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OECD Secretary-General to discuss OECD-Russia partnership with Russian President

Russia’s transition to a market economy continues to be difficult and painful. During the first part of the 1990s, real GDP fell by almost 45%. Now, the situation is turning around. In the past two years, GDP has risen 10% and there is marked progress towards creating a market economy. But structural reforms remain incomplete. Weakness in basic market institutions continues to hinder Russia’s economic and social development.

President Putin, as soon as he was elected, called for a comprehensive economic programme for his new government. This programme, which incorporates many policy reforms recommended by OECD, is a clear demonstration of the necessity of strong co-operation between OECD and Russia.

In a further sign of this co-operation, OECD Secretary-General Donald Johnston, and President Vladimir Putin will meet at 4.20 p.m., Monday 30 October, at Residence Marigny in Paris to discuss the new Russian reform programme and the renewed momentum it could give to the OECD-Russia partnership.

The Secretary-General and President Putin will review the achievements of OECD-Russia co-operation. They will consider how the OECD can best help the Russian Government move forward on a path of comprehensive reforms.

In a May 1996 letter to Secretary-General Donald Johnston, Russian Prime Minister Chernomyrdin requested membership in the OECD for the Russian Federation. In response, the Secretary-General confirmed that the Organisation supports as a shared goal Russia’s future accession and offered to intensify the Organisation’s programme of co-operation with Russia.

The OECD programme of co-operation with Russia is a venue for the Russian government to exchange views with its international counterparts and to give them an insight into reforms in progress today in Russia. In turn, Russia gains expertise in areas such as corporate governance, strengthening competition, anti-corruption and reforming public institutions, in a forum that allows honest and focused discussion with peers who have faced similar challenges.

During the past five years, OECD has published economic surveys of Russia as well as policy reviews on education, agriculture, environment and science and technology. Reviews on labour market and social policy, and investment policy, will be published soon. These stimulate awareness for reform and provide a roadmap for Russian authorities seeking to set goals and priorities.

Both OECD and Russia realise that expectations must be realistic. Deeply rooted attitudes and behaviours in many parts of Russian society will change only with time, so transition to a modern market economy will be a long-term process during which Russia’s leaders must demonstrate a political commitment to reform. OECD is committed to this long-term relationship and looks to a continuing and fruitful partnership with Russia.

For further information about this meeting or other aspects of OECD work with Russia, please contact Helen Fisher, OECD Media Relations Division (tel. 33 1 45 24 80 97 or Helen.Fisher@oecd.org).

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Background for editors

Key areas in which OECD and Russia work together include:

- **Examining the links and interactions between macroeconomics and structural developments.** The publication of OECD Economic Surveys of Russia in 1995, 1997 and 1999 were followed by seminars at the Ministry of Economy in Moscow so officials from various ministries could discuss the recommendations with OECD. The next Survey will be published in 2001. The reform of fiscal federalism - the financial relations between federal, regional and local governments - will be a difficult process and OECD will continue to work with Russian regional and local governments during the implementation period. In January 2001, OECD and the Ministry of Economic Development and Trade are co-sponsoring a conference in Moscow on fiscal federalism.

- **Developing a modern tax system based on equitable and efficient practices.** Russia’s failure to collect taxes efficiently and fairly is one of the greatest obstacles to its reform from a centrally planned economy to a modern free market. Massive capital flight and inability to collect revenue from domestic investments are producing a serious shortfall in government revenues. Russia is an observer in the Committee for Fiscal Affairs which discusses tax policy reform, transfer pricing, tax treaties, information exchange, access to bank information and taxpayer confidentiality. Russia has used tax measures recommended by the OECD Forum on Harmful Tax Practices as the template for its laws to curb capital flight. More than 4,000 Russian tax officials have participated in programmes held at the Moscow International Tax Centre (sponsored by the Russian Ministry of Tax, the EU, OECD and member countries).

- **Assembling a system of rules for business competition and consumer protection; focusing on action against collusive practices, preferential treatment, abuse of market domination and fraud.** Monopolies in Russia are inefficient and use their strength to block competition from foreign and domestic firms. This undermines efforts to protect consumers, exacerbates tax collection problems, damages the public’s trust in state institutions, and generally erodes support for participatory democracy. For ten years, OECD has been Russia’s principal partner in the development of competition law and policy, working closely with the Ministry for Antimonopoly Policy (MAP). Current work focuses on ways to implement the new government’s pledge to devise new forms of natural monopoly regulation, using OECD best-practices. Policies to efficiently regulate the railroad and the energy sector will be developed jointly during a workshop in December.

- **Improving the business environment through suitable corporate legislation and corporate governance structures; unholdings standards of transparency, accountability, and fairness in insolvency.** Good corporate governance, especially in times of financial crisis, is also necessary to ensure the lawfulness and predictability which will give investors confidence in the Russian market. The OECD-World Bank Global Corporate Governance Forum, which takes as a starting point the OECD Principles of Corporate Governance, has launched a Regional Roundtable in Russia to provide policy advice. The Russian Corporate Governance Roundtable will meet in Moscow 15-16 November 2000. The Round Table is developing a Russian White Paper on Corporate Governance which should bolster both the internal voice for reform in Russia and international efforts to assist that reform.

- **Reviving small businesses and supporting entrepreneurs.** Development of small business in Russia will benefit the economy through job creation, poverty reduction and the development of civil society. Since 1995, OECD’s Russia Forum for Entrepreneurship and Enterprise Development (FEED) has been working to raise the profile of entrepreneurship through cross-border partnerships, e-commerce and linkages between small and large businesses.

- **Reinforcing the rule of law by improving public governance and management.** The reform of state institutions and public administration will be a critical catalyst to the overall success of the Russian economic programme. OECD is organising work on public management and governance, working with Russian officials to improve the quality of public financial resource management.

- **Continuing efforts to extend trade liberalisation as a requirement to full integration in the international trading system.** The successful reform of Russia’s trade policy is crucial for its development as a market economy and its integration into the regional and international trading system. As Russia negotiates for WTO accession, analysis and recommendations produced by its informal meetings with OECD’s Trade Committee, facilitate the negotiation process for both sides of the table.

- **Streamlining the financial structure: legislation and regulations, disclosure requirements, pension reform and an adequate regulatory structure for private pension funds, rules for capital markets and institutional investors.** Investors in Russia have no confidence in the legal and institutional environment for investment. Poor property and contractual rights, insufficient reform in public governance, widespread government corruption and a labyrinthine taxation system.
are all problems which Russia is discussing with the Committee for International Investment and Multinational Enterprises. OECD is completing an Investment Policy Review of recent developments, including tax and administrative reforms, introduced by the Putin administration and an OECD/Duma seminar about protection of ownership rights is scheduled for early 2001.

- **Consulting on key agricultural issues.** With agriculture representing more than 6% of GDP and 13% of total employment in Russia, agro-food policy today urgently needs a coherent policy of reform. Problems with the market infrastructure, the credit system, land ownership and land legislation are blocking agricultural development. Producer subsidies of -3% in 1999, compared to +40% in OECD countries, mean Russian farmers are unable to compete on international markets. OECD’s 1998 Review of Agricultural Policies in the Russian Federation cites lack of adequate finance and credit infrastructure for the agro-food sector in Russia as a major barrier to development, provides a wealth of information. The Global Forum of Agriculture, bringing together OECD countries and international organisations, publishes the annual Agricultural Policies in Emerging and Transition Economies.

- **Designing labour, social and educational policies to support sustainable reform.** Poverty affects about one-third of the Russian population, life expectancy has declined in the last decade and the unemployment rate is 13%. The OECD Review Report of Labour Market and Social Policies in the Russian Federation, which will be published in the coming months, will outline these problems and propose solutions. Education to meet the challenges of a democratic society and the labour force skills necessary in the knowledge economy will be a powerful force in building the new Russia. OECD has been co-operating with Russia for almost ten years in the area of education and training, producing the 1999 Reviews of National Policies for Education: Tertiary Education and Research in the Russian Federation. The report makes assessments and recommendations to improve teaching and academic and research establishments. An interesting sidebar to the opportunities open to the Russian labour market is the 450,000 demobilised Russian military officers. These officers are well-educated, skilled, have a strong moral and disciplinary background, and are accustomed to hard work. As they are a tremendous resource for the economic development of Russia, OECD is working on efforts to co-ordinate their retraining and to link training to labour market demand.

- **Promoting the legal and administrative framework for environmental protection.** Russia’s pollution and waste of natural resources is a serious brake on the countries economic development and contributes greatly to regional and global environmental problems. Pollution and waste production are several times higher per unit of GDP than in OECD countries. Not only do these high pollution levels harm human health and decrease life expectancy in Russia, but foreign earnings derived from cheap exports of oil, gas and timber also lead to a culture of overuse and wastefulness, damaging the prospects for future generations. OECD works with Russian policy makers to demonstrate that the “pollute now, clean up later” approach is short-sighted and expensive and to introduce environmental legislation and policies that have proven effective in OECD countries. OECD’s 1999 Environmental Performance Review of Russia was the first comprehensive, independent assessment of the challenges faced there. The review paints a grim picture of serious environmental problems and warns that pollution will flourish with economic growth. Like many of the problems in Russia today, the environment is caught in the economic and legal morass - weak rule of law, corruption and lack of civil society - which undermines most aspects of its society.

- **Improving the coverage and reliability of economic statistics.** OECD and Goskomstat-Russia have been working together for almost a decade. Russia now uses the internationally accepted system of national accounting, but its statistics are still unreliable because so much of the economy is clandestine. To rectify this and other statistics-gathering challenges in Russia, Goskomstat-Russia and OECD are co-ordinating information in the areas of national accounts, purchasing power parities, business tendency surveys and short-term economic statistics. OECD will publish reports on the results and recommendations pertaining to each of these areas in the coming year.