recent months, and food price inflation is now an acute concern for many governments. Current high crop prices are partially explained by weather-related supply shortfalls in a context of low cereal stocks. In the medium-term, agricultural commodity prices are forecast to be 10% to 50% higher than over the past.

Globalisation of fisheries

Global markets for fish and fish products have changed considerably over past decades and continue to do so today. Operators along the fisheries value chain (fleets, aquaculture farmers, processors and retailers) are searching for new opportunities, reduced production costs and profitable investments in an increasingly globalised business environment. This process presents a number of policy challenges to governments. The key to meeting these challenges lies in developing and implementing management frameworks that can accommodate the pressures stemming from the process of globalisation without compromising the sustainability of the fisheries resources.

Globalisation is driven by the search for more profitable ways of doing business and the need to secure access to fish, either as raw material for the harvesting sector or as an input into processing. This is happening through fisheries access agreements, joint ventures, direct investments and outsourcing. Central to these developments is the forging of new business relationships along the value chains. A particular challenge is to ensure that operators from developing countries are not left out of this process.
decade. Price variability, in particular for crops, will increase as a growing share of total demand comes from industrial sources. This forecast depends importantly on the evolution of future demand for biofuel from traditional commodity feedstocks, which itself is largely dependent on policy support. If higher prices for agricultural commodity markets do prevail over the longer term, the rationale for domestic farm price support and associated border protection disappears.

Agricultural prices and biofuels

Prices for cereals and oilseeds – products commonly used in the production of biofuels – have recently risen to record or near record-high levels. Growing feedstock demand for biofuels production is frequently blamed for this increase. However, weather-related crop shortfalls in 2006 and 2007 have been in excess of 60 million tonnes, nearly 4 times larger than the 16 million tonnes increase in maize and wheat demand to feed a growing biofuel industry. The relatively low cereal stocks provide a much more powerful explanation for the contemporary increase in world grain prices.

However, the longer-term perspective in the latest OECD-FAO Agricultural Outlook suggests that higher crude oil prices and further growth in biofuels production are becoming important factors lifting commodity prices to higher averages than seen in the past. By 2016, the projections show that about one-third of the Canadian and US coarse grain production, and up to 60% of oilseed and sugar production in Brazil and the EU, will be used to generate biofuels. On average, this will keep cereal and oilseed prices 20% to 40% higher and sugar prices more than 10% higher over the next decade, relative to the average prices of the previous ten years.
Government support to farmers in OECD countries represented 27% of total farm receipts in 2006, a slight fall from the 29% share the previous year. The drop was due mainly to rising world food prices rather than changes in policies, as less support was provided to prop up domestic prices.

Farm support remains high. Nearly USD 268 billion were provided to farmers across OECD countries last year, although levels of support varied widely – from 1% of farm receipts in New Zealand to more than 60% in Iceland, Norway, Korea and Switzerland. Crop and livestock prices in OECD countries were on average 21% higher than world market prices.

But some progress is being made in the way support is being provided. In many countries, recent policies are beginning to weaken the link between payments and production and are giving farmers more flexibility in what they produce.

In 2007, the method of classifying and presenting OECD estimates of support and protection in agriculture was overhauled in order to better reflect the changes in the way governments deliver support to the sector. Support to farmers continued to account for a significant share of receipts – 27% in 2006 – while the level of support in key non-member economies tends to be lower – 8% in China and 6% in Brazil. Also in 2007, Chile’s agricultural policies were subjected to an in-depth evaluation.

The OECD harnessed the experience of a number of model countries in order to demonstrate how to effectively target policies to specific objectives while keeping the costs of implementing the policies down. The Organisation continued to argue for a systematic and evidence-based approach to policy-making in agriculture. A study, carried out in conjunction with the Food and Agriculture Organization, explained that current high food prices are largely a result of short-term factors. But over the medium term, higher oil prices and increased demand for biofuels could cause a structural increase in food prices. According to current projections, the increase could result in food prices 10% to 50% above the average prices of the past ten years.

The OECD recently completed a major report on the state of the environment in agriculture. The study included a review of the environmental performance of agriculture in every OECD country. Amid growing awareness of climate change and water scarcity, the Organisation is focusing on the role of policies to better manage natural resources in agriculture.

A globalised fishing industry has the potential for generating significant benefits from expanding markets, growing seafood demand, integration along the value chain, farming of new species, and improved technology for processing and distributing seafood (see box page 52). It is essential that governments provide an enabling environment to take advantage of these benefits, while ensuring that the risks to resource sustainability and social well-being are adequately addressed. Rebuilding fish stocks represents a major policy challenge for OECD countries as around 25% of total stocks are classed as overexploited or depleted. In addition to implementing...
sustainable and responsible fisheries management policies, it is necessary to curb illegal fishing practices and implement domestic and high seas governance reform.

However, while policy makers have a broad array of policies from which to choose, there are often political obstacles to the reforms needed to make fisheries sustainable. Through its project on the political economy of fisheries policy reform, the OECD is identifying strategies for undertaking successful reform in the sector. The work has focused on the human side of fisheries adjustment, best practice guidelines for vessel decommissioning schemes, and governance reform in domestic and international fisheries.

**Want to know more?**

**Key activities**

Agricultural policies: [www.oecd.org/tad/policies](http://www.oecd.org/tad/policies)
Agricultural trade: [www.oecd.org/tad/trade](http://www.oecd.org/tad/trade)
Environment and trade: [www.oecd.org/tad/tradenv](http://www.oecd.org/tad/tradenv)
Export credits: [www.oecd.org/tad/xcred](http://www.oecd.org/tad/xcred)
Fisheries: [www.oecd.org/tad/fish](http://www.oecd.org/tad/fish)
Services trade: [www.oecd.org/tad/services](http://www.oecd.org/tad/services)
Trade and development: [www.oecd.org/tad/tradev](http://www.oecd.org/tad/tradev)
Trade facilitation: [www.oecd.org/tad/facilitation](http://www.oecd.org/tad/facilitation)

**Key publications**

* Agricultural Policy and Trade Reform: The Impact on World Commodity Markets
* Agricultural Policies in Non-OECD Countries: Monitoring and Evaluation 2007
* Agricultural Policies in OECD Countries: Monitoring and Evaluation 2007
* Effective Targeting of Agricultural Policies: Best Practices for Policy Design and Implementation
* Environment and Regional Trade Agreements
* OECD-FAO Agricultural Outlook 2007-2016
* Preferential Trade Agreements: How Much Do They Benefit Developing Economies?
* Structural Change in Fisheries: Dealing with the Human Dimension
* The Implementation Costs of Agricultural Policies

**Key events**

* Global Forum on Agriculture, Rome, November 2007

**DID YOU KNOW…**

that aid for trade flows are projected to rise by 50% in 2010?
Taxation

Recent developments

The average tax burden in OECD countries, measured as the ratio of tax to GDP, is back up to the same levels as in 2000, after a brief reduction between 2001 and 2004.

In 2006, tax burdens as a proportion of GDP rose in 14 of the 26 countries for which provisional figures are available. The average tax burden in the 30 OECD countries reached 36.2% of GDP in 2005, the latest year for which complete figures are available, up from 35.5% in 2004 and level with the historical high of 36.2% recorded in 2000.

The latest figures showed a slight increase in the proportion of revenue collected through general consumption taxes, which take the form of value added taxes (VAT) throughout the OECD except in the United States and some Canadian provinces.

Good progress has been made in financial centres, both onshore and offshore, in implementing the OECD’s standards of transparency and exchange of information for tax purposes. Nearly 100 more exchange of information arrangements are now in place, compared with one year ago, including tax information exchange agreements between the United States and Guernsey, the Isle of Man and Jersey which entered into force in 2006. Further, two countries, Liberia and the Marshall Islands, were removed from the OECD’s list of unco-operative tax havens during the past year. However, some financial centres still fall short of the international standards that have been developed over the last seven years, according to OECD assessments.

Delegates to the 4th Meeting of the Forum on Tax Administration in Cape Town try their hand at Djembe drumming with guidance from South African drum artists.
Consumption taxes

Despite the rapid growth of value added taxes over the last 15 years, taxes on consumption now provide a smaller percentage of total taxes across OECD countries than they did in the 1960s. The main reason for this is the decline in taxes on specific goods and services – or excise taxes. This has been particularly noticeable in the OECD’s European and Asian-Pacific members, where these taxes have more than halved as a percentage of total taxes. The exception to this trend has been Mexico, where the percentage of taxes on specific goods as part of the overall tax take has actually increased.

While value added taxes apply to a wide base of goods and services, excise-type taxes target specific items. The recent trend has been to apply excise taxes in ways designed to influence consumer behaviour, rather than just raise revenue. Environmental issues have led to higher excise taxes on certain types of road fuel, with reductions (or limited increases) for more environmentally-friendly fuels. Similarly, excise taxes may be used to encourage better health through, for instance, high taxation of cigarettes and alcohol.
government revenues. The study also shows how certain aggressive tax planning strategies by multinationals reduce the tax rate on FDI significantly below what conventional measures would suggest.

Corporate taxation influences the amount of investment in an economy, its allocation and the way such investment is financed. Another recent OECD study, *Fundamental Reform of Corporate Income Tax*, analyses how corporate tax systems affect these decisions. It also considers how different approaches to corporate tax reform could reduce the distortions inherent in the current tax systems. This analysis involves the taxation of corporations themselves, as well as the ways in which their shareholders are taxed on dividends and capital gains. The study also takes account of the extent to which shareholders and creditors of corporations in international capital markets live in different countries from the companies in which they invest. Many reforms aimed at reducing distortions in corporate taxation have been suggested and, in some countries, introduced, but they all have drawbacks in practice. In particular, the difficulties and costs of moving from one system to another can make countries decide against reform, even if their current system is far from perfect.

**Collective investment vehicles**

Collective investment funds currently manage over USD 20 trillion in assets. A substantial part of these assets represent cross-border portfolio investment, the income from which is entitled to tax treaty benefits. The OECD is working with business to resolve the legal and practical issues that may prevent these benefits from being granted effectively, or cause them to be granted inappropriately. The legal issues relate to the treaty entitlement of the funds themselves. Where the funds are not entitled to the benefits, these would normally be available to the fund’s investors. There are important administrative difficulties, however, in ensuring that tax treaty benefits are granted to a large number of investors in a given fund, taking into account that the number of investors in such a fund may change on a daily basis and that there are a number of different intermediaries involved.

**Taxing SMEs – getting it right**

Small and medium-sized enterprises (SMEs) account for between 90% and 95% of the businesses worldwide and are essential drivers of job creation and innovation. Given their number, diversity and contribution to national economies, the impact of tax systems on SMEs is an important consideration for tax policy makers and administrators.

The International Tax Dialogue, a collaborative initiative of the Inter-American Development Bank (IDB), International Monetary Fund (IMF), the OECD and the World Bank, convened a global tax conference in October to examine country experiences with the taxation of SMEs. The conference, hosted by Argentina, drew over 250 high-level participants representing 80 countries and several international and regional tax organisations.

The conference highlighted how tax policies can help SMEs participate in international trade, the need for simplification as a means of improving compliance and lowering administrative burdens, and considered the drivers and impacts of operating in the informal economy.
Tax compliance in a borderless world

Tax administrations have the increasingly difficult task of implementing tax laws in a world of disappearing borders. Cross-border aggressive tax planning is one of the risks that they must manage in order to collect the taxes due under their tax systems. An aggressive tax planning directory has been developed to help tax administrators identify abusive schemes and develop detection and response strategies more quickly. In addition, a recent report, Study into the Role of Tax Intermediaries, looks at the role that tax professionals in accounting firms, law firms or other advisory firms, in financial institutions or in corporate tax departments, play in tax compliance and the promotion of tax minimisation arrangements. The report sets out a series of recommendations for countries to consider when seeking to manage risks, enhance relationships with large corporate taxpayers and tax advisers, and improve commercial awareness.

Another risk facing tax administrators is the ability of taxpayers to evade taxes by hiding activities and assets offshore. Better access to information combined with improved international co-operation help tax administrations address this risk. The report, Tax Co-operation – Towards a Level Playing Field: the 2007 Assessment, describes how over 80 countries were able to improve transparency and establish effective exchange of information arrangements for tax administration purposes.

Want to know more?

**Key activities**
- Consumption tax: [www.oecd.org/ctp/ct](http://www.oecd.org/ctp/ct)
- Dispute resolution: [www.oecd.org/ctp/dr](http://www.oecd.org/ctp/dr)
- Exchange of information: [www.oecd.org/ctp/eoi](http://www.oecd.org/ctp/eoi)
- Harmful tax practices: [www.oecd.org/ctp/htp](http://www.oecd.org/ctp/htp)
- International tax dialogue: [www.itdweb.org](http://www.itdweb.org)
- OECD tax database: [www.oecd.org/ctp/taxdatabase](http://www.oecd.org/ctp/taxdatabase)
- Tax administration: [www.oecd.org/ctp/ta](http://www.oecd.org/ctp/ta)
- Tax policy analysis: [www.oecd.org/ctp/tpa](http://www.oecd.org/ctp/tpa)
- Tax treaties: [www.oecd.org/ctp/tt](http://www.oecd.org/ctp/tt)

**Key publications**
- OECD Tax Policy Studies 16: Fundamental Reform of Corporate Income Tax
- OECD Tax Policy Studies 17: Tax Effects on Foreign Direct Investment: Recent Evidence and Policy Analysis
- Revenue Statistics 1965-2006

**Key events**
- 12th Annual Meeting on Tax Treaties, OECD Headquarters, September 2007
- International Tax Dialogue Global Conference on taxation of SMEs, Buenos Aires, October 2007
- 2nd MENA-OECD Ministerial Meeting and Business Forum, Cairo, November 2007
- Forum on Tax Administration, Cape Town, January 2008
- 50th Anniversary of the OECD Model Tax Convention, OECD Headquarters, September 2008
Over the past two decades, OECD countries have undertaken a significant number of reforms to modernise their public sectors. These reforms have the common aims of increasing flexibility and promoting innovation in order to make government more cost effective, efficient, transparent and responsive to citizens’ needs. The reforms have led to major changes in how the public sector operates, how government and citizens interact, and how the public participates in policy-making.

Non-OECD countries are increasingly focusing on public sector modernisation as well. Many are moving away from relying on “best practices”, and towards evidence-based policy-making, seeing what really works best in particular circumstances. They are also calling on the OECD to provide internationally comparable data and indicators of good government and efficient public services.

Challenges:

A better educated public, rapid technological change and globalisation pressure governments to change how they design and implement services. Demographic changes such as ageing populations also place fiscal pressures and shift demands for public services such as education and health.

Globalisation is blurring the boundaries between domestic and international policy-making and regulation. Consequently, more and more policy issues cannot be tackled by a single government department or even by central government alone. Decentralisation and the growing role of supranational bodies have increased the number of stakeholders involved in policy-making. Yet, from the citizen’s point of view, “the government” is one large, monolithic entity operating across many areas of life. Citizens and businesses are demanding better quality and greater choice in public services, and less red tape. But despite the improvements in transparency and a stronger focus on citizens’ needs, many countries perceive a decline in the public’s trust in government.
Performance, results and evidence-based policies
Governments are increasingly introducing performance management in their budgeting and personnel systems to improve transparency, accountability and value for money. While linking resources with results is standard practice in the private sector, it remains a challenge for the public sector. Currently, information on performance is used primarily to help improve programmes rather than to make decisions such as reallocating resources. The OECD has developed guidelines and recommendations on performance management and budgeting and continues to track trends.

Transparency, integrity and inclusiveness
Transparency is essential for ensuring integrity in government and much progress has been made in this area. For example, over 96% of OECD countries have legislation ensuring public access to information. But as public sector managers are given more flexibility and autonomy, countries must ensure integrity in high-risk areas at the public-private sector interface, as with public procurement and lobbying. The OECD is developing guidelines and frameworks for enhancing integrity and transparency in these processes.

Reducing administrative burdens
Most OECD countries have made reducing administrative burdens a political priority. Red tape is particularly burdensome for smaller companies and may inhibit entrepreneurship. Citizens and large firms also complain about unnecessary reporting requirements. To reduce administrative burdens, governments are adopting strategies such as setting quantitative targets, reviewing older regulations, codification, and introducing e-government services. Regulatory risk can also be reduced through adequate design of regulatory agencies, as shown by a recent OECD review of regulatory frameworks in Brazil.

Innovation: e-government and citizen engagement
In recent years, e-government in OECD countries has become a cross-cutting instrument supporting and enhancing public policy goals. Going beyond online services, the OECD has explored how e-government can be a tool for public sector innovation and change, improving information and data sharing within governments.

Involving citizens in policy-making is also an increasingly recognised driver of innovation and value creation. Governments cannot deal with complex problems alone, and citizens will have to play a larger part in achieving shared public policy goals such as public health and climate change. An OECD report on open and inclusive policy making will be available in mid-2008.

Regional policy
In many countries, public services are increasingly provided at the regional or local level, closer to the citizen. But co-ordination between central
Ireland is an economic success story. In the period from 1995 to 2005, it had one of the highest GDP growth rates in the OECD and is now one of the world’s richest countries on a per capita basis. Living standards have improved, and the young and growing population is diverse and mobile.

Since the mid-1990s, a number of significant public sector reforms have been introduced. These have enhanced a performance orientation, increased openness in hiring and promotion, and clarified lines of accountability. The Irish government decided to review the impact of these reforms to date to ensure that it was following the right track. It wanted to be benchmarked against comparable OECD countries and to learn from experiences elsewhere.

Today, Ireland faces new challenges. High economic growth has increased pressures on infrastructure. Immigration has helped to keep the labour market fluid, but has introduced new pressures. Today 15% of the Irish population is foreign born. The increasingly affluent and heterogeneous population expects more efficient and appropriate services, yet economic growth is now slowing. Public sector agencies that were created to address specific problems now present governance challenges. To tackle these and other emerging issues, the public sector must become more agile and responsive.

This innovative review links budgeting, e-government, performance and human resource management, and other public management issues to examine Ireland’s public service performance in terms of policy making, service delivery, infrastructure, and social and economic outcomes. The review’s analytical framework focuses on governance (sustainability, openness, accountability, vertical and horizontal coherence), capacity (including flexibility) and performance (efficiency, effectiveness). Several case studies in specific sectors such as education, health, and local government are examined. The findings will help shape the next phase of modernisation and reform programmes to sustain Ireland’s economic and social progress.
government and regions represents a challenge for governments. This includes managing fiscal relations across levels of government and using contractual arrangements and performance indicators for sub-national authorities.

Competitive, dynamic regions are essential for national economic growth. Indeed, innovation policies are increasingly organised around regional hubs. To tap the innovative and economic potential of regions, governments are encouraging synergies among firms, universities and other knowledge-producing agents in a given location. They are also looking at how regions can compete in global industries. Other goals include improving the development opportunities for rural regions, and understanding the role of cities in the world economy. The OECD’s Territorial Reviews and database of regional indicators support work in these different areas.

DID YOU KNOW…
that nearly 75% of OECD countries include non-financial performance data in their budget documents?

Want to know more?

Key activities

Budgeting and public expenditures: www.oecd.org/gov/budget
E-government: www.oecd.org/gov/egov
Global relations: www.oecd.org/gov/outreach
Integrity in the public sector: www.oecd.org/gov/ethics
Key indicators of good government: www.oecd.org/gov/indicators
Open and inclusive policy-making: www.oecd.org/gov/publicengagement
Public employment: www.oecd.org/gov/hrm
Regional development: www.oecd.org/gov/regionaldevelopment
Regulatory reform: www.oecd.org/gov/regref
Sigma: www.oecd.org/gov/sigma

Key publications

Ageing and the Public Service: Human Resource Challenges
Cutting Red Tape
E-government studies (Country reviews)
Integrity in Public Procurement: Good Practice from A to Z
Ireland: Towards an Integrated Public Service
OECD Journal on Budgeting

OECD Regions at a Glance
OECD Reviews of Regional Innovation
OECD Rural Policy Reviews (Country reviews)
OECD Territorial Reviews
Performance Budgeting in OECD Countries

Key events

Innovative Rural Regions: The Role of Human Capital and Technology, Cáceres, Spain, March 2007
Regional Meeting of Senior Officials (Western Balkans) on “Public Procurement Remedies”, Dubrovnik, Croatia, May 2007
Meeting of Senior Officials from Centres of Government (CoG), Bern, October 2007
3rd International Roundtable on Sustainable Regional Policy with reference to the Economic Development of Chongqing Municipality, Beijing, November 2007
Regional Meeting of Senior Officials (Western Balkans) on “Concessions and Public-Private Partnerships”, Tirana, December 2007
Private sector governance

Fighting corruption

More political commitment is needed to fight international corruption. Despite new anti-bribery laws, tougher sanctions and improved international co-ordination and co-operation, some countries are still holding back on fully implementing the OECD Anti-Bribery Convention.

Ministers and top officials from 40 countries met in Rome to celebrate the Convention’s 10th Anniversary and committed to making the Convention more effective at the forefront of the global fight against foreign bribery. Emerging market countries were encouraged to follow the example of South Africa, which became the 37th country to ratify the Convention in 2007, or to apply its standards through intensified partnerships.

Financial risks

Securitisation and other techniques used by financial institutions to unbundle, repackage and transfer financial risks have long been appreciated for their ability to enhance available credit by facilitating a broader dispersion of risk. But while the increasing dissemination of risks through securitisation allows for further diversification, it can also impact on transparency, thereby increasing market uncertainties. The risks themselves do not disappear and must still be managed, preferably by those better placed to do so.
Increasingly, however, financial risks are being borne by individuals who may be ill-equipped to manage them. This trend applies to pensions, as people live longer and pension schemes shift from defined benefits to defined contributions, but it is also happening in the field of credit as exemplified by the subprime crisis (see Spotlight, page 14).

The OECD, reinforced by a 2006 mandate from G8 finance ministers, has thus taken a leading role in promoting better financial education and awareness. The Organisation was active again in 2007, developing best practice guidelines on financial education in insurance and pensions to be issued in 2008 and launching a new website to promote international co-operation (see www.financial-education.org).

The OECD also analysed the financial consequences of major catastrophes and produced a policy handbook on risk awareness for natural catastrophes. In addition, to promote a better regulatory framework, OECD member countries adopted a new recommendation on funding and benefit security in pension funds.

**Sovereign wealth funds**

Freer, more open investment markets have benefited people and companies around the world. Investment vehicles backed by governments, known as sovereign wealth funds (SWFs), are becoming increasingly prominent players in international investment markets. They have much to offer. They can contribute to their home country’s development, recycle savings internationally and they generally have a good track record as long-term investors. At the same time, their size and government links may raise concerns about financial stability and that they might act with political, not commercial, motives.

Intergovernmental policy dialogue will help SWFs and the host countries receiving their investments to implement policies that can be good for both sides. Sovereign wealth funds need to be able to earn good returns on a wide spectrum of investments. Recipients need to protect essential security interests, but also wish to keep their markets open. The International Monetary Fund is helping SWFs develop good governance practices that will improve their disclosure and management. In a complementary effort, OECD members, working in co-operation with many non-OECD partners, are developing guidance for host country policies on ways to safeguard essential security interests, while also respecting basic investment policy principles: liberalisation, non-discrimination, transparency and predictability, proportionality and accountability.
Corporate governance

Private equity firms and “activist” hedge funds have become major players in monitoring corporate performance. They create value through individual companies, for example, by acting as board members and helping develop new company strategies. OECD has found that countries need to update their corporate governance framework and practices continuously if they want to meet the needs of investors and corporations or benefit from large private pools of capital, such as private equity firms.

OECD has created a new forum for dialogue with the private sector. The aim is to better understand their role in corporate governance and to provide guidance on how the OECD Principles on Corporate Governance can best be applied in a changing capital market environment. Private sector voluntary standards will be reviewed and a high-level OECD meeting on corporate governance will be held in 2008.

Investment

International investment is a key driver of growth, innovation and sustainable development. Governments are continuously challenged to improve their investment policies and ensure a healthy business climate. At the same time, the explosion of cross-border mergers and growing presence of emerging economy investors, often controlled by governments, has led to concerns that some investments might be motivated by political rather than commercial interests (see box page 65). In parallel, the number of countries using the OECD’s Policy Framework for Investment (PFI) to attract investment for development continues to increase. Egypt has become the 40th country to adhere to the OECD Declaration on International Investment and Multinational Enterprises. Governments, business, labour and NGOs have continued to use the OECD Guidelines for Multinational Enterprises to resolve disputes and build trust. The OECD Principles for Private Sector Participation in Infrastructure, adopted in 2007, provide guidance for making the most private and international investment in water and other sectors.

Private sector development

Supporting development of a vibrant private sector has become an essential component of OECD’s efforts to boost competitiveness and growth. Private sector development programmes, both regional and country-specific, help governments in non-member countries identify reform priorities, support implementation and benchmark progress. Working closely with non-member countries, the OECD’s PFI is being applied to help make reform happen in the Middle East and North Africa (MENA) and South East Europe (SEE). A new programme with Central Asia and the South Caucasus (Eurasia) is being launched in 2008.
### Key activities

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<td>Corporate governance: <a href="http://www.oecd.org/corporate">www.oecd.org/corporate</a></td>
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<td>Financial markets, insurance and pensions: <a href="http://www.oecd.org/daf/fin">www.oecd.org/daf/fin</a></td>
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<td>Private equity and hedge funds in corporate governance: <a href="http://www.oecd.org/daf/corporateaffairs">www.oecd.org/daf/corporateaffairs</a></td>
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<td>Private sector development: <a href="http://www.oecd.org/daf/psd">www.oecd.org/daf/psd</a></td>
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<td>Public debt management: <a href="http://www.oecd.org/daf/publicdebtmanagement">www.oecd.org/daf/publicdebtmanagement</a></td>
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### Key publications

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<td>Asian Insolvency Systems: Closing the Implementation Gap</td>
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<td>Corporate Governance in Emerging Markets: Enforcement of Corporate Governance in Asia, the Unfinished Agenda, December 2007</td>
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<td>International Investment Perspectives 2007: Freedom of investment in a changing world</td>
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<tr>
<td>OECD Glossaries – Corruption: A Glossary of International Standards in Criminal Law</td>
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<tr>
<td>OECD Principles of Corporate Governance and the Methodology for Assessing their Implementation</td>
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<tr>
<td>Protecting Pensions: Policy Analysis and Examples from OECD Countries, Private Pension Series No.8</td>
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<td>Specialised Anti-Corruption Institutions – Review of Models</td>
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### Key events

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<td>Asia Roundtable on Corporate Governance: 10 years since the Asian financial crisis, Singapore, June 2007</td>
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<td>Latin American Roundtable on Corporate Governance and Companies Circle: Focus on Institutional Investors and Corporate Governance Codes, Medellin, Colombia, October 2007</td>
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<tr>
<td>OECD/IOPS Global Forum on Private Pensions, Beijing, November 2007</td>
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<tr>
<td>High Level Conference and Expert Meetings for the 10th Anniversary of the OECD Anti-Bribery Convention, Rome, November 2007</td>
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<tr>
<td>9th OECD/ADBI Roundtable on Capital Market Reform in Asia, Tokyo, February 2008</td>
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In 2006, the total Official Development Assistance (ODA) provided by the members of the Development Assistance Committee (DAC) fell to USD 104.4 billion, 4.5% lower than in 2005. In real terms, this is the first fall in ODA since 1997. Without the extremely large debt relief granted to Iraq and Nigeria, ODA in 2006 was well short of a straight line increase towards the 2010 ODA figures implicit in DAC members’ public commitments.

Chief Economist of the African Development Bank, Louis Kasekende (on screen); OECD Secretary General, Angel Gurria; and South African Minister of Water Affairs and Forestry, Lindiwe Benedicta Hendricks, at the OECD Development Centre International Forum on African Perspectives, ‘Access to Drinking Water and Sanitation: can Africa reach the Millennium Development Goals?’, held in Paris, Bercy, in June 2007.

DID YOU KNOW… that in Sub-Saharan Africa, only one person in two has easy access to drinking water and one in three to proper sanitation facilities?
On the other hand, both donors and recipient countries have made considerable efforts to improve the quality and effectiveness of ODA. There have been notable improvements, for example, in the way aid is delivered and managed in the health and basic education sectors. The Development Co-operation Report 2007 paints a frank picture of how the donor community has fared in keeping its commitments over the past five years.

Most, but not all, DAC members have announced medium-term commitments to increase ODA, at least to 2010, and there is a common commitment to double ODA to Africa from 2004 to 2010. Few members have yet published clear plans for delivering their commitments, though some members with multi-year public expenditure plans have indeed done exactly that. One important indicator will be the ODA outturn for 2007, the first year when the major commitments made in 2005 could reasonably be reflected in actual spending. As debt relief will certainly have fallen, the level of ODA net of debt relief will be a very important indicator of delivery.

Net disbursements by OECD countries not yet members of the DAC rose impressively from an estimated USD 0.4 billion in 2002 to some USD 1.9 billion in 2006. Non-OECD EU member states also raised their much smaller aggregate flows significantly. Good data on flows from

The first Latin American Economic Outlook

In November 2007, the OECD published the first Latin American Economic Outlook, a new annual publication analysing the main challenges and opportunities for development in Latin America. This is the first report ever published by the OECD on the region as a whole and signals the Organisation’s growing interest in Latin America. This interest is also reflected by Chile’s imminent accession to the OECD and the strengthened co-operation with Brazil, both agreed by OECD ministers in their May meeting.

The Latin American Economic Outlook offers policy recommendations in four key areas for Latin America’s development: fiscal policy, pension fund reform, private investment in telecommunications and the impact of Asia’s emerging economies. The publication’s objective is to help decision-makers find solutions that will help to reduce poverty and inequality and strengthen democracy, thereby unleashing Latin America’s huge potential for growth.

The Latin American Economic Outlook seeks to catalyse informed policy debate within Latin American countries as well as between them and OECD member countries. It draws on the expertise of an informal advisory board comprised of renowned scholars and experienced decision-makers from both OECD and Latin American countries. The report was officially launched in Santiago de Chile, at the Iberoamerican Summit of Heads of State and Government, and has been presented at high-level seminars in Brussels, Lisbon, Madrid, Miami, Paris and Washington, D.C.
countries outside the OECD and the EU remain limited, but it is evident that China in particular has now become a significant source of funding for a growing number of countries. It is highly desirable that consistent and transparent accounting of flows from these countries is put in place as soon as possible.

In recent years, concerns about the pace of development in the world’s poorest countries have grown. With this, the need to ask difficult and sometimes uncomfortable questions has also increased. Why does poverty remain such a widespread problem, despite the sums of money invested in development over the decades? What prevents progress from taking root in some countries and not in others? What must be done in order to make human and economic development a reality for all?

The OECD has taken important steps to help answer these questions. The Organisation works with the DAC, a forum where 23 member countries come together to craft solutions and agree on actions that will increase aid effectiveness and promote development where and when it is most needed.

**Measuring progress on the Paris Declaration**

Developed and developing countries alike need to learn new ways of working if they are to promote development effectively. In March 2005, more than 100 countries signed the Paris Declaration, making a firm commitment to improve the quantity and quality of development assistance. More importantly, they agreed to measure their successes or failures in doing so.

The benchmark for these assessments is a report released in 2007, the 2006 Survey on Monitoring the Paris Declaration. It looks at the effectiveness of aid delivered by 55 donors to 34 developing countries. Now, as countries and donors prepare to come together in September 2008 at the High Level Forum on Aid Effectiveness in Accra, a follow-up survey is underway. The results will allow participating countries to see where progress has been made and where it has stalled, forming the basis for discussion and helping all present to sharpen their strategies and approaches.

**Policy dialogue for sustained growth**

Increased demand from Asian economies, steadily rising commodity prices, and a plethora of new financing options have opened unprecedented opportunities for many poor and emerging economies. But translating these opportunities into sustained growth and development requires sound and innovative policies. In 2007, the OECD expanded the range of tools it uses to support an informed policy dialogue with partner economies.

In September, the African Development Bank (ADB) assumed the leading role in the production of the joint OECD/ADB annual flagship report, the *African Economic Outlook*. The OECD remains deeply committed to the project and is setting up an Africa Desk to consolidate and expand its activities in African economies. In November, the Organisation launched the first *Latin American Economic Outlook*, opening up new dialogue with the region as a whole (see box page 69).
Want to know more?

Key activities

Africa: www.oecd.org/africanoutlook
Aid effectiveness: www.oecd.org/dac/effectiveness
Aid for trade: www.oecd.org/dac/trade/aft
Governance: www.oecd.org/dac/governance
Peer reviews: www.oecd.org/dac/peerreviews
Policy coherence: www.oecd.org/development/policycoherence

Key publications

African Economic Outlook 2007
Aid for Trade at a Glance 2007
Business for Development 2007 – Fostering the private sector
Development Aid at a Glance 2007: Statistics by Region
Development Co-operation Report 2007
Financing Development 2007 – Aid and Beyond
Informal Institutions: How Social Norms Help or Hinder Development
Latin American Economic Outlook 2008
OECD Journal on Development, Survey on Monitoring the Paris Declaration: Overview of the Results
Policy Coherence for Development 2007 – Migration and Developing Countries
The Development Dimension: Trade-Related Assistance: What do Recent Evaluations Tell Us?
The OECD DAC Handbook on SSR: Supporting Security and Justice

Key events

OECD DAC High Level Meeting, OECD Headquarters, May 2007
7th International Forum on African Perspectives – Access to Drinking Water and Sanitation: can Africa reach the Millennium Development Goals?, OECD Headquarters, June 2007
1st Annual Plenary of the OECD Global Forum on Development, OECD Headquarters, October 2007

DID YOU KNOW…

that, to reach the water MDG by 2015, the number of additional people obtaining access to drinking water annually will need to triple?
Global relations

For decades, the OECD has helped shape social and economic policy both within and outside its membership. Today, several new and large economies are emerging into the globalisation process, bringing new challenges with them. As part of the response to these global challenges, the OECD is evolving, becoming more inclusive, sensitive to diversity, and more understanding of the many different paths that lead to growth and development.

Enlargement and enhanced engagement

At their annual meeting in May 2007, OECD ministers made an unprecedented decision to initiate a two-tier process of enlargement and enhanced engagement with ten new countries. Together these countries account for nearly half the world population, 15% of global exports and a combined GDP of USD 5.8 trillion. Ministers agreed to begin accession discussions with five countries: Chile, Estonia, Israel, the Russian Federation and Slovenia. The process was officially launched at the end of 2007.

In parallel, ministers invited the OECD “to strengthen co-operation with Brazil, China, India, Indonesia and South Africa through enhanced engagement programmes with a view to possible membership”. Furthermore, southeast Asia was identified as a region of strategic interest with a view to identifying possible members. This important new mandate is being implemented through active consultations within the Organisation and with each of the partners concerned.

(Left to right)
OECD Secretary-General, Angel Gurría, and Chinese Vice Minister and Vice-Chairman, Office of the Central Leading Group on Financial and Economic Affairs, Liu He, during a visit to the OECD in May 2007.
OECD and India

The OECD’s first Economic Survey of India was launched in New Delhi in October 2007. The Survey lauded India’s moves towards a market-based system, which have resulted in an acceleration of economic growth to over 9% in 2007. If sustained, this pace would enable India to double its income per capita in a decade and further reduce poverty. State intervention and control over economic activity have been reduced significantly and the role of private enterprises increased. Output growth has been especially strong in those service sectors where government regulation has been eased considerably or is less burdensome – areas such as communications, airlines and information technology. At the State level, economic performance is much better in States with a relatively liberal regulatory environment than in the relatively more restrictive States.

The Government’s target of reaching GDP growth of 10% in 2011 is achievable if reforms continue. For this to happen, some points require special attention. India could achieve faster growth in regular employment by easing restrictive employment protection, particularly for larger manufacturing companies. Barriers to competition and other excessive product market regulations reduce competition and curb the potential for achieving the levels of productivity growth seen in the best performing economies. Privatisation of enterprises has stalled, despite the fact that it would offer considerable possibilities for improving productivity. In particular, the financial sector has a very high share of public ownership. It needs to be liberalised further, allowing banks to allocate larger shares of their assets freely. A greater private involvement in energy and transport infrastructure would also alleviate the bottlenecks that diminish India’s growth potential.

Over the past two decades, India has been an economic success story. This should encourage policy makers to speed up their reform process, thus realising their objective of further raising India’s sustainable growth path while making this growth more inclusive.
This ministerial decision reflects the evolving significance of the OECD as a hub of economic dialogue for globalisation. It demonstrates a recognition that the economic and political map of the planet has changed, and that progress on major challenges will only be achieved by intensifying co-operation among the world’s major economic players. The OECD already collaborates closely with several of these countries, but will now forge a more structured relationship with them.

**G8 and the Heiligendamm Process**

In 2007, the OECD and the G8 strengthened their co-operation. At the G8 summit in Heiligendamm, the OECD was asked to provide a platform for a dialogue between the G8 and the G5 – Brazil, China, India, Mexico (an OECD member), and South Africa. This structured, topic-driven dialogue will help increase international co-operation on some of the world’s most difficult global challenges.

**Global relations strategy**

At the same time, the OECD’s relations with nearly 100 other non-member economies are also broadening and deepening. Based on mutual benefit, partnerships, and the sharing of OECD methods and knowledge, the Organisation’s global relations strategy ensures the continuing coherence between the OECD’s substantive work and the needs of the global community. Co-operation with non-members forms an integral part of the Organisation’s regular work. The increasingly active participation of non-members in OECD work has become a two-way avenue of communication and learning, contributing to shaping a new vision for the Organisation.

In addition to the new country-specific programmes with the five Enhanced Engagement partners, work with non-OECD economies is organised in regional initiatives and Global Forums. Regional initiatives include Europe, the Caucasus and Central Asia, Asia and in particular southeast Asia, Latin America, Middle East and North Africa (MENA) and Africa in support of the New Partnership for Africa’s Development (NEPAD). A sub-regional programme in southeastern Europe supports the aims of the Stability Pact for that region and its successor, the Regional Co-operation Council.

Ten OECD Global Forums provide a framework for dialogue on global issues that cannot be resolved by a single country or region. These include forums on sustainable development, the knowledge economy (biotechnology and e-commerce), governance, trade, international investment, international taxation, agriculture, competition, education, and, since 2006, development.

**Partnerships with other international organisations**

The OECD works in partnership with a number of other international organisations in an effort to improve international governance and promote policy coherence. The OECD has partnership agreements with the World Bank, the United Nations Conference on Trade and Development, the Inter-American and Asian Development Banks and the World Health Organization.
A further illustration of the OECD’s active role in fostering partnerships is the recent founding of the Partnership for Democratic Governance (PDG). The PDG aims to help developing countries, including fragile states, post-conflict states and emerging democracies, build their governance capacity and improve service delivery to their citizens. It brings together countries and international and regional institutions from around the world, including the United Nations Development Programme, the Organization of American States and the Inter-American Development Bank. It is supported by an Advisory Unit, housed at the OECD in Paris.

**Sigma Programme**

The Support for Improvement in Governance and Management Programme (Sigma), a joint EU/OECD initiative principally financed by the EU, helps decision-makers and administrations build institutions and set up legal frameworks and procedures to meet European standards and good practice. In 2007, Sigma helped Bulgaria and Romania fulfil their obligations as new EU member states and supported EU candidate countries and potential candidate countries in the Western Balkans in their efforts to move closer to Europe. In 2008, Sigma’s geographical scope will expand to include countries supported by the EU’s European Neighbourhood and Partnership Instrument.

**Want to know more?**

**Key activities**
- Global forums: [www.oecd.org/globalforums](http://www.oecd.org/globalforums)
- Partnerships with international organisations: [www.oecd.org/partners](http://www.oecd.org/partners)
- Regional and country programmes: [www.oecd.org/regional](http://www.oecd.org/regional)

**Key publications**
- *Development Centre Studies: Chinese Economic Performance in the Long Run*
- *OECD Economic Survey: India*
- *The Visible Hand of China in Latin America*
Measuring progress – considering whether life is getting better – is an issue of increasing importance to all societies. A country’s advancement is often measured mainly by economic indicators such as gross domestic product which, while an important measure of economic activity, was not developed to be the sole measure of a nation’s progress. A consensus is now growing around the need to develop a more comprehensive view of progress, one that takes into account social, environmental and economic concerns.

Developing cross-cutting, high quality, shared, accessible information about how a society is doing is crucial to ensure that decision-making is both responsive and responsible at all levels. But, in an age of unprecedented and overwhelming information flows, the common understanding necessary for informed public discourse is often inadequate.

In response, organisations all over the globe are developing comprehensive measures of a society’s progress, sustainability, well-being or quality of life. Work is being done at the sub-national, national, and international levels, undertaken by the public, private and citizen sectors, academia, and the media.

OECD Secretary-General, Angel Gurría, with Recep Tayyip Erdogan, Prime Minister of Turkey, at the OECD World Forum on “Measuring and Fostering the Progress of Societies” held in Istanbul in June 2007.
Many challenges are emerging as this work unfolds. Globalisation is making measuring and assessing a country’s overall progress an issue requiring approaches that go beyond national borders. And civil society is increasingly taking the lead in calling for – even building – sets of progress measures. These challenges are putting pressure on all parts of society to find new ways of working with one another to improve understanding and assessment of societal progress. Until now, there has been no “global” discussion about how to do this.

In June 2007, an exceptional group of 1 200 people from about 130 countries gathered in Istanbul to attend the 2nd OECD World Forum on “Statistics, Knowledge and Policy”. The Istanbul World Forum has given a unique opportunity for in-depth discussions about the measurement of progress, as well as some of the most important concerns facing the world, such as climate change, health and economic globalisation. As a result, the OECD, in co-operation with the European Commission, the Organisation of the Islamic Conference, the United Nations and the World Bank, and in partnership with Paris 21 (Partnership in Statistics for Development in the 21st Century), the African and Inter American Development Banks, launched a global project to measure and foster the progress of societies. The work is built around research projects and expert and regional meetings and conferences. Regional groups are being established in every continent to take this work forward. The 3rd World Forum on Statistics, Knowledge and Policy will be organised in Korea in late 2009.

National accounts and financial statistics

The OECD is actively involved in the update of the System of National Accounts (SNA), which will be concluded in 2008. By the end of 2007, Volume I of the updated manual, comprising the core chapters from 1 to 17, will have been completed and submitted for final approval by the United Nations Statistical Commission at its meeting in February 2008 and then for subsequent release. Volume II, comprising the supplementary chapters, will follow the same course a year later. OECD experts have helped develop recommendations on a large number of issues, including pension schemes, research and development, non-life insurance, financial services, and leases and licences. The next years will witness an important transition from the present to the updated accounting system.

The OECD annual meetings on national accounts and financial statistics represent a very important opportunity for national and international experts to discuss measurement issues and to improve international comparability of these statistics. In 2007, special attention was paid to the update of the SNA, a new OECD manual on capital measurement, a handbook on deriving capital measures of intellectual property products (including R&D), a handbook on volume measurement of health and education services, and various issues related to the financial statistics and financial accounts. The handbooks and manual will play an important role in the implementation of the updated SNA.

In 2007, a new set of GDP and consumption comparisons based on Purchasing Power Parities was published. For the first time, this work comprised over 50 countries, going significantly beyond the 30 OECD members.

DID YOU KNOW…
that OECD, United Nations, UNDP, World Bank, European Commission and Organisation of the Islamic Conference all signed a declaration last year pledging their support to measuring progress?
Trade statistics

Data on international trade in goods and services are one of the most demanded areas of OECD statistics. Together with the basic trade data, the OECD has developed a set of globalisation indicators and is developing a greater integration of the trade in goods and service statistics.

Outreach activities

Considerable work will be undertaken over the next 12 months on reviews of the national statistical systems of Chile, Estonia, Israel, the Russian Federation and Slovenia as part of the process of their accession to the OECD.

Want to know more?

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DID YOU KNOW... that the OECD Country Statistical Profiles contain 150 comparable indicators providing a comprehensive view of economic, social and environmental developments?
Communications

Public affairs and communications

At their 2007 meeting, OECD ministers highlighted the important role that the Organisation should play in communicating its analysis and policy advice on global challenges. While reforms are rarely painless, delaying them can be a costly option. A key role for the OECD is therefore to help governments pursue sound economic policies by communicating effectively the true nature of the issues at stake, based on sound data and analysis. Ministers also emphasised the need to reach out to a wider range of stakeholders and involve the social partners in reform efforts.

The OECD’s public affairs and communications activities engage the full range of stakeholders – government and policy makers, business representatives, academia, organised labour and other civil society organisations, the media and the general public. To do so, the Organisation exploits the wide range of communications channels available today from both traditional and new media. Also, because genuine communications imply dialogue, the Organisation seeks comments and inputs from all its audiences through a variety of vehicles, including public consultations, conferences and seminars, online discussions, and visits.

Publications are the prime vehicle for disseminating OECD’s intellectual output to the wide range of its target audiences. OECD statistics and analysis help policy makers find best practice approaches to common problems.

(Left to right) Financial Controller, UK Commonwealth Parliamentary Association, Joe Omorodion and Australian Member of Parliament, Jackie Kelly, with OECD Deputy Secretary-General, Pier Carlo Padoan, at the High-Level Parliamentary Seminar on Innovation, Growth and Equity held in October 2007.
Academics worldwide use OECD’s repository of information to fuel their research and teaching activities, while the business community relies on OECD guidelines and conventions.

In 2007, online dissemination continued to grow, both for analytical publications (with the chapter by chapter and article by article publishing) and for statistics (with the launch of the statistical dissemination project – see box page 81). In an effort to address a wider, non-specialist audience, six “at a glance” type publications, applying the user-friendly Factbook approach to individual topics, were published in 2007, including two brand new titles: Development Aid at a Glance: Statistics by Region 2007 and The Space Economy at a Glance.

The list of other bestselling titles in 2007 included: Economic Policy Reforms: Going for Growth 2007; PISA 2006: Science Competencies for Tomorrow’s World; and OECD Economic Surveys: India (this first OECD survey of India was co-published in India with the Academic Foundation – see box page 73).

The process of enlargement and enhanced engagement presented new challenges and opportunities for OECD communications. In the run-up to the Ministerial Council Meeting (MCM), extra efforts were made to increase awareness of OECD among journalists from the ten accession and enhanced engagement countries.

The 2007 newsmakers included the Agricultural Outlook, launched in Brussels in July, and the release of the latest PISA report in December, which also benefited from special events in Mexico and Tokyo. OECD’s efforts to curtail bribery and corruption also sparked media coverage, enhancing interest in the Organisation’s work. The successful launch of the Economic Survey of Austria in Vienna, which brought together the OECD Secretary-General and the Austrian Chancellor, increased public debate on issues such as education, taxation, pension reform, climate change, and labour market policies.

Engaging parliamentarians

OECD relations with parliamentarians are a crucial element of its mission to help policy makers implement reform. The OECD has longstanding formal relations with the Council of Europe and NATO Parliamentary Assemblies, and organises two high-level parliamentary seminars a year on themes related to recent OECD analysis. The current turbulence in financial markets was the theme of the February 2008 seminar.

Relations with civil society

The OECD’s engagement with civil society dates back to the Organisation’s creation, through its relations with the Business and Industry Advisory Committee to the OECD and the Trade Union Advisory Committee to the OECD (see box page 83). Co-operative activities with civil society have since extended to other international civil society organisations (CSOs), such as OECD Watch, a group of over 60 CSOs following OECD’s work on investment.
OECD online

The website underwent some badly needed aesthetic surgery and was re-launched in June 2007, with a more colourful, dynamic and user-friendly look. The re-looking is part of a broader branding project to strengthen the OECD’s visual identity for corporate communications products.

A new, more user-friendly “About OECD” section was created and launched in April 2007. Its navigation structure uses intuitive headings; the OECD’s savoir-faire and key products are highlighted and explained more clearly; photos and charts are used throughout the pages to make them more attractive and to illustrate difficult concepts; and short 3-5 minute audio and video clips explain complex issues to non-expert audiences.

OECD.Stat

On 4 December, at London’s Online Information Show, the OECD launched OECD.Stat, the first public version of a new service for accessing OECD statistics. OECD.Stat is the product of five years of behind-the-scenes work, combining several databases into a single system and offering a number of innovative features.

For the first time, users will be able to search, extract and assemble unique custom-made tables using data from all OECD databases. The interface is simple and tables are made in a single enquiry. At the same time, improved description of each data point helps users understand the source of each data point as well as the overall context of the figure.

The specialist information press, as well as the users of SourceOECD, have acclaimed this major improvement in terms of the user-friendliness of OECD statistics. This new tool is the first step in an extensive project aimed at enhancing the OECD’s publishing services for users.
OECD Forum

OECD Forum 2007, “Innovation, Growth and Equity”, attracted a record 1 600 participants from more than 100 countries. The Forum is a key element of the OECD’s relationship with stakeholders, enabling business, government, labour, academia and civil society to debate hot issues on the global political agenda. It is held immediately before the OECD annual MCM. Spain’s Deputy Prime Minister and Minister of Economy and Finance, Pedro Solbes, who chaired the 2007 ministerial meeting, also spoke at the Forum. The 2008 Forum, “Climate Change, Growth, Stability” will be held in the OECD’s new Conference Centre, bringing the Forum and the MCM onto the same site for the first time.

Public information

OECD Policy Briefs provide clear, concise summaries of OECD work on today’s global policy challenges, and surveys of individual country economies. Issues covered in 2007-2008 include various aspects of climate change; tax and investment; equity in education; tourism and development; pensions; and innovation policies.

The Organisation’s public magazine, the OECD Observer, continued to bring OECD facts and policy perspectives to an expanding readership, with an editorial line helping to position the OECD as a hub of globalisation. The print-run was 26 000 in 2007 and online traffic reached some 170 000 visits per month for both the English and French versions, up nearly 15% on 2006. Editorials by the Secretary-General explained issues ranging from OECD enlargement and enhanced engagement to the OECD Innovation Strategy, while there were guest articles from Spain’s Deputy Prime Minister, Pedro Solbes and New Zealand’s Ambassador for Climate Change, Adrian Macey. Content highlights this year included “spotlights” on bribery and climate change.

The OECD Annual Report is the only publication that brings the full breadth of the OECD’s work into one volume. It is a key instrument for explaining the work of the OECD, while presenting insights into major world economic developments and providing transparency.

OECD Centres

Facilitating co-operation between the OECD and the German G8 presidency was a major priority for the OECD Berlin Centre in 2007. The Centre organised a series of events on globalisation, investment, innovation, energy and climate, development and Africa, labour market reforms and corporate social responsibility, helping underpin the relevance of the OECD’s work for the G8 and the ensuing Heiligendamm process.

In 2007, the OECD Mexico Centre launched a public information campaign on PISA 2006. As a result of this campaign, the Mexican government, for the first time ever, included a PISA target for year 2012 in the 2007-2012 education programme. The Mexico Centre, in collaboration with Columbia University, also took initial steps towards the development and launch of a pilot executive education program, the Certificate on Quantitative Methods for Evidence-Based Public Policy.
Business and Industry Advisory Committee to the OECD (BIAC)

Executive Board:
Chairman: Charles P. Heeter, Principal, Deloitte & Touche USA LLP (United States)
Vice-Chairs: George N. Addy, Partner, Davies Ward Phillips & Vineberg LLP (Canada); Guy de Panafieu, Senior Adviser, Calyon (France); Ludolf von Wartenberg, Member of the Presidency, Federation of German Industries (BDI) (Germany); Bruno Lamborghini, Vice-Chairman, Olivetti S.p.A. (Italy); Keikichi Honda, Chairman of BIAC Japan and Chairman of EFI Japan (Japan); Jin Roy Ryu, Chairman of BIAC Korea, Chairman and Chief Executive Officer of Poongsan Corporation (Korea); Erik Belfrage, Senior Vice-President, Advisor to the Chairman, SEB (Sweden).

Secretary-General: Tadahiro Asami

Trade Union Advisory Committee to the OECD (TUAC)

Administrative Committee:
President: John Sweeney, President of the American Federation of Labor and Congress of Industrial Organizations (AFL–CIO–USA)
Vice-Presidents: Luc Cortebeeck, President of the Belgian Confederation of Christian Trade Unions (CSC–Belgium); Tsuyoshi Takagi, President of Japanese Trade Union Confederation (RENGO–Japan).

General Secretary: John Evans

(Left to right) TUAC President, John Sweeney, and BIAC Chairman, Charles P. Heeter, with Spain’s Deputy Prime Minister and Minister of Economy and Finance, Pedro Solbes, at the BIAC and TUAC Ministerial Consultations held in May 2007.
The OECD Tokyo Centre organised a series of Tokyo Policy Forums on critical issues, including trade and environment, public governance, development assistance and Economic Surveys of Korea and India. On the occasion of the OECD Secretary-General’s visit to Tokyo in December, the Centre organised several events including the launch of PISA 2006 and high-level meetings with Prime Minister Yasuo Fukuda and other ministers. The latter was an important first step for preparation of the 2008 G8 Hokkaido Toyako Summit meeting in which the OECD will play an important role.

The OECD Washington Centre acts as a liaison to the executive and legislative branches of the US government. In 2007, the Centre organised 25 seminars with visiting staff to raise the profile of the OECD in Washington DC, many of which were sponsored by a member of the US Congress. In addition, the Centre markets OECD publications and data to the large North American market and provides training and customer assistance. It also engages in other public outreach activities to civil society, think-tanks and universities.

### Want to know more?

**Key activities**

- Centres abroad: [www.oecd.org/centres](http://www.oecd.org/centres)
- Civil society: [www.oecd.org/civilsociety](http://www.oecd.org/civilsociety)
- Insight guides: [www.oecd.org/insights](http://www.oecd.org/insights)
- Media: [www.oecd.org/media](http://www.oecd.org/media)
- Parliamentary relations: [www.oecd.org/publicaffairs/parliamentarians](http://www.oecd.org/publicaffairs/parliamentarians)
- Publishing: [www.oecd.org/publishing](http://www.oecd.org/publishing)

**Key publications**

- OECD Annual Report
- OECD in Figures
- OECD Observer
- OECD Policy briefs

**Key event**

Africa Partnership Forum

With average annual growth rates in Africa averaging 5% over the past three years, inflation below 5% since 2000, improved governance conditions and extensive untapped natural resources, the continent is forging a new image for itself as a frontier for economic opportunity. This shift has not gone unnoticed by major global players – both sovereign states and private companies – who are keen to take advantage of the investment and growth opportunities Africa’s emerging markets offer. The result has been increased trade flows between Africa and the rest of the world (particularly Asia) and rising investment levels. Between 2002 and 2006, net private capital flows to Africa more than quadrupled from USD 13 billion to USD 60 billion.

Africa is potentially on the verge of a new era of prosperity, largely the result of its own successful efforts to strengthen governance and foster domestic financial stability through deep economic, political and social reforms. Nevertheless, challenges do remain. Many of these positive outcomes were guided by the New Partnership for Africa’s Development (NEPAD), the strategic framework for continental transformation and renewal created by African leaders in 2001. A strong engagement between Africa and its development partners remained essential to help the countries harness their full potential and ensure sustainable growth. The Africa Partnership Forum (APF) was established in this spirit in November 2003, following the Evian G8 Summit, as a way of broadening the existing dialogue between the G8 and NEPAD. It included other African institutions, as well as the continent’s major bilateral and multilateral development partners. In 2005, APF members agreed to establish a Support Unit – currently hosted by the OECD – to backstop ongoing monitoring and analytical work.

The APF has become a senior political forum for discussing and monitoring policy issues, priorities and commitments in support of Africa’s development. Its core remit is to catalyse action and to co-ordinate support behind African priorities and NEPAD and to help bring Africa closer to reaching the Millenium Development Goals. It also monitors progress, identifies bottlenecks, and signals priorities for follow-up action by APF members, which it does at its two annual meetings. The APF’s 8th meeting was held in Berlin in May 2007, just two weeks before the G8 Heiligendamm Summit. It delivered strong messages to G8, OECD and African leaders about the need to boost investment in Africa and promote peace and security through more predictable funding. It also called for action against the flow of illicit small arms and resource trafficking, the elimination of discrimination against women and girls, and support for Africa’s efforts to adapt to climate change and reduce emissions. The following meeting of the APF, held in Algiers in November 2007, underlined the impressive progress that Africa has made towards promoting good governance, and noted that challenges remain, particularly regarding gender equality and corruption. Although Africa’s development partners have responded to the continent’s efforts by significantly increasing development assistance and debt relief – thereby reducing the proportion of people living on USD 1 a day – more needs to be done by both Africa and its development partners to ensure sustained growth performance and an attainment of poverty reduction goals. The 10th APF meeting was held in Tokyo on 7-8 April 2008.
The International Energy Agency (IEA) advises 27 member countries (Poland is in the final stages of accession procedures) on development of energy policies that promote security of supply, economic development and environmental sustainability. The IEA also maintains an immediate response mechanism to offset oil market supply disruptions. Over the past year, energy security remained a high priority. Soaring energy prices, supply constraints, continued demand growth, rising imports, political tensions and increasing nationalist sentiments threaten adequate, reliable energy supplies. At the meeting of the Governing Board at Ministerial level in May, ministers highlighted the need to overcome the twin challenges of ensuring secure, affordable energy for more of the world’s population and sustainably managing the environmental consequences of producing, transforming and using that energy.

Recent accelerating emissions of greenhouse gases have created more urgent calls to curb emissions from energy production and consumption. Following the G8’s request in 2005 to help deliver the Gleneagles Plan of Action on climate change, clean energy and sustainable development, the IEA presented further recommendations on potential technology scenarios, energy efficiency measures and other abatement strategies, including clean coal, at the 2007 G8 summit in Heiligendamm.

Increasing portions of energy demand, supply and emissions come from countries outside of the OECD. The IEA is actively engaged with key consumer and producer countries, especially China, India, Russia and OPEC member countries, collaborating on initiatives ranging from the improvement of energy data collection and quality to the development of emissions trading regimes.

Oil markets and security

The IEA Oil Market Report (OMR) provides short- to medium-term analysis, data and balances on world oil markets, covering global demand, supply, OECD stocks, refinery activity, prices and the oil freight market. Disaggregated data on a product-by-product and country-by-country basis for demand and on a field-by-field basis for supply are available from the Monthly Oil Data Service, as are OECD oil stocks and trade data.

The Medium-Term Oil Market Report analyses the same areas of interest as the OMR, but with a five-year time horizon, thus bridging the gap between the OMR and the longer-term outlook of the World Energy Outlook (WEO). This year’s report also introduced the outcome of the IEA product supply model.

Environmental impact of energy and energy efficiency

The IEA has analysed important interactions between climate policy goals and the other pillars of energy policy, including security and economic performance. Energy Security and Climate Policy proposes a quantitative approach to assess the effect of CO₂ reduction policies and exposure to various fossil fuel markets concentration. Climate Policy Uncertainty and Investment Risk evaluates how policy uncertainty affects investment
The unprecedented pace of growth of China and India will require more and more energy; but it will transform living standards for billions. This edition explains how to achieve the transition to a more secure, lower-carbon energy system.

**Electricity and gas**

The Gas Market Review is a comprehensive overview of developments in global natural gas markets to 2015, with a strong emphasis on security issues. Analytical work on market reform continues as the gas and electricity industries progress towards liberalised markets. A new publication, Tackling Investment Challenges in Power Generation in IEA Countries, highlighted problems with new investment in the power sector in many IEA member countries. Ongoing priorities include the reliability of electricity supply and the security of gas supply.

**Energy technology**

The IEA promotes energy technologies that contribute to energy security and can reduce greenhouse gas emissions. The comprehensive study Energy Technology Perspectives shows how a more sustainable energy future based on current and emerging technologies could be achieved.

The IEA also has the most comprehensive international network of collaboration on energy technology and, through its NEET initiative (Networks of Expertise in Energy Technology, supporting the G8 Gleneagles Plan of Action), is working with major developing countries to further enhance their participation.

**Global energy dialogue**

In addition to China, India and Russia, the IEA continues to strengthen its relationships with a range of other producer, consumer and transit states in the areas of energy policy, energy efficiency and technology collaboration. For example, energy policy reviews of Indonesia and of the West Balkans will be published in 2008. A high level roundtable on Caspian/Central Asian gas was held in February in Paris. The IEA is a member of the Executive Board of the International Energy Forum Secretariat (IEFS) and plays a central role in the producer-consumer dialogue.

**Energy statistics**

The Joint Oil Data Initiative (JODI), an initiative of seven international organisations in which the IEA plays a key role, has helped draw the attention of ministers and market participants to the importance of reliable, timely and complete statistics to monitor the oil market. A broader initiative, InterEnerStat, gathering over 20 international organisations and co-ordinated by the IEA, is building on JODI to strengthen harmonisation and co-operation worldwide.

DID YOU KNOW…
that, if IEA recommendations to phase out incandescent light bulbs were implemented globally, by 2012 the electricity savings would be equivalent to the output of almost 80 nuclear power plants?
The international fight against money laundering and terrorist financing

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering and terrorist financing. Recommendations issued by the FATF define criminal justice and regulatory measures that should be implemented to counter this problem. These Recommendations also include international co-operation and preventive measures to be taken by financial institutions and others such as casinos, real estate dealers, lawyers and accountants. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorism financing (CFT) standard.

The members of the FATF are Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council, Hong Kong (China), Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Kingdom of the Netherlands, New Zealand, Norway, People’s Republic of China, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. Its secretariat is housed at the OECD. Under its mandate, the FATF has a number of essential tasks. These are to establish and refine the global AML/CFT standards, foster and monitor countries’ implementation of the standards, expand the geographic reach and implementation of the FATF standards, identify money laundering and terrorist financing threats, and engage relevant stakeholders.

The FATF has now reached the halfway point in its third round of mutual evaluations, examining the anti-money laundering and counter-terrorism financing systems in place in its member jurisdictions, with reports on the AML/CFT systems of Finland, Greece, People’s Republic of China, Turkey and the United Kingdom completed and released during 2007.

Expanding and strengthening the global network to combat money laundering and terrorist financing is a continuing priority for the FATF. This strategy involves expanding the FATF membership, enhancing partnerships with FATF-style regional bodies (FSRBs) and their member jurisdictions, and working with the private sector. In June 2007, the FATF welcomed the People’s Republic of China as its newest member. And in October, it released a statement seeking stronger co-operation with Iran.

The FATF remains vigilant to ensure that the standards reflect current and new threats. In-depth analyses were released in 2007 on four key areas of concern: “Money laundering associated with VAT (value-added tax) carousel fraud”, “Complex money laundering techniques: a regional view”, “ML/TF through the real estate sector” and “Laundering the proceeds of illegal narcotics trafficking”. These typologies reports are valuable both for governments to better understand the threats faced, and to help the private sector manage related risks. In addition to its usual programme of meetings, in 2008 the FATF will hold a ministerial meeting in Washington DC in April.
The Heiligendamm Dialogue Process Support Unit

The global economy has seen formidable changes over the last 20 years as a result of technological progress, structural reforms, political change, and the growing importance of emerging economies. At the Heiligendamm Summit in 2007, the leaders of the G8 (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United States) and the G5 countries (Brazil, China, India, Mexico and South Africa) discussed the challenges that the world economy faces in adapting to this new scenario. They recognised the interdependence of their economies and that an active exchange is crucial for the world economy to progress. They decided to embark on a dialogue which was subsequently named the Heiligendamm Dialogue Process (HDP).

The partner countries have defined four topical pillars that will be discussed in working groups with members from all countries throughout the mandate period. These are:

- promoting cross-border investment to our mutual benefit including the encouragement of responsible business conduct;
- promoting research and innovation including, among others, intellectual property rights;
- energy with special focus on energy efficiency; and
- development, particularly in Africa.

The G8 asked the OECD to provide a platform for the dialogue process and, in July 2007, OECD member countries approved the creation of the HDP Support Unit. An improved functioning of the global economy is key to the OECD’s mission. Member countries looked to this unprecedented initiative to strengthen co-operation between the major world economic players believing that they, and the Organisation itself, will benefit from an association with the Heiligendamm Dialogue.

A Steering Committee composed of vice-ministers (“sherpas”) from all dialogue partner countries gives political guidance for the process. In October 2007, the first meeting of the Steering Committee defined the structure, procedure and timeframe for the process. The Dialogue takes place on an equal footing, and openness, transparency and equity are its fundamental principles. It is a topic-driven, results-oriented forum for political discussion, conducted in a pragmatic and flexible manner without a predefined outcome. The HDP Support Unit is headed by a Director, and will have policy analysts for each of the four topical pillars when fully staffed. The Unit provides organisational and analytical support for the meetings of the Steering Committee and the four working groups.

An interim report on the progress of the Heiligendamm Dialogue Process will be presented to the G8 Summit in Japan in July 2008 and a final report will be presented at the Italian Summit in 2009.
Nuclear Energy Agency

The Nuclear Energy Agency (NEA) is a specialised agency within the OECD that helps its member countries maintain and further develop, through international co-operation, the scientific, technological and legal bases required for a safe, environmentally friendly and economical use of nuclear energy for peaceful purposes. Its 28 member countries in Europe, North America and the Asia-Pacific region account for approximately 85% of the world’s installed capacity for producing nuclear energy.

Today’s key issues

In the face of growing energy challenges, nuclear energy is appearing more and more often in the lists of top energy policy choices. Its supply is secure. Its prices are competitive and stable. Its production is virtually CO$_2$-free.

In OECD/NEA member countries in Europe, new build is under way in Finland and France, and starting to take shape in the Slovak Republic. And for the first time in 30 years, the US Nuclear Regulatory Commission has begun receiving applications for the construction of new units (applications received for 5 units thus far, and expected for 32 units over the 2007-2009 period). These developments are bolstered in the OECD Pacific region with 13 new units firmly committed in Japan and Korea.

However, such expansion will not come into being without efforts on various fronts. In order to continue ensuring the appropriate regulation and operation of existing nuclear facilities, as well as the construction of new ones in those countries wishing to do so, OECD/NEA member countries have unanimously adopted a Statement on the need for qualified human resources in the nuclear field. If no action is taken on this issue, the nuclear sector risks a shortage of qualified manpower (see the NEA website at www.nea.fr for the full text of the Statement and further information). In parallel, the Agency perseveres in its collaborative work in all relevant areas of research.

Tackling the issue of radioactive waste management also remains a priority. Various solutions are being sought, including the “recycling” of fissile materials remaining in used nuclear fuel. These solutions are being backed up by definitive emplacement strategies relying on the deep geological disposal of radioactive waste.

In Finland and the United States, sites and designs have been identified and work is ongoing to develop the repositories. In Sweden, two localities have been short-listed and are now being investigated for the final siting of a deep repository. Progress is also being made in several other OECD/NEA member countries.

This edition offers projections lengthened to 2030 and information on the development of new centrifuge enrichment capacity in member countries.
Main activities

NEA studies and co-operative activities address nuclear safety and regulation; radioactive waste management; radiological protection and public health; nuclear science; economics, resources and technology; and legal affairs. Full descriptions of these activities are available on the NEA website.

The NEA also facilitates the organisation of multinational projects and information exchange programmes to enable interested countries, on a cost-sharing basis, to pursue research or the sharing of data with respect to particular fields or issues. These joint projects, primarily in the area of nuclear safety but also in radioactive waste management and radiological protection, are one of the NEA’s major strengths.

In addition, the NEA acts as technical secretariat for the Multinational Design Evaluation Programme (www.nea.fr/mdep), stemming from an initiative of the US Nuclear Regulatory Commission, and the Generation IV International Forum (www.gen-4.org).

Publications

The Agency publishes roughly 70 titles a year. Most reports can be downloaded free of charge from the NEA website.

Key titles in 2007 included: Risks and Benefits of Nuclear Energy; Transparency of Nuclear Regulatory Activities; Nuclear Safety Research in OECD Countries; Radiation Protection in Today’s World: Towards Sustainability; Fostering a Durable Relationship Between a Waste Management Facility and its Host Community; Chemical Thermodynamics of Solid Solutions of Interest in Nuclear Waste Management; Physics of Plutonium Recycling; and Innovation in Nuclear Energy Technology.

The NEA also produces two periodicals: the Nuclear Law Bulletin and NEA News.

Key events

Like other sectors of the OECD, the NEA organises international conferences, workshops and meetings on a regular basis. Of particular note in 2007 were the international workshop on the Transparency of Nuclear Regulatory Activities held in Tokyo and Tokai-Mura on 22-24 May; the international workshop on Fuel Cycle Safety: Past, Present and Future held in Wilmington, North Carolina on 16-18 October; and the international workshop of the Forum on Stakeholder Confidence held in Issy-les-Moulineaux, France, on 13-14 December. The 50th Anniversary of the NEA will be celebrated at a high-level commemorative event in October 2008.

DID YOU KNOW…

that nuclear energy is among the few energy sources that emit virtually no greenhouse gases?
International Transport Forum

In May 2006, at their meeting in Dublin, the Council of Ministers decided to transform the European Conference of Ministers of Transport (ECMT) into the International Transport Forum (ITF). The aim of the new Forum will be to help both policy makers and the general public gain a deeper understanding of the essential role played by transport. Another aim will be to facilitate the integration of transport and logistics into general policy-making while taking account of considerations with more far-reaching implications such as the economic, environmental and social aspects of sustainable development.

The ITF, administratively part of the OECD, is a high-profile global platform and meeting place for discussions on transport, logistics and mobility. Key figures from government and politics, business and industry, research and civil society will meet at the annual conference in Leipzig, which seeks to become the “transport summit of the year”. The first Forum will take place in May 2008 on the theme “Transport and Energy: The Challenge of Climate Change”. The involvement of more than 50 ministers of transport ensures direct links and strong relevance to policy-making at both national and international levels.

What is new?

The reform of the ECMT into the International Transport Forum is a strategic choice and a new commitment. While the ECMT had a strong European focus, the ITF will now consider issues from all over the world. This reflects the fact that globalisation and its impact on world-wide trade and travel gives flows of traffic new dimensions, new dynamics and creates new problems and challenges. The transport sector therefore requires global answers and solutions.

Also, while the ECMT was a closed meeting of ministers and their delegations, the Forum will be open to the public. The ITF will now involve representatives of governments and politics, business and industry, research and society. It will be a broad forum of debate and discussion providing the world-wide meeting point for issues of transport, logistics and mobility. The topics covered will also expand to cover all modes of transport and not just surface transport.

The challenges

The transport sector faces great challenges if it is to contribute to economic and social cohesion in a sustainable way. The magnitude of these challenges is such that they require wider and deeper discussions and consultations than those provided by the ECMT. The globalisation of economic activities, and the key role of transport in leading and facilitating this, calls for more global approaches.

The ITF will reflect the importance of transport in the everyday life of people around the world, together with its impact on social activities and global business. It will develop open communication strategies and methods to facilitate discussion with the widest possible participation.
Mitigating transport congestion

With the participation of certain key industry and private sector stakeholders, transport policy makers at the highest levels of government from 53 countries held the final Ministerial of the ECMT in Sofia on 30-31 May 2007 on the topic “Mitigating Congestion in Transport”.

According to concurring estimates, the costs generated by transport congestion could be as high as 1.5% of GDP in some countries. It is estimated that the delays caused by border crossings increase the cost of goods transported by 0.8% for each day of waiting at border crossings. The energy wasted due to traffic bottlenecks is contributing significantly to pollution and global warming. All forecasts show that this problem will only grow worse in the future.

After examining various measures that could reduce the growing congestion on transport networks, transport ministers agreed on the need to develop a comprehensive strategy to mitigate congestion, the broad lines of which were described in a series of Key Messages submitted for their consideration.

Transport Research

The Joint Transport Research Centre of the OECD and the International Transport Forum promotes economic development and contributes to structural improvements of OECD and Forum economies through co-operative transport research programmes undertaken with the support of member countries.

Policy-oriented work in 2007 included research into:

- Biofuels: Linking Support to Performance – Round Table, 7-8 June 2007, Paris

In 2007, the Joint Transport Research Centre also published a report entitled “Managing Urban Traffic Congestion” as well as six new reports in the “Round Tables” series.

Statistics

The International Transport Forum produces annual statistics on trends in the transport sector, as well as annual road accident statistics. It maintains a database on short-term trends in the inland transport sector, which is updated quarterly. Figures concerning investment in transport infrastructure are published annually.

The International Transport Forum also prepared, in conjunction with Eurostat and the UNECE, a Web version of the common questionnaire used for compiling transport statistics. Definitions of the statistical terms used are regularly updated and printed in the “Glossary for Transport Statistics”, available online.
Civic activities

The OECD secretariat is a diverse community representing myriad skills, talents and cultures. Beyond the contributions that OECD staff makes to the work of the Organisation, many are active in a variety of civic activities, some of which are highlighted below.

Les Enfants de Guinée

In 2007, the association Les Enfants de Guinée (Children of Guinea) was awarded the “Label Paris Co-développement Sud” by the City of Paris. This reward will help finish construction of a library and the computer area in a traditional and environmentally-friendly manner. The association also organised a benefit concert in collaboration with the singer Sékouba Bambino, native of Siguiri (Upper Guinea area), and his orchestra, the Bouré Band. The funds collected will help build and run the cultural centre of the socio-educational centre in Siguiri. For more information, or to make a contribution, please email valerie.cisse@oecd.org or maureen.pucheu@oecd.org.

Les P’tites Mains - Hands for Hope

In 2007, Les P’tites Mains - Hands for Hope completed construction of a house hosting seven abandoned children from the Valea Plopului village in Romania. Boosted by this achievement, the association will reinforce its activities in 2008 in order to help other abandoned children from the village. The association has also formed a partnership with another group of volunteers located in Bucharest, providing support and training to young single mothers. To learn more, please visit www.pmhh.org.

The OECD War on Hunger Group

The OECD War on Hunger Group (WHG) was founded in 1964 by staff members with the support of the Secretary-General and currently boasts some 200 contributing members. The Group also receives one-off donations and organises occasional fund-raising activities. In 2007, the Group supported 19 development projects in Sub-Saharan Africa, Asia and Latin America. In late 2007, the Group’s chairperson made a self-funded field training to raise awareness of poor women in Bijapur, State of Karnataka, South India.
visit to southern India to evaluate various integrated development projects. These projects emphasise empowerment of women, federation building and education of working children and adolescents, supported over the last six years in very backward rural areas. The results achieved were impressive with several women now sitting on the village councils. For the first time, in 2007 the WHG also supported part of a health project in Mongolia. If you are interested in contributing to the War on Hunger Group, please send a message to hunger.group@oecd.org.

ALORA

ALORA (Association Loisirs, Rencontres, Ateliers) is the OECD’s leisure, recreational, and educational activity group, made up of over 1 400 OECD and delegation staff and family members. Among its more than 70 regular activities, one of the most appreciated is the regular coffee hours for newcomers. This activity began in 2007 as a way of welcoming staff and spouses to the OECD community. Other activities include the annual summer party in June, the ALORA day outing in September, quiz nights, conversation groups, cross-country races, guided tours of Paris neighbourhoods and museums, and a children’s party in December.

Gender and diversity

The OECD’s Organisation-wide Network on Gender and Diversity (OWN), as its name suggests, aims to raise gender and diversity awareness at the OECD. To mark International Women’s Day in March, OWN sponsored the first award for the “Most Gender-Friendly Workplace” in the OECD, complete with a certificate and a special statue.

The award was based on nominations from staff and the winner was the Climate Change, Natural Resources and Environmental Outlooks (CNRO) Division of the Environment Directorate.

South Africa’s Ambassador to France, Nomasonato Maria Sibanda-Thusi, who presented the award, said she was particularly pleased that gender balance was the focus of the OECD celebration of International Women’s Day, because “international organisations, such as the OECD, have a crucial role to play, not only in the broader context of the advancement of women’s rights, but also on a micro level with regard to promoting results-oriented partnerships and strategies aimed at gender balance, especially with developing countries”.

A new OECD publicly available online “wiki” on gender, www.wikigender.org, was also launched on International Women’s Day.

South Africa’s Ambassador to France, Nomasonato Maria Sibanda-Thusi, with OECD Deputy Secretary-General, Aart de Geus, presented the award to the CNRO Division of the Environment Directorate.
Executive directorate

The Executive Directorate (EXD) manages the OECD’s assets and is responsible for the infrastructure and delivery of the Organisation’s main services, including human resources management, financial management, security, information and communications technologies, conferences, language and documentation services.

Since the arrival of Secretary-General Angel Gurría, the OECD is undergoing an important transformation. In order to better serve member countries, this is accompanied by a corresponding reform in the management of the OECD’s resources, both human and financial, as well as an updating and refining of OECD rules and institutions internally. In 2008, EXD will continue to implement a number of programmes of reform.

Review of human resource policies

A very ambitious and comprehensive reform of the Organisation’s human resource policies has been launched. This will improve how the OECD manages and encourages its most valuable asset, its staff. The ultimate objective of this priority programme is to make the OECD a reference for excellence in the fields of ethics, recruitment, diversity, performance and careers management.
Further progress on the budget and financial reform

The OECD is a leading international organisation in the field of results-based budgeting. It is continually seeking to improve how it allocates its resources and the information it provides to member countries in terms of planning and performance. The procedures for results evaluation by member countries are regularly evolving and the OECD will extend them more formally to the Organisation’s central services. Also, a major programme designed to align the Organisation’s results-based budget with its financial and accounting processes, reporting and management systems is in an accelerated development phase. This will provide the OECD with a single harmonised budget planning and management framework.

Modernisation of the internal control mechanisms

A full review of the Organisation’s financial rules is currently being undertaken, including its audit architecture. The OECD has a robust audit architecture, with three types of auditors (internal auditors, the contractual auditors involved in the process of certifying the annual financial statements and the Board of Auditors drawn from four national supreme audit institutions). The Organisation is looking at the existing arrangements with a view to proposing a revised internal control and audit framework in 2008.

Completion of the La Muette site renovation project

In 2008, the La Muette renovation project moves into its final phase of construction, as originally planned by OECD member countries when they approved the project in 2003. In the autumn of 2007, the contractor completed and delivered the new OECD Conference Centre and the first pilot conferences were held in November and December. The OECD Conference Centre, a unique conference facility in the heart of Paris, opened for business in January 2008.

In parallel, renovations of the main office building began following the successful completion of asbestos removal in February 2007. The project is on track for a successful delivery within the timeframe and budget laid down by member countries. The final steps, scheduled for the end of 2008, include delivery of the renovated offices and the repatriation of all staff from the Tour Europe. This will mark the end of a major effort by both the OECD secretariat and member countries that will have lasted almost ten years, from the first decision of principle to the time of its conclusion.
Who does what

The secretariat carries out research and analysis at the request of the OECD’s 30 member countries. The members meet and exchange information in committees devoted to key issues, with decision-making power vested in the OECD Council.

The Council is composed of all the members under the chairmanship of the Secretary-General, meeting regularly at the level of Permanent Representatives.

The Council meets once a year at ministerial level. In 2007, with Spain as Chair, the theme of the meeting was “Innovation: Advancing the OECD Agenda for Growth and Equity”.

There are about 200 committees, working groups and expert groups in all. Some 40 000 senior officials from national administrations come to OECD committee meetings each year to request, review and contribute to work undertaken by the OECD secretariat.

The committees are: Committee for Agriculture; Chemicals Committee; Competition Committee; Committee on Consumer Policy; Development Assistance Committee; Economic and Development Review Committee; Economic Policy Committee; Education Policy Committee; Employment, Labour and Social Affairs Committee; Environment Policy Committee; External Relations Committee; Committee on Financial Markets; Committee on Fiscal Affairs; Fisheries Committee; Committee on Industry, Innovation and Entrepreneurship; Committee for Information, Computer and Communications Policy; Insurance and Private Pensions
Committee; Investment Committee; LEED Directing Committee; Public Governance Committee; Committee for Scientific and Technological Policy; Committee on Statistics; Steel Committee; Territorial Development Policy Committee; Tourism Committee; and Trade Committee.

The International Energy Agency (see box page 86) and the OECD Nuclear Energy Agency (see box page 90) deal with energy issues. Work mandated by the Council is carried out by the OECD secretariat’s various directorates.

**General Secretariat (SGE)**

The General Secretariat directs and co-ordinates the work of the Organisation and is composed of the offices of the Secretary-General and the Deputy Secretaries-General, the Advisory Unit on Multidisciplinary issues, the CCNM (Centre for Co-operation with Non-Members), the Council and Executive Committee Secretariat, the Directorate for Legal Affairs, and the Office of the Auditor-General.

**Centre for Co-operation with Non-Members (CCNM)**

The OECD has 30 member countries, but many more countries and economies outside its membership are involved in a wide range of the Organisation’s work. CCNM, which is part of the General Secretariat, develops and oversees the strategic orientations of the OECD’s global relations with non-members.

**Development Co-operation Directorate (DCD)**

DCD is the operational arm of the OECD’s Development Assistance Committee (DAC), whose 23 DAC members constitute the world’s major aid donors. The DAC is the principal forum through which bilateral donors deal with issues related to the volume and effectiveness of development co-operation. It aims to impact donor policies and practices in ways that promote aid effectiveness, capacity development, and inclusive globalisation, in order to support poverty reduction and sustainable development in developing countries. DCD is also the definitive source of statistics on official development assistance.

DCD is part of the OECD Development Cluster, which also includes the Development Centre, the Africa Partnership Forum Support Unit (see box page 85), the Sahel and West Africa Club, and the Centre for Co-operation with Non-Members.

**Economics Department (ECO)**

ECO examines economic and financial developments in OECD and selected non-member economies. It also provides an overall framework to identify structural priorities needing government attention. It assesses the implications of a broad range of structural issues in an economy-wide perspective, drawing on work by a number of OECD specialised committees. Most recently, this has included work on various aspects of globalisation, labour and product market regulation, education, public spending efficiency in healthcare, economic geography and the political economy of reform.
Directorate for Education (EDU)

EDU helps member countries achieve high-quality learning for all that contributes to personal development, sustainable economic growth and social cohesion. It develops strategies for promoting lifelong learning in coherence with other socio-economic policies. It focuses on how to evaluate and improve outcomes of education; to promote quality teaching and to build social cohesion through education. EDU includes some special programmes, such as PISA (Programme for International Student Assessment), CERI (Centre for Educational Research and Innovation), the Programme on IMHE (Institutional Management in Higher Education) and the PEB (Programme on Educational Building).

Directorate for Employment, Labour and Social Affairs (ELS)

ELS oversees work on the interrelated policy areas that help countries boost employment and improve social welfare in a context of population ageing, globalisation and rapid technological change. Its activities are focused on five main themes: (i) raising employment rates and labour productivity growth; (ii) upgrading workers’ skills; (iii) modernising social protection systems to extend opportunities for all and respond to demographic challenges; (iv) achieving high performing health systems; and (v) managing labour migration for the best interest of both sending and receiving countries.

Centre for Entrepreneurship, SMEs and Local Development (CFE)

The mission of the CFE is to foster the development of an entrepreneurial society, capable of innovating, creating jobs and seizing the opportunities provided by globalisation while helping to promote sustainable growth, integrated development and social cohesion.

In carrying out its work, the CFE draws on the combined in-house expertise of other OECD directorates, its member governments and its extensive network of international experts. It is a one-stop shop for entrepreneurship, SMEs, local development and tourism issues.

Environment Directorate (ENV)

ENV helps member countries design and implement efficient and effective policies to address environmental problems and to manage natural resources in a sustainable way. To encourage more sustainable consumption and production patterns, it examines the interplay between the environment and economic, sectoral, or social concerns, and works with other directorates on issues such as climate change, water, environmental taxes, agriculture, trade, investment, and development. ENV produces regular peer reviews of member countries’ environmental performance, compiles environmental data and indicators and runs a programme on environmental health and safety.
Executive Directorate (EXD)

EXD manages the OECD’s assets, as well as its human, financial and information resources. It is responsible for the OECD infrastructure and the delivery of the main services including security, information and communications technologies (ICT), financial management, conference, language and documentation services.

Directorate for Financial and Enterprise Affairs (DAF)

DAF seeks to improve the quality of governance for business and markets. It supports government policies and international co-operation to promote market efficiency and combat abuse. DAF takes up public policy challenges of direct concern to business – including investment, finance, corporate governance, competition and anti-corruption – to enhance economic growth and development and to ensure financial stability.

Public Affairs and Communications Directorate (PAC)

PAC acts as the interface between OECD and the world at large, making information about the Organisation’s work publicly available in a timely manner and contributing to the transparency and openness of the Organisation.

Public Governance and Territorial Development Directorate (GOV)

GOV contributes to a better understanding of how public management and territorial development policies work in different societal and market conditions and helps countries adapt their government systems and territorial policies to changing needs. This involves improving government performance while protecting and promoting society’s longer-term governance values.

Directorate for Science, Technology and Industry (STI)

STI helps countries maintain scientific and technological progress and, through innovation, to translate knowledge and technology into economic value for society and solutions to global challenges. It aims to see economies achieve their innovation potential and adapt policies to opportunities afforded by advances in technology and globalisation.

Statistics Directorate (STD)

STD collects and analyses economic statistics from member countries and from selected non-member economies. Data are standardised to make them internationally comparable and published in both printed and electronic form. In collaboration with statisticians from member countries and other international organisations, the OECD plays a major role in developing statistical standards and data systems to respond to new policy concerns and needs. STD is also in charge of the co-ordination of all OECD statistical activities.
Centre for Tax Policy and Administration (CTPA)

CTPA is the focal point for the OECD’s work on taxation, covering all taxes (other than customs duties), tax policy and tax administration. The CTPA contributes to the work of other OECD committees in projects which have a strong tax component. Recent examples include approaches to overcoming the obstacles to the use of environmentally related taxes, analysis of the role of tax policy in mobilising investment and the effects of tax on growth.

Trade and Agriculture Directorate (TAD)

TAD provides support for a strong rules-based multilateral trading system and helps governments design and implement policies in the trade, agriculture and fisheries domains that achieve their goals in effective, efficient and least market-distorting ways. Work to prepare future trade negotiations covers new categories of trade rules, such as those for the environment, competition and investment policy while unique work in export credits steers countries away from distorted trade. Work undertaken in the areas of agriculture and fisheries helps identify policies to achieve sustainable management of agricultural and fisheries resources, covering policy reform, trade liberalisation, and sustainability. TAD also manages a programme to develop agricultural product standards that facilitate trade and a co-operative research programme for sustainable agricultural systems.

The International Futures Programme (IFP)

IFP identifies newly emerging economic and social issues that may have an important bearing on member countries’ policy-making in the years ahead. Its purpose is to promote strategic thinking, test new ideas for the Organisation, develop cross-disciplinary approaches and stimulate dialogue among government, business and research on matters of long-term interest.

Development Centre (DEV)

DEV acts as an interface between OECD member countries and the developing, transition and emerging economies of Africa, Asia and Latin America. It provides a space where policy makers can share experiences and find policy solutions to stimulate growth and improve living conditions in developing and emerging economies. Development Centre membership is open to both OECD and non-OECD countries. At the end of 2007, the non-OECD members included Brazil, Chile, India, Romania, South Africa and Thailand.

The Sahel and West Africa Club (SWAC)

The OECD’s policy dialogue with Africa is also developing at a regional level, in particular through the work of the Sahel and West Africa Club (SWAC) which plays a bridging role, an interface between West African actors and OECD’s member countries. Its main objectives are to help identify strategic questions related to medium and long-term development in West Africa; contribute to mobilising and strengthening African capacities within a network approach; and promote constructive debates that lead to innovative decisions within and outside the region.
Ministerial Council Meeting 2007

The 2007 Ministerial Council Meeting (MCM), the first under Secretary-General Angel Gurría, achieved significant outcomes with respect to the future direction, relevance, and inclusiveness of the OECD. Crucial leadership was provided by the Chair of the MCM, Deputy Prime Minister Pedro Solbes of Spain, whose personal engagement and steady guiding hand ensured a successful outcome.

One such outcome was to clearly establish as a goal for the Organisation to become a recognised and respected hub for dialogue on important global economic issues of the day. Such dialogue can serve to bring globalisation into proper perspective through increased understanding, as well as help expand its benefits to the entire global community.

The MCM provided a clear mandate to work toward enlarging its membership by directing the Secretary-General to open accession discussions with Chile, Estonia, Israel, the Russian Federation and Slovenia. Furthermore, the MCM outlined a strategy to strengthen enhanced engagement with selected countries, beginning with Brazil, India, Indonesia, China and South Africa (BIICS), with a view to membership, and called for expanded outreach efforts to regions of strategic importance, such as Southeast Asia.

Mandates or action points from this year’s MCM, including those captured in the Chair’s Summary, included:

i) Enlargement and Enhanced Engagement: “Ministers adopted the Resolution on Enlargement and Enhanced Engagement. This will imply a significant institutional effort, and will transform the OECD into a more global and diverse organisation.”
ii) Financing of Enlargement: “Ministers called on the Council to reach an agreement on financing reform before the Ministerial Council Meeting in 2008 to take into account the implications of an enlarged Organisation and to ensure that the Organisation has a strong and sustainable financial foundation.”

iii) OECD as a Hub for Dialogue on Global Economic Issues: “Ministers welcomed the Secretary-General’s proposals for shaping the Organisation of tomorrow and called on the OECD to play a greater role in identifying policies which can help ensure that the benefits of globalisation are shared more widely, and communicated more effectively.”

iv) Growth and Equity: “Ministers noted the proposals concerning Socio-Economic Impacts of Globalisation, the Role of Multinational Enterprises, and International Migration.”

v) Innovation Strategy: “Ministers endorsed the proposals on an OECD Innovation Strategy and welcomed the incorporation of cross-cutting work on innovation to address global challenges, notably in the environmental domain, globalisation of innovation, evaluation of innovation policies and country-specific analysis.”

vi) Climate Change: “Ministers welcomed the OECD work done in this area. Going forward, they called on strengthened work on climate change by considering how to (a) minimise the costs of limiting greenhouse gases emissions through policy instruments; (b) achieve a predictable framework for investment in energy saving capital equipment and new technology; and (c) mainstream adaptation into development and sector policies.”

vii) Open innovation: “Ministers requested the OECD to study the impact of innovation on the services sector and to consider the functioning of the current intellectual property rights system in the context of a new, more open business environment for innovation; they welcomed the proposal to undertake a project on innovation in the software sector.”

viii) Political Economy of Reform: “Ministers endorsed the proposals for reinforcing the Organisation’s work on the Political Economy of Reform launched at the last Ministerial Meeting.”

ix) Trade and Biofuels: “Ministers welcomed the proposal by Sweden and the Netherlands for the OECD and IEA to undertake further preparatory work on issues related to the production and use of biofuels, including the promotion of increased use of biofuels, to be presented prior to the 2008 OECD Ministerial Council.”
The OECD secretariat

April 2008

Secretary-General
www.oecd.org/secretarygeneral
Angel Gurría

Deputy Secretaries-General
www.oecd.org/deputysecretariesgeneral
Aart de Geus
Thelma Askey
Pier Carlo Padoan
Mario Amano

Office of the Secretary-General
Rolf Alter

Advisory Unit on Multidisciplinary Issues
www.oecd.org/futures
Michael J. Oborne

Centre for Co-operation with Non-Members
www.oecd.org/ccnm
Eric Burgeat

Council and Executive Committee Secretariat
Roger Harmel

Legal Affairs
www.oecd.org/legal
Nicola Bonucci

Auditor-General
www.oecd.org/internalaudit
Frederick Gazzoli

Round Table on Sustainable Development
www.oecd.org/sd-roundtable
Simon Upton

Development Co-operation
www.oecd.org/dac
Richard Carey

Economics Department
www.oecd.org/eco
Jørgen Elmeskov (acting)
Klaus Schmidt-Hebbel (as of 8 September)

Education
www.oecd.org/edu
Barbara Ischinger

Employment, Labour and Social Affairs
www.oecd.org/els
John Martin

Centre for Entrepreneurship, SMEs and Local Development
www.oecd.org/cfe
Sergio Arzeni

Environment
www.oecd.org/env
Lorents Lorentsen

Executive Director
Patrick van Haute

Financial and Enterprise Affairs
www.oecd.org/daa
Carolyn Ervin

Public Affairs and Communications
www.oecd.org
Anthony Gooch

Public Governance and Territorial Development
www.oecd.org/gov
Odie Sallard

Science, Technology and Industry
www.oecd.org/sti
Susanne Huttner

Statistics
www.oecd.org/std
Enrico Giovannini

Centre for Tax Policy and Administration
www.oecd.org/ctp
Jeffrey Owens

Trade and Agriculture
www.oecd.org/tad
Stefan Tangermann

Africa Partnership Forum
www.africapartnershipforum.org
David Batt

Development Centre
www.oecd.org/dev
Javier Santiso

International Energy Agency
www.iea.org
Nobuo Tanaka

Financial Action Task Force
www.fatf-gafi.org
Rick McDonell

Heiligendamm Dialogue Process Support Unit
www.oecd.org/g8
Ulrich Benterbusch

Nuclear Energy Agency
www.nea.fr
Luis Echávarri

Partnership for Democratic Governance Advisory Unit
www.oecd.org/pdg
Jerzy Pomianowski

Sahel and West Africa Club
www.westafricaclub.org
Normand Lauzon

International Transport Forum
www.internationaltransportforum.org
Jack Short
# DIRECTORATES

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April 2008
Ambassadors, Permanent representatives to the OECD

April 2008

www.oecd.org/ambassadors

Left to right:
Australia
His Excellency Mr. Christopher Langman
Austria
His Excellency Mr. Wolfgang Petritsch
Belgium
His Excellency Mr. Chris Hoornaert
Canada
His Excellency Mr. Paul-Henri Lapointe
Czech Republic
His Excellency Mr. Karel Dyba
Denmark
Mr. Ole Christoffersen (ad interim)
Finland
His Excellency Mr. Pertti Majanen
France
His Excellency Mr. Philippe Marland
Germany
His Excellency Mr. Matei I. Hoffmann
Greece
His Excellency Mr. Nikolaos Tatsos
Hungary
His Excellency Mr. Péter Gottfried
Iceland
His Excellency Mr. Tómas Ingi Olrich
Ireland
His Excellency Mr. Paul Murray
Italy
His Excellency Mr. Bruno Cabras
Japan
His Excellency Mr. Norio Hattori
Korea
His Excellency Mr. Tae-shin Kwon
Left to right:

Luxembourg
His Excellency Mr. Georges Santer

Mexico
His Excellency Mr. Agustín García López

Netherlands
His Excellency Mr. Joan Boer

New Zealand
Her Excellency Mrs. Sarah Dennis

Norway
His Excellency Mr. Harald Neple

Poland
His Excellency Mr. Jan Woroniecki

Portugal
His Excellency Mr. Eduardo Ferro Rodrigues

Slovak Republic
Her Excellency Ms. Jana Kotová

Spain
Mr. Luis Tejada Chacón (ad interim)

Sweden
His Excellency Mr. Mats Ringborg

Switzerland
His Excellency Mr. Eric Martin

Turkey
His Excellency Mr. Ahmet Erozan

United Kingdom
His Excellency Mr. David Lyscom

United States
His Excellency Mr. Christopher Egan

European Commission
Her Excellency Mrs. Laurence Argimon-Pistre
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