oecd Observer

No 267 May-June 2008 www.oecdobserver.org

MINISTERIAL COUNCIL AND OECD FORUM SPECIAL

Why food prices rise
Sovereign wealth funds
Handling subprime
Carbon trading and forests
Is Germany's *Wirtschaftswunder* back?
Cartel busting for development

Solving transport's CO_2 problem

Spotlight



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OECD

Railteam

High Speed Europe

Examples of journey times

London - Antwerp in 3:20
Frankfurt - Amsterdam in 3:56
Geneva - Marseille in 3:40
Vienna - Nuremberg in 4:44
Lyon - London in 4:27
Paris - Basel in 3:32



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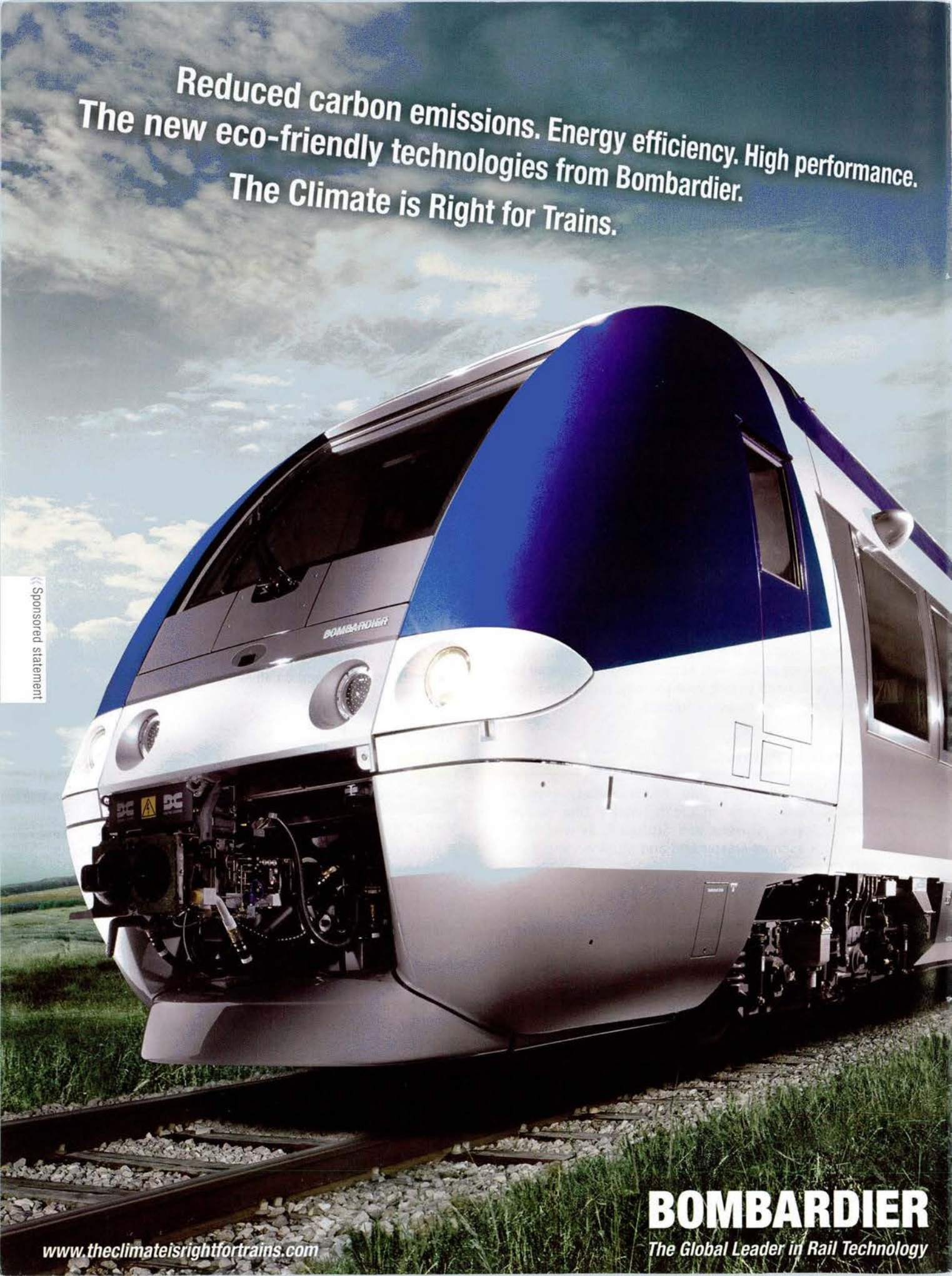
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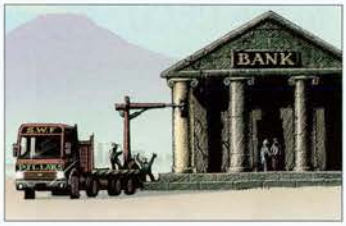
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Sea folk

Bravo on the fisheries committee for its 100th meeting (No 264/265, December 2007-January 2008). The attention you bring to fishers is valuable, and your line against fish piracy commendable too. However, I sometimes wonder if your reform ideas, many of them good, don't sometimes go a little too far. Is it really that easy for whole and sometimes rather remote communities to retrain and adjust to new kinds of economic pursuits? Is government help really at hand and is their advice welcome? It would be useful to include real experiences of this, but I suspect many fishing villages fear they are being literally left out to dry. As you say in another article in the same edition ("Problems of scale", book review), fishing is an ancient economic activity. But more than that, the sea is a culture apart and a way of life.

Joe Doyle
Dublin, Ireland

"Comment.org"

The following is a selection of recent comments registered at www.oecdobserver.org Contacts are available at the site.

On migration in Europe
(Response to a letter to the editor published in No 266 March 2008): I feel tired of this non-political analysis of European attitudes towards immigrants, influenced by cultural studies, which like to deduce all phenomena to a cultural theory of stereotypes. Honestly, we are all aware of the broader European angst about globalisation and the insecurity induced as evident in the writings of Giddens et al. So this hostility is not just about stereotypes, but stereotypes camouflage insecurity about jobs, etc. So stereotypes come in useful to denigrate the immigrants and deny them the rightful place in the globalised European economy. The European social model is distinct in its contractual assurance of affluent living standards in terms of state-supported education, healthcare and child support. So immigration has to be looked in light of that unique welfare-state social model, now being dismantled by the forces of globalisation (as perceived by the citizens of Europe).

Age-old issue
Children are being killed as a result of bullying (comment on "Bullying at school", No. 225, March 2001). Suicides are also happening due to this problem. I cannot understand why school systems tolerate this behavior. Bullies should not be suspended, but expelled. If this seems unfair then they should get one warning, and a second offense should result in expulsion. Getting away with bullying behavior is not a good lesson for the one doing the bullying and certainly not for anyone else.

Send your "letters to the editor" to observer@oecd.org or post your comment at www.oecdobserver.org

On the cover



Solving transport's CO_2 problem

By OECD Observer

©Reuters/MingMing

Any serious attempt to deal with climate change must involve transport. Transport is a major contributor to greenhouse gas emissions, accounting for nearly a quarter of all fuel-based carbon emissions, and nearly a third in OECD countries. With motorised transport set to triple in the next half-century, action is needed on all fronts, for cars, planes and ships. Technology holds promise, and there are affordable and proven measures that governments must bring to the fore. They offer real and immediate returns, economically and for the environment. See the Spotlight on transport in this edition.

Open, representative and relevant


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Angel Gurría, Secretary-General of the OECD

The 2008 OECD Ministerial Council Meeting and Forum, the high points of the OECD calendar, could not be more timely. The issues we will be dealing with and the policy responses we will discuss should pave the way for a better world economy. Christine Lagarde, the minister of economy, finance and employment of France–the OECD's host country–will chair the ministerial meeting. This year we will be welcoming the five candidates for OECD membership, Chile, Estonia, Israel, Slovenia and Russia, to the meeting for the first time, and we will also be welcoming Brazil, China, India, Indonesia and South Africa as partners in the organisation's Enhanced Engagement programme.

These are complex times. Fallout from financial market turmoil, the subprime debacle and high commodity prices has led us to revise down our growth forecasts since last year. Energy and food prices have soared, stoking inflationary pressures. Unemployment is rising in several countries, and world trade growth is slowing.

It is precisely at such moments that OECD governments must keep their heads and stay focused on the fundamentals. And indeed, strengthening the world economy is vital, and forceful action by governments and central banks has started to restore confidence among market participants.

The most challenging issue that concerns the future of us all is climate change. It is a problem that confronts us with the fierce urgency of "now", which is why we have chosen the economics of climate change as the main theme of this year's ministerial meeting.

The OECD has been dealing with climate change for over two decades and is well placed to contribute to producing a sound economic foundation for the post-Kyoto architecture.

The 2008 *OECD Environmental Outlook* delivered a strong, positive message which OECD environment ministers echoed at their meeting in April: with new policies we can overcome climate change, while maintaining economic competitiveness.

The OECD is helping to build consensus on the key questions, such as the costs of action and inaction, and to design policies for promoting innovation, clean technologies in energy and transport, and actions for developing countries. OECD ministers must seize that common ground now, by making greater use of economic instruments, including putting a price on carbon, to spur efficient, low-carbon growth.

Another development we will be addressing is sovereign wealth funds (SWFs). Their size, growth and the fact that they are owned by governments have raised eyebrows about whether these funds' decisions could be politically motivated or target security-sensitive assets.

The OECD has been responding to requests from members to devise guidelines and best practices for recipient country policies towards these funds, complementing IMF work on the funds themselves.

We have discussed the issue with OECD and non-OECD countries, social partners, and SWFs too. OECD countries already have longstanding rules on investment and see no need for new legally-binding codes on SWFs. Instead, governments must keep investment regimes open and fair, and restore trust between SWFs and recipient countries. After all, these funds have a good track record, and could become a formidable force for development.

This raises another vital issue OECD ministers must address at this year's meetings, because once again the world's poor are suffering, this time from higher food prices. This impacts the economies of all countries, but high prices punish the urban poor and major food importing countries in particular, not least in Africa. Many factors can explain higher food prices, from bad harvests and rising demand to competition from biofuels and speculation.

Humanitarian aid will be needed, but one thing is certain: trade protectionism will not bring food prices back down. Open trade can, however, and more trade is therefore vital for meeting the Millennium Development Goals. Members must redouble their efforts to bring the Doha Development Round of trade talks to a successful close. A 50% reduction in tariffs and other trade-distorting support would generate over $40 billion in global welfare gains, which would benefit developing countries in particular.

This year's ministerial meeting is crucial for the organisation's future, so we can deepen ongoing reforms. Finance is important for the OECD's long-term capacity and to boost its responsiveness and impact in the interests of our members. There will always be fresh challenges ahead, in areas like inequality, migration, poverty, governance and healthcare, and from resource scarcity, notably freshwater. The OECD must be ready for such challenges if it wants to fulfil its mission of contributing to a better world economy.

We are on our way to becoming a more open, representative and relevant organisation, and a hub for discussion on global issues. This demands action on many fronts, from investing in the quality of our work, to building strategic alliances with other organisations and strengthening communications at every level.

I am looking forward to an enlightened discussion at our 2008 Ministerial Council Meeting. With the right policies, experience and resolve, we can address the challenges with confidence and build a brighter future for all. ■

OECD Ministerial Council Meeting, 4-5 June 2008, see www.oecd.org/mcm2008

OECD Forum 3-4 June 2008, see www.oecd.org/forum2008

See also www.oecd.org/secretarygeneral and www.oecdobserver.org/angelgurria

Economic instruments in the fight against climate change

Christine Lagarde, Minister of Economy, Industry and Employment, France, and Chair of the 2008 OECD Ministerial Council Meeting



© Charles Platiau/Reuters

2008 will be a decisive year in the battle against climate change. Hopefully, it will see us forge an international consensus so an agreement can be reached in Copenhagen in 2009 that will allow us to build on the Kyoto Protocol. In July, climate change will be high on the agenda for the G8 summit. In December, the 14th Conference of the Parties to the United Nations Framework Convention on Climate Change in Poznan should lay the groundwork for a global agreement. Within the EU, negotiations over the energy-climate package will be ongoing throughout the year, with the result that European member states will have better instruments at their disposal for meeting their commitments to reduce greenhouse gas emissions.

Against this background, the 2008 OECD Ministerial Council Meeting is in my view an opportunity to exchange views on the economic tools that we, OECD countries, can promote in order to achieve a sustainable reduction in worldwide greenhouse gas emissions.

Global warming is an economic issue

We are meeting to discuss a new topic for OECD member countries: the economics of climate change and the tools that governments might bring to bear to meet the challenge. Climate change is also an economic issue. As the Stern Review demonstrated, if we fail to take action, then climate change could at the very least lead to a sharp drop in GDP in all our economies. The economic damage caused by climate change would be 5 to 20 times greater than the sacrifices which our economic systems would have to make to combat greenhouse gas emissions efficiently.

We now know that the cost of doing nothing is higher than the cost of taking action. We also know that our time is running out if we are to avoid a global temperature increase of more than 2°C by 2050 whose consequences would be irreversible.

Promoting an economic approach

For acceptability and viability, it is vitally important to minimise the costs of combating climate change that our economic systems will have to bear, and we should do this by prioritising the most economically efficient approaches for reducing emissions.

Faced with this challenge, OECD countries can, and to my mind must, mobilise different types of economic instruments. The scale of the costs we must accept to fight climate change efficiently will naturally depend on the effectiveness of the policies we put in place. We must hammer out the various options that will allow us to deploy the most efficient strategies towards combating global warming.

Involving the emerging economies

Climate change is a global issue that goes beyond the concerns of OECD countries alone. Furthermore, we now know that the costs of reducing greenhouse gas emissions will not be spread equally or evenly among different economies. In the fight against climate change, emerging economies have more to lose in terms of GDP than developed economies. It would therefore seem legitimate to differentiate between the efforts asked of emerging and industrialised economies.

In this respect, I am delighted that the ministers of major non-OECD countries and developing countries are taking part in our discussions. Their contributions will enable us to consider how to achieve a balanced share of our global efforts. In any event, it is essential that the major developed countries and the emerging economies work together in a global approach.

Choosing the most efficient levers

Against this background, the OECD Ministerial Council Meeting will, hopefully, allow us to get ahead on a number of issues that I feel are crucial.

Firstly, our policies must help to establish price signals that are capable of influencing economic behaviour. It is by setting the right price for carbon that we will be able to encourage consumers and firms to behave in a manner compatible with the international goals we have set ourselves for reducing greenhouse gas emissions.

A clear long-term price signal will also play a determining role in promoting efforts to innovate and disseminate the least expensive technologies. In my view, each government is responsible for implementing the economic instruments which, by sending out a price signal on the real cost of greenhouse gases to society, will encourage everyone to make the choices that will allow us to move towards a less carbon-intensive economy. There are many economic instruments that can be deployed for this to happen: the meeting we will be holding in June seems to me to be an appropriate forum in which to examine the advantages and disadvantages of the various solutions possible. But let me underline that if our various government policies do not deliver strong economic signals, people's behaviour may not change.

Emerging countries could be offered incentives to make additional "sacrifices" to stabilise climate change

Secondly, we must also think about the mechanisms to prevent any uneven share-out of the effort to reduce greenhouse gas emissions from causing investments and emissions to relocate to countries with less proactive policies. It would be neither acceptable nor economically justifiable if a country reaped a competitive advantage by refusing to participate in the global effort to reduce greenhouse gas emissions.

Thirdly, we must reflect on ways in which to involve the private sector in the fight against global warming. For example, the International Energy Agency estimates that over the next 20 years some US$20 billion will be invested in the energy sector, the bulk of which will be provided by the private sector. Introducing incentives to encourage low-carbon investment by the private sector would be crucial for the future.

Lastly, I think that the economic responses to the question of how our international efforts should be shared out demand our full attention. For example, emerging countries could be offered incentives to make additional "sacrifices" to stabilise climate change. But let me emphasise how useful it would be to link the financial resources delivered by developed countries to the introduction of national incentive programmes and upgraded and measurable initiatives to combat climate change in and by the countries that benefit. Unless we adopt such a common position we will run the risk of subsidising activities that add no real value to the fight against climate change.

The fight against global warming is one of the major challenges currently facing mankind. We cannot be satisfied by our current level of effort, limited as it is to a few governments. We have a broad array of economic instruments at our disposal to meet this challenge. The OECD Ministerial Council Meeting offers an excellent opportunity to discuss, and subsequently choose, the most effective instruments. ■

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Tackling global challenges and the OECD

Yasuo Fukuda, Prime Minister of Japan



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With the world economy today experiencing turbulence on a number of diverse fronts, OECD countries are preoccupied with meeting these challenges. Among these are concerns for the future of the world economy stemming from the sub-prime mortgage blowout, climate change, high oil and food prices, and even the risk of falling short of achieving the Millennium Development Goals (MDGs) in the fight against poverty.

The G8 Summit meeting, to be held in Toyako Hokkaido in Japan on 7-9 July, will constitute one of the most important attempts to address these issues. On the agenda for discussion during the summit meeting are world economy, environment, climate change, development and Africa, as well as political issues.

Against the backdrop of the subprime mortgage problem and the dramatic surge of petroleum prices, the slowdown of the world economy is already apparent. The development of new financial techniques and the lack of effective risk management have resulted in the rapid spread of risk through securitisation. We need to enhance the stability of the international financial system through such measures as improving risk disclosures of financial institutions and reviewing the role of credit ratings.

To tackle the financial market turmoil, useful lessons may be drawn from Japan's painful experience upon the bursting of its own "bubble" economy. The first of these is that a swift response is absolutely imperative. Second, it is critical to nip potential credit crunches in the bud. In this regard, I welcome the efforts of the financial authorities to analyse the causes of the recent turbulence in the financial markets and the oil price hike, as well as examining medium and long-term measures.

Soaring food prices are another concern affecting the global economy. The world's most vulnerable populations face an increasing threat of hunger and malnutrition. A wide range of people in a number of countries are now affected by the high prices, bringing about social unrest. Emergency humanitarian relief must be coupled with a more long-term socio-economic development perspective. It goes without saying that the situation seriously jeopardises the prospects of achieving the MDGs. I believe a strong sense of urgency must accompany this discussion at the Hokkaido Toyako Summit. In response to this problem, Japan decided to provide emergency food aid of about US$100 million through the World Food Programme this April. Japan had already disbursed about $68 million to the WFP in 2008.

Climate change will be a top priority at the G8 Toyako Summit. Last year, Japan proposed the "Cool Earth 50" initiative, calling for a halving of global greenhouse emissions by 2050. I also proposed the "Cool Earth Promotion Programme" at the World Economic Forum this January, which consists of three parts.

First, on the **post-Kyoto framework,** I am calling on the United Nations to examine strategies and measures to bring about a peaking and halving in greenhouse gas missions. To ensure the peaking-out of the emissions, it will be critical to create a mechanism in which everyone participates, including all major emitters.

Second, on **international environment co-operation**, I proposed to set a global target of 30% improvement of energy efficiency by 2020. Japan will also establish a new financial mechanism, the "Cool Earth Partnership", on the scale of US$10 billion to assist developing countries in achieving both emissions reductions and economic growth.

Third, on **innovation**, Japan will accelerate development of technologies such as coal-fired power plants with zero CO_2 emission, low-cost, high-efficiency solar power generation, etc.

The OECD is one of the best and largest "think tanks" in the world. It can make a significant contribution to the international community as it tackles the challenges now confronting us. It has a long and outstanding record at analysing cross-cutting issues. Climate change is not simply an economic issue; it also involves technology diffusion and development and broadly impacts on individuals' lifestyles. I hope the OECD can provide us with a well-balanced analysis based upon a realistic assessment of the cost and benefits of various policy measures to reduce CO_2 emission.

The 2008 OECD Ministerial Council Meeting will also discuss organisational issues, such as enlargement, Enhanced Engagement and financial contributions. In the era of globalisation, the above-mentioned challenges can no longer be effectively managed by OECD countries alone. In this sense, it is of great importance for the OECD to strengthen co-operation with non-member economies through outreach and Enhanced Engagement.

A few years ago, Japan asked the following question at the OECD Ministerial Council Meeting regarding the future of the OECD: "Today, the OECD stands at a crossroads. Will it become an international organisation with a truly global influence?" If the organisation is to meet the expectations of the OECD countries and the global community, I believe that the only possible answer must be an unqualified "yes." ■

For more on the G8 Summit, see www.g8summit.go.jp/eng/
The prime minister's home page is at http://202.232.58.50/
Visit www.oecd.org/Japan

EDF and Toyota announce European technology partnership for Plug-in Hybrid Vehicles

EDF and Toyota have recently announced a new technology partnership to evaluate Plug-in Hybrid Vehicles (PHV) in Europe. The objective is to develop practical solutions for the commercialisation of Toyota's prototype vehicle technology, which can further reduce the environmental impact of vehicles especially in urban areas. A small number of PHVs were integrated into EDF's fleet in October and they are tested on public roads in France under every-day driving conditions. Road trials of the PHV started in France and may be expanded to other European countries. The vehicles use Toyota's hybrid technology, but with the added benefit that their batteries can be recharged using a standard electrical plug.





Toyota's PHV technology combines a gasoline engine with an electric motor which can be charged in two ways: either whilst the vehicle is driving and by recovering energy otherwise lost during braking, or by connecting the vehicle to an electric supply source at home, work or at a public charging station. For short journeys, a PHV would rely more on electric power, offering significant reductions in CO_2 emissions through reduced consumption of fossil fuels. For longer distances, it would switch to a combined electric/gasoline mode.

EDF and Toyota have also developed an innovative charging and invoicing system, equipped in each of the test vehicles. This system is compatible with a new generation of public charging stations, which aim to make electric power more accessible on public roads and car parks and to reduce the cost to the customer.

For more than forty years, EDF has worked to promote the use of electricity for transport and rechargeable vehicles, in-line with its strategy of sustainable development.

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As states Pierre Gadonneix, President and CEO of EDF: ***"I am delighted with this partnership between EDF and Toyota for a new generation of electric vehicles. This innovation is a promising step toward electric energy being acknowledged by European drivers as an energy source both competitive and ecologically viable, and one capable of reconciling individual mobility, economic growth and environmental concerns."***

Mr Masatami Takimoto, Executive Vice-President of Toyota Motor Corporation (TMC) said: ***"This new collaboration marks an important milestone in advancing global capability in the area of alternative fuel sources for transport, which we believe are critical to society's future". "We are proud to partner such a leading European energy supplier as EDF, with whom we share a common vision towards sustainable mobility."***

• News brief •

Internet 2011 alert!

Internet addresses could run out unless governments and business take action, a new OECD report says. With nearly 85% of all available Internet addresses already in use by May 2008, experts believe that, if current trends continue, addresses will run out by 2011. This could mean that new Internet users or mobile devices will not be able to access the Internet.

The answer, says the report, is Internet Protocol version 6 (IPv6) which will provide an unlimited number of addresses and help drive the rollout of broadband, Internet-connected mobile phones and sensor networks, and new Internet services. Governments and business should raise awareness of the need to start preparing now for the move from today's Internet Protocol version 4 to IPv6 and explain to Internet Service Providers and IT professionals that the move is a commercial and social opportunity, not a financial burden.

The new warning comes just a month before a major international ministerial meeting on the **Future of the Internet Economy**, to be held in Seoul, Korea on June 17. See www.oecdobserver.org/innovation, www.oecd.org/futureinternet and www.oecdministerialseoul2008.org/

More oil investment

"Investment is one of the main challenges we are facing in the global energy sector", said Nobuo Tanaka, executive director of the International Energy Agency (IEA) recently.

Speaking to the 11th International Energy Forum (IEF) in Rome in April, Mr Tanaka pointed out that with oil prices surging over US$110 a barrel and growing concerns over the environmental repercussions of the world's spiraling energy demand, the dialogue between energy producing and consuming countries is more meaningful than ever. "Current oil prices are too high, especially for developing countries which face other significant cost increases, and considering the threats to global economic growth at the moment", he said.

Amid various views about the reasons behind the price rally–some blame market fundamentals, others speculation and financial flows–the IEA sees a combination of different factors, but primarily, strong demand growth in the developing world coupled with constraints in bringing new oil to the market. During the past five years, spare capacity has fallen below the 3-4mb/d typical of the past decade and is likely to remain tight, IEA analysis shows. The IEA is a sister organisation of the OECD. For more, see www.iea.org

Financial reform

Fundamental reform of the financial system and its regulation is needed to address the current financial markets crisis, said Thomas Wieser, director general at the Austrian Ministry of Finance, and chair of the OECD financial markets committee in an extra-plenary session in April. The session was called to discuss the financial turbulence with market participants. Mr Wieser advised that priority should be given to private sector initiatives to speed up the recovery of financial markets but government intervention may be needed. (See also article on the subprime crisis in this edition.)

Meanwhile, more and better **financial education** is also needed today because individuals bear more and more risks without being necessarily able to cope with them, the OECD finds. This concerns not only credit, such as sub-prime mortgages, but also insurance and pensions. To promote a new initiative, the OECD has launched the International Gateway for Financial Education, www.financial-education.org. Reports from the Financial Markets Committee meeting are available here www.oecd.org/dataoecd/36/50/40451733.pdf

See also "The asset test", by Dara Duguay, Citigroup, in *OECD Observer* No 255, May 2006, at www.oecdobserver.org

Economy

The latest **composite leading indicators** (CLIs) continue to point to slower economic activity in the OECD area. The CLI fell by 0.5 point in March 2008 and was 3.2 points lower than in March 2007. Latest data for March 2008 indicate a weakening outlook for all the major seven economies. They also point to a potential downturn in major OECD non-member economies Brazil, China and India, but continued expansion in Russia.

Annual **inflation** in the OECD area was 3.4% in February 2008, easing down from 3.5% in the year to January 2008. But on a monthly basis, the price level rose by 0.3% in February, compared with 0.2% in January. Consumer prices for energy increased by 13.9% year-on-year in February, compared with a rise of 13.7% in January. Consumer prices for food were up by 4.9% year-on-year in February, compared with 5.1% in January.

Quarterly **trade** volume growth on the fourth quarter 2007 turned negative in the G7 countries, with a drop of 0.2% for exports and 1% for imports. Quarterly volume growth of the EU15 countries with third countries declined

(continued on page 9)

• News brief •

Germany signs tax convention

Germany has joined 15 other countries in signing the OECD-Council of Europe Convention on Mutual Administrative Assistance in Tax Matters, in a step that will help it combat cross-border tax evasion more effectively. The convention, covering both direct and indirect taxes, enables tax administrations to work together to enforce national tax laws by exchanging information, engaging in multilateral simultaneous tax examinations and helping each other in tax collection. It safeguards the confidentiality of the taxpayers.

The convention is open for signature to Council of Europe member states and OECD member countries. The parties to the convention are: Azerbaijan, Belgium, Denmark, Finland, France, Iceland, Italy, the Netherlands, Norway, Poland, Sweden, the UK and the US. Canada and Ukraine have signed the convention and are still in the process of ratification. See also article on tax havens in this edition.

Pensions strength

New guidelines to boost the financial security and performance of pensions have been agreed between the OECD countries and the International Organisation of Pension Supervisors (IOPS). The guidelines are intended to help pension regulators and supervisors improve their management of private work-related pension entities, such as pension fund management companies or pension trustees. They are part of a broader OECD effort to strengthen public confidence in the pension system. They set out minimum requirements that pension entities should meet when applying for a licence to begin operating.

More than one million pension funds operate in OECD countries, managing over US$16 trillion in assets at the end of 2007. The licensing regime agreed by the OECD and the IOPS, if fully implemented, would ensure that pension entities upgrade their financial, human and operational resources to the level necessary to meet the challenges of an increasingly complex financial system, and also help to protect pension funds in periods of financial turmoil. See the full guidelines at www.oecd.org/daf/pensions

(continued from page 8)

by 1.5% for exports and 1.4% for imports. On a year-on-year basis, G7 trade slowed to 3.5% for exports and 1.6% for imports. US quarter-on-quarter export growth slowed to 1% but imports fell by 1%. Japanese merchandise exports in the fourth quarter 2007 were the G7's highest with 3.3%, as were imports with 2.3%.

Unemployment in the **OECD area** stood at 5.5% in March 2008, the same as the previous month and 0.1 percentage point lower than a year earlier. Jobless figures in the euro area, the US and Japan were broadly stable, with some declines, including in **France** where it was 7.8%, 0.8 percentage point lower than a year earlier.

For more detail on these and other economic stories, go to www.oecd.org/statistics ■

Soundbites

Market rethink

"We can't leave feeding people to the mercy of the market. We need a public policy, a means of intervention, and stabilisation."

Michel Barnier, French minister for agriculture and fisheries, quoted in Financial Times, 28 April 2008

"From a societal standpoint, we got carried away with finance."

Carlos Asilis, Glovista Investments, New Jersey, in The Wall Street Journal, 28 April 2008

"As long term players with little or no leverage, they (sovereign wealth funds) play a constructive and stabilising role in global financial markets."

Henry Paulson Jr, US Treasury secretary, in International Herald Tribune, 22 March 2008

Cool science

"The cooling since 1940 has been large enough and consistent enough that it will not soon be reversed."

Science News, 1 March 1975

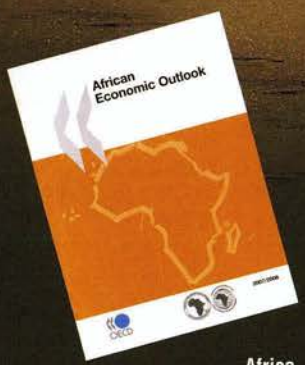
Plus ça change...

From US$7.5-11 billion in 1962: these are the estimates of the US Department of Health, Education and Welfare for losses caused by air pollution to plant and animal life, to manufactured objects and buildings, and by reduction of visibility, in the US alone. At the same time, water supplies for the growing populations of the world's cities are increasingly threatened by various forms of man-induced pollution.

"The fight against smog and water pollution", No 6, October 1963

OECD Observer

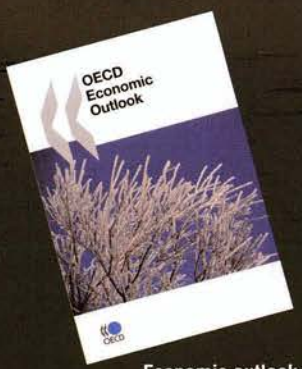
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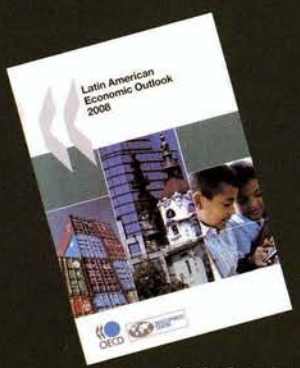
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OECD


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Germany's healthier economy

Felix Huefner and **Andreas Woergoetter**, OECD Economics Department

Reforms in areas like healthcare can make Germany's good times last much longer.

Is the German *Wirtschaftswunder* back? The tide has obviously turned for the better in what for most of the post-war period was indeed Europe's "wonder economy": after years of very slow growth at the beginning of the decade, the EU's largest economy has been experiencing a strong upswing since 2005. The reforms of recent years, notably on the labour market, are showing positive results with the unemployment rate falling to a seven-year low of around 7.5%.

The share of older workers in employment has risen dramatically–thanks to a combination of the phasing out of early retirement options and strong demand for qualified labour. The government has balanced the budget for the first time since 1989, the year the Berlin Wall fell. Four years ago the deficit reached 4% of GDP, and the improvement since then has been achieved almost exclusively by textbook-style expenditure cuts under the Stability and Growth Pact as well as a shift from direct to indirect taxation. This has all given Germany the strength it has needed to better withstand the headwinds from global financial turmoil, high commodity prices and an appreciating euro.

But while these are relatively good times in Germany, there is still quite a bit of catching up to do. Though still the world's third largest economy, GDP per capita trails in just 16th place, well behind the US. Luckily, the environment for the kinds of structural reforms needed to close the gap has seldom been more favourable. The challenge is to use the good times to drive through the most pressing reforms. Berlin is dubbed "the city of change" and this spirit can now lead the country as a whole to lift its performance.

The biggest danger would be to become complacent or, worse, backtrack on reforms already in place. Apart from some recent decisions by the government, for instance, to prolong unemployment benefits for older workers and another to grant ad hoc pension increases, there is fortunately enough consensus to maintain successful reform elements and even preserve some enthusiasm for new and necessary reforms.

The 2008 *OECD Economic Survey of Germany* advances three sets of recommendations to help keep up momentum. First, there are those which are designed to safeguard the achievements of past policy, and include replacing the current fiscal rule with a balanced structural budget requirement, modelled on the Stability and Growth Pact, to safeguard the budget. The report also urges the government to resist the introduction of sectoral minimum wages, as that may impede competition and job creation, especially for workers on the margin of the labour market.

Second, the report makes a number of suggestions to give a boost to reforms in some currently underperforming areas. These include the need to remove fiscal disincentives for second-earners to go out to work—in Germany the number of hours worked by married women is low by OECD standards as many of them work in so-called mini-jobs that are exempted from social security contributions; freeing up employment protection legislation for regular job contracts; and strengthening competition in network industries, such as energy and railways. It also urges stepping up efforts to improve education performance.

The third set of recommendations focuses on how to make current reforms more effective. Prominent among these is healthcare financing, which is a major concern for most countries. True, spending per capita has risen in Germany by just 1.3% per year in 2000-05, but German healthcare remains one of the OECD's costliest, with public spending higher only in France. However, on health

outcomes, performance fares less well, despite high capacity in terms of hospital beds, the number of health professionals, and so on.

Population ageing, but also technological progress, which leads to better, but more expensive treatment, will drive up healthcare costs by 3.6 percentage points until 2050, and costs for long-term care

A danger would be to become complacent or backtrack on reforms

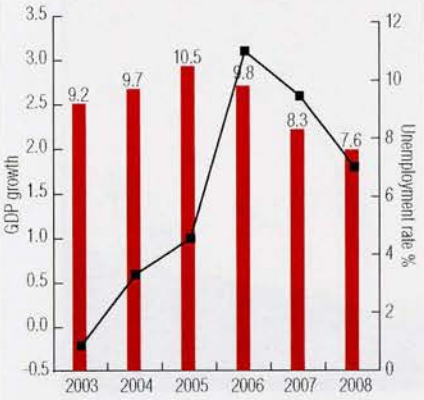
will rise by an additional 1.9 percentage points of GDP. Around 0.5 percentage points of this increase is due to pure demographic effects, as more older citizens demand ever better healthcare services. Ageing strengthens the argument that additional costs will simply have to be pre-funded in the government's budget today if it is to be able to maintain the same level of healthcare services. However, the argument does not necessarily hold for the larger part of the rise in costs due to technological progress. The benefit of ever better treatment will accrue only to the next generation, and the present generation may not want to contribute to financing advances it may not itself be around to use.

Currently, healthcare coverage is provided through a mix of social health insurance for about 90% of the population and primary private health insurance for eligible individuals who opt out of the system. Labour-income dependent social health contributions are set by insurers, who have incentives to direct their efforts at attracting high income members with a low morbidity risk, rather than improving the cost-effectiveness and quality of their services.

A second problem for effective competition relates to the collective contracts between insurers and associations of providers, which alongside the likes of national fee schedules for physicians and hospitals, leave little room for insurers to compete on quality.

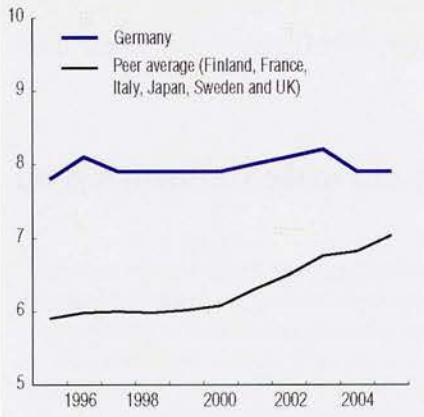
Back to strength?

Germany's GDP real growth (left axis) and unemployment rate (right axis), 2003-2008*



*Data are from the *Economic Survey of Germany* (2008 is a forecast) and may be revised for the *OECD Economic Outlook No 83* June 2008, which was forthcoming when this *OECD Observer* went to press.

Public current expenditure on health
% of GDP



Source: *OECD Economic Survey of Germany*, 2008

Segmentation of the market hampers competition further.

Little wonder the government's healthcare reform started out mainly by aiming to increase competition to make financing more sustainable and reduce its burden on labour costs. The central idea to be launched in 2009 is to channel healthcare insurance contributions and general tax money into a central health fund. Contribution rates would be uniform rather than set by insurers according to labour income, and would then be distributed back to insurers with capitations already adjusted by income and risk. The onus will then be on insurers to cover their costs by finding savings and possibly levying surcharges. Insurers with surpluses can grant refunds while cost overruns will have to be billed to members at the end of the year.

In theory, this new system can bring about higher quality treatment for all their members, rather than having insurers chasing after wealthier low risk ones. Competition across a wider market will encourage this shift to quality and efficiency and will be enhanced by further reform measures, including greater freedom for insurers to shop among different providers, and more freedom to enhance price competition in the pharmaceutical market. There will also be a drive to make health insurance mandatory, and more affordable as well. And because general health services will be financed more from the budget, the system will reduce distortionary taxation of labour income as well.

It is a promising reform, and the *Economic Survey of Germany* lists a score of recommendations to ensure it actually delivers. For instance, any surcharges made by insurers should also be flat and not income dependent, and aid for low earners should be tax financed and not cross-subsidised by high earners. Also, private health insurers should be included in the new financing system based on the central health fund to improve the risk selection process and make it more efficient. The government should monitor closely whether new tariffs do generate savings, as well as keeping an eye on medicine rebate agreements and the like. In short, the OECD's underlying message is that the German economy is very much back on its feet, and with more effort on reforms, can look forward to an even cleaner bill of health in the years ahead. ■

Reference

● OECD (2008), *OECD Economic Surveys: Germany*, OECD, Paris.

Japan's economic challenges



©REUTERS/Kiyoshi Ota

A focus on working women would help

Randall Jones, OECD Economics Department

Japan's recent expansion is now under threat and more reforms are needed, but how?

Until 2002, Japan was mired in a prolonged period of stagnation–the "lost decade"–which saw its per capita income drop from the fifth highest in the OECD area in 1992 to only 19th in 2002. The miracle economy that mesmerised the world in the 1980s looked decidedly weak. Now, thanks to exports and business investment, Japan has achieved the longest expansion in its post-war history.

However, Japan's expansion is now threatened by the turbulence in international financial markets that has reduced the prospects for growth across the entire OECD area. The impact on Japanese exports will be compounded by the trade-weighted appreciation of the yen by about 10% since mid-February. Some OECD countries are responding to the slower growth outlook with monetary and/or fiscal policy stimulus. However, there is much less scope in Japan for such a response.

On the monetary side, the short-term interest rate is already close to zero at 0.5%, while the large budget deficit and high level of public debt rule out fiscal stimulus as an option. Indeed, Japan's public debt has reached 170% of GDP, the highest ratio ever recorded in the OECD area.

The government's priority should be to balance its budget to stabilise and eventually reduce the debt ratio. As a first step, Japan should focus on achieving its target of a primary budget surplus for central and local governments combined by fiscal year 2011. There has been progress; the general government budget deficit has fallen from 8% of GDP in 2002 to less than 4% in 2007, thanks to buoyant tax revenues and cuts in expenditure, mostly in public investment.

Clearly, balancing the budget will be difficult in the context of rapid population ageing, which tends to boost public expenditures on pensions and healthcare. Therefore, if Japan is to meet its fiscal objectives, the government will need to raise additional revenue. And the best way to do that is via a comprehensive tax reform package, the 2008 *OECD Economic Survey of Japan* recommends. In addition to boosting revenue, tax reform should be designed so as to help support economic growth, cope with widening income inequality and improve the complicated local tax system.

Raising the consumption tax should be part of tax reform. Experience in OECD countries shows that indirect taxes have a less negative impact on growth than taxes on income. In fact, the consumption tax rate should really be the primary source of additional revenue. At 5%, Japan's rate is the lowest among OECD countries that have a value-added tax, and thus could be raised. Personal and corporate income tax bases could be broadened by reducing deductions and tax

expenditures. Indeed, less than half of wage income is taxed, while only one-third of firms pay corporate taxes.

Japan's corporate tax rate is the highest in the OECD area at 40%, and reducing it would help broaden the tax base. There has been a downward trend in the corporate tax rate in the OECD area in recent years, reducing the average to around 30%. A cut in Japan's rate would likely give a boost to growth by attracting more international flows of capital to Japan and providing an incentive for firms to invest more. Other changes in the tax system to promote growth include removing features that distort the allocation of investment and discourage the full-time employment of second earners (usually women) in households.

As for rising income inequality, this could be addressed though the tax system by the introduction of an Earned Income Tax Credit, an approach used in many OECD countries to provide support to low-income households while strengthening incentives to work.

Although a well-designed tax reform could have a positive effect on Japan's growth potential, the key for long-term growth is to increase labour productivity. The potential growth rate in Japan is estimated to be around 1.5%, the lowest in the OECD area, reflecting a large negative contribution from a declining working-age population. As the drag on economic growth from population ageing increases in the years to come, sustaining rising living standards will depend on accelerating labour productivity growth.

Labour productivity per hour worked in Japan is 30% below the US level, so there is certainly room for faster growth. Manufacturing productivity is growing by around 4% a year, suggesting that reforms should focus on services, where productivity growth decelerated from 3.5% a year in the period 1976 to 1989 to only 0.9% between 1999 and 2004.

A comprehensive strategy is needed to promote competition by accelerating regulatory reform, strengthening the enforcement of competition policy by the Japan Fair Trade Commission and increasing international openness to trade and inward foreign direct investment. In addition, Japan's special zone initiative, which allows local areas to act as a testing ground for reforms that can be later introduced at the national level, should be revitalised with a more nationwide focus. It is also essential to unlock potential in key service industries, such as the retail sector, energy, transport and business services.

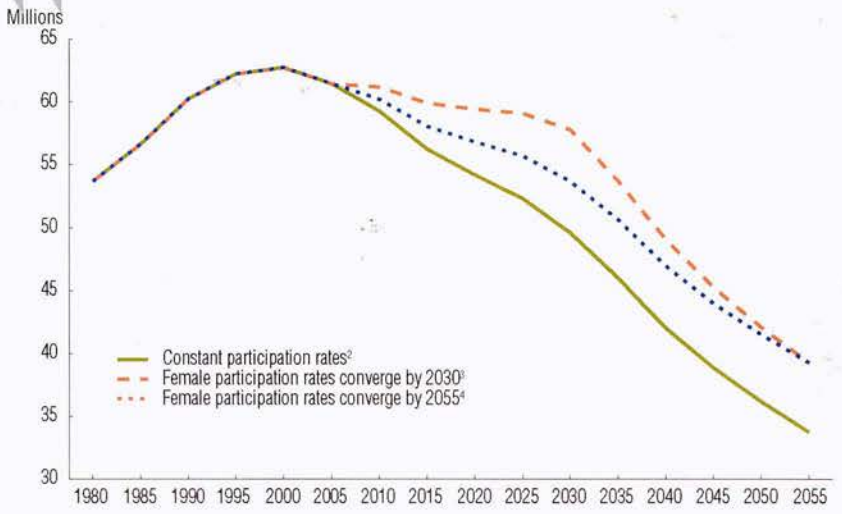
Another way to boost income levels is to raise labour force participation, which would help counter the impact of a declining working-age population. If the participation rate for each age cohort by gender remains at its 2005 level, the labour force would decline by one-fifth by 2030, based on the government's population forecast. In contrast, if female participation rates were to rise to the current level of men by 2030, the decline in the labour force would be limited to around 6%.

Increasing female participation requires a number of reforms. First, it is important to reduce labour market dualism between regular workers and non-regular workers, who are subject to precarious employment, lower wages and less coverage by social insurance systems; women account for two-thirds of non-regular workers. Second, regulatory reforms to increase the availability of childcare are needed. Third, improving work-life balance and encouraging more family-friendly work practices would raise participation while having a positive effect on the fertility rate.

As the 2008 *OECD Economic Survey of Japan* argues, Japan must move ahead with reforms despite the difficult situation in the world economy. By acting on the many recommendations in the report, the strong recent economic performance could be sustained, helping Japan to face challenges like ageing and globalisation from a position of renewed strength. ■

Japan's women workers

Labour force projections based on different scenarios for female participation[1]



1. The labour force covers the population between the ages of 15 and 64.
2. The participation rates for men and women remain at their current levels for each age group.
3. The female labour participation rates converge by 2030 to the rates for males for each age group.
4. The female labour participation rates converge by 2055 to the rates for males for each age group.

Source: *OECD Economic Survey of Japan 2008*

StatLink http://dx.doi.org/10.1787/278621725468

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Reviewing forecasts

Economic forecasting is a worthy business. It helps governments, central bankers and companies take key day-to-day decisions about policies, investments, levels of spending, interest rates and so on. There is a rich and diverse supply to choose from, both in the public and private sectors. Whole businesses thrive on it and some major television networks have even turned watching the economy into a form of mass entertainment.

Where does the OECD stand? The organisation is one of the world's foremost economic institutions, with its biannual *Economic Outlook* serving as a reference for many banks, investment houses, publishers and consultancies, not to mention governments the world over. Online, it remains one of the OECD's most consulted publications.

But how accurate are our forecasts? Do projections, say, for GDP growth turn out to be close or wide off the mark? And while economic forecasters earn their crust assessing everyone else's performance, who assesses them?

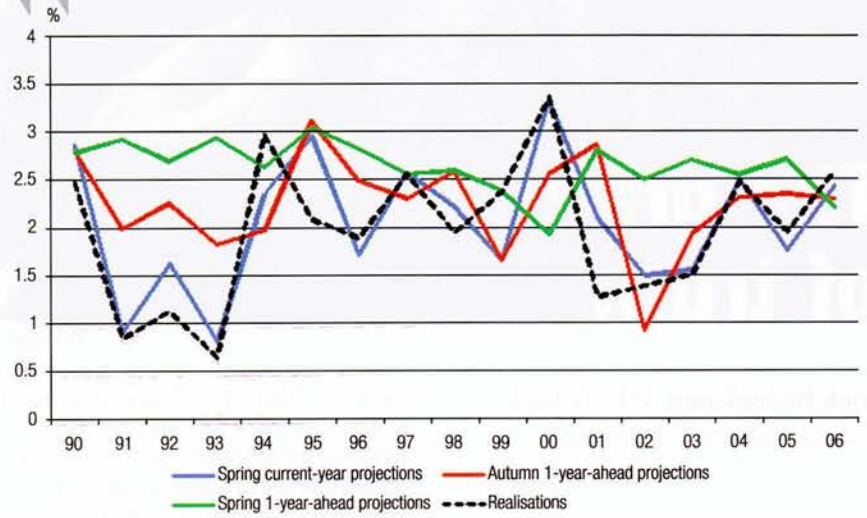
An online end-year league table from the economics editor of the *Sunday Times* in London gives a useful media perspective. It awards marks for accuracy on forecasting growth, inflation and other key variables for the British economy. For 2006 the OECD stood in eighth place out of some 50 institutions. It was the best non-British performer, and one of only two public institutions in the top 10, the other being the National Institute of Economic and Social Research in seventh place. The European Commission's forecasts ranked 12th and the IMF's 13th.

This strong showing is for a single year but concords with a recent study carried out by Lukas Vogel of the OECD Economics Department, which shows a good OECD record for predicting GDP for all of the G7 countries over the 1991-2006 period.

Mr Vogel finds that the *OECD Economic Outlook* released in the spring has tended to predict growth for the year in progress relatively accurately, and has added useful information to help improve subsequent forecasts. However, looking forward one year out, both the spring and autumn *Economic Outlooks* have tended to err on the optimistic side.

How accurate

OECD projections and actual GDP growth, G7, 1990-2005



Source: OECD

Economic forecasting is as much an art as a science. Economists use a wide range of models combined with high-frequency data to predict economic variables as well as standard relationships between those variables, whether within a country, such as the link between interest rates and investment–or between trade partners–how much rising demand in one market will raise exports in another for instance. But while economics relies on mathematic models, it is not in itself a pure science. It demands a sense of judgement, and an ability to marry theory with an ever-changing reality.

Many economists will say that what counts most in economic forecasting is not so much precise outturns as getting the big picture right: is an economy set to expand fast or slowly, or is inflation on course to rise or to fall and what are the policy implications? Mr Vogel shows that OECD projections have in general correctly predicted accelerations and decelerations of GDP growth in the G7. However, the real difficulty lies in anticipating turning points. Forecasts for the year in progress have accurately captured most cyclical up- or downturns, but turning points a year down the road are rarely anticipated.

Accuracy of projections for the year ahead can be improved, notably by looking more closely at potential growth and giving more weight to initial cyclical positions, Mr Vogel argues. Economists are often loathe to adjust projections downward quickly enough during slowdowns, he points out, and this leads them to over-estimate outcomes during low-growth spells. It may also lead them to miss those turning points.

Looking at other international institutions, Mr Vogel notes that European Commission GDP projections also score well, coming in slightly better than the IMF's although behind the OECD's. Timing is a factor, however, since IMF forecasts are carried out a little earlier in the year and therefore rest on more restricted information sets. ■ *RJC*

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- David Smith's (economics editor, *Sunday Times*) economics blog is at www.economicsuk.com/blog/



The grain of truth

Precious

Loek Boonekamp, OECD Trade and Agriculture Directorate

Food prices have risen sharply. Why?

Over the last two years, prices of agricultural commodities have risen spectacularly, and nominal prices for many crops and dairy products are at an all-time record high. This surge in prices is not unique, and when adjusted for inflation, the recent price spike is neither unique nor the biggest one to occur in the last three decades or so. But after a long period of rapidly declining real food prices, it has taken analysts, policymakers and the wider public by surprise. Moreover, coming against a backdrop of other global worries, the latest food price rises were bound to cause some anxiety.

In light of recent unrest across the developing world, many poorer people are worried about food becoming less affordable. But even in OECD countries, from the US to Europe through Asia-Pacific, people have winced at the rising cost of their food basket. Some increases we have been expecting, such as fish because of dwindling resources and rising demand, but now prices for basic items like cereals, milk and meat are rising too.
Why is this? A first simple answer is short-term shifts in the market. Farm produce markets are notoriously unstable as climate, disease and other natural factors affect output. Agricultural trade is generally only a small share of global production and consumption, so small changes in domestic supply or demand can have large impacts on the volume of trade, which in turn leads to wide price swings.

This is what has happened in world grain markets since 2005. First, supply has been squeezed by disappointing harvests, notably in Australia, Canada and the European Union. Though there were increases elsewhere, notably in the United States, global production of wheat and coarse grains were only 3% higher in 2007 than two years before. This was not enough to satisfy an increase in the total use of these grains for food, feed and biofuel production, by 5% over the same period.

Moreover, reserves had already been falling as a result of reductions in public stockholding in both OECD and non-OECD countries, and they kept declining from 2005 to 2007 as world use exceeded supply. So cereal stocks-to-use ratios have been low and since the late 1990s they fell from 35% to under 20% for wheat and from around 30% to less than 15% for coarse grains. Little wonder there was a surge in prices.

Rising maize prices from 2004-05 onwards drew producers away from oilseed production, causing oilseeds prices to rise as well.

Dairy markets tell a similar story. With tighter supplies, and with dairy trade an even smaller fraction of global production and consumption than cereals, only very small changes in export availabilities are needed to jack up dairy prices. The EU is a case in point, where limited output growth and strong demand combined to clear intervention stocks and squeeze the quantities available for export. Add to this a drought in Australia, shifts in land use in Argentina away from dairy farming, and strong demand in many emerging and developing countries, and it becomes easier to see how the world market should become more fraught.

The farming adage that the best cure for high prices is high prices could prove pertinent. With a return to more "normal" climatic conditions, global supplies are expected to increase anew and world prices will ease down. Nevertheless, there are other factors of a more permanent nature at play that should keep average prices relatively firm..

Rapid income growth and dietary changes are one, in particular in Asian developing countries, where demand for protein-rich products is rising. That means more meat, and more feedstuffs needed to raise farm animals. While much of these growing needs will be domestically produced, most of the future growth in world imports of most agricultural commodities is expected to take place in non-OECD countries.

The weak dollar is another factor at play. Normally, higher prices would incite farmers to raise output, but price signals have been dulled by a weaker US dollar. As global commodity prices are set in US dollars, exporters of farm produce in many countries have not seen the same price increases in domestic currency terms as has occurred in world markets. Their supply response has been slower than what it otherwise might have been with a stronger dollar, while strong currencies in importing countries have in turn fuelled demand. Energy costs are also a major element to consider. The OECD assumes high petroleum prices will continue over the medium term, which will further affect capacity to adjust agricultural supply to meet higher world demand, and put further upward pressure on market prices.

Then there is the much discussed role of demand for biofuels, which is diverting land and feedstocks away from food. The latest

OECD projections suggest a doubling in world ethanol and biodiesel production over the next 10 years. This demand will absorb 36% of US maize production and 64% of sugar cane output in Brazil and approximately 40% of vegetable oil consumption in the EU and nearly 60% in Australia by the year 2017.

So, even if climatic growing conditions improve, these underlying factors will keep average prices firmer than they have been for some time, but not as high as they are at present. At first, benefits will flow to cereals and oilseeds producers while livestock producers will initially only face higher input costs. But with a lag, these increased costs will translate into higher market prices as well. Comparing the average of forecast prices over the next 10 years with that of the previous decade, the latest OECD projections indicate price increases of about 20% for beef and pigmeat to around 50% for cereals and over 60% for butter and oilseeds.

Probably about one third of the projected increase in average cereal and oilseed prices over the next 10 years can be explained by increased demand for feedstocks to satisfy growing biofuel production. In addition, with growing demand for agricultural commodities other than for food as incomes grow, the volatility of agricultural product prices may well increase as well.

New breed of investors

One perhaps under-researched but highly reported factor behind food price rises is the emergence of non-traditional traders in commodity markets. Movements in agricultural markets are not correlated to fluctuations in stock markets and with financial products becoming very sophisticated, investors have started using these markets much more than before, either for speculative reasons or to seek portfolio diversification. Global trading activity in futures and options in agricultural derivatives markets has more than doubled in the last five years and increased by 30% in the first nine months of 2007. Data for the US show that in the three years from February 2005, the total open contracts in maize, wheat and soybean futures more than doubled. At the same time, the share of contracts bought by financial funds and other investors has increased from below 20% to well over 40% for maize and oilseeds.

This surge of new investment in futures commodity markets affects prices in the short term. Over a longer-term period these may prove temporary, particularly as funds can move rapidly in and out of commodity markets as profit opportunities evolve. Still, given their size, this may well affect future price volatility.

What does this mean for food prices and general inflation? To start with, there is a difference between prices for agricultural commodities and the retail price of food. In OECD countries, farmgate prices account on average for 25% of prices at the retail level. Retail prices are influenced by a host of factors along the supply chain-energy, transport and wage costs, the extent of market competition, and so on.

With the share of the food component in the consumer price index ranging between 10 to 20% for the majority of OECD countries, the weight of food prices on overall inflation rates is not negligible. In 17 out of 30 OECD countries the somewhat spectacular increases in retail food prices in the past year has contributed less than 0.5 percentage points to overall changes in inflation, but between 0.5 and 1 percentage point in eight countries and over 1 percentage point in the remaining five.

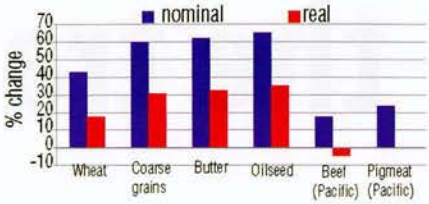
For developing economies the impacts are much bigger and the contribution of food price inflation to the consumer price index has been as little as 2 percentage points in India and Peru to as much as 9 points in Bangladesh, 12 points in Kenya and 16 in Sri Lanka. Commercial producers in these countries are likely to profit from higher prices, as will many employees and local economies. But it is the urban poor, particularly in the net food importing developing countries such as Bangladesh, Egypt, Nigeria or Haiti, who will feel the brunt, as an even higher share of their already limited incomes will have to be spent on food.

In the short term, humanitarian aid will be needed, as the numbers of people suffering from extreme hunger has further increased. However, the medium-term focus should be on policies that foster growth and development, to lift purchasing power of the poor. Agricultural trade policies also require further reform as trade restricting practices-whether they restrain exports or imports-have undesirable and often unintended impacts.

On the supply side, the link between production and yield shortfalls and climate change might be further explored as should the possibilities for further agricultural productivity growth. The merits of every initiative must be explored, from ideas like improving agricultural productivity in general and storage facilities in particular in developing countries, to building the infrastructure required to link farmers in these countries to other markets. Also, we need a dispassionate look at how genetic modification might affordably and acceptably improve yields, crop resistance to drought and boost development. On the demand side, the largely policy-driven biofuels warrant a close review, not least in light of their questionable economic and environmental effectiveness. ■

Higher prices

World commodity prices at higher levels, average 2008-17 compared to average 1998-07



Source: OECD

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A renewed policy for EIB lending to **the transport sector**

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Increased EU focus on Energy and Climate Change

The European Council in March 2007 adopted an Action Plan for energy policy 2007–2009[1] reinforcing the European Union's (EU) leading role on environmental sustainability, and notably with respect to climate change. Among other challenging targets, the EU committed itself to a 20% reduction in greenhouse gas emissions by 2020 compared to 1990. As the EU's long-term financing body, the European Investment Bank (EIB) has been closely associated with these developments. A first concrete result was the translation of the new initiative into the Bank's energy policy, followed quickly by a review of its transport lending. The renewed transport lending policy was approved by the Bank's Board of Directors on 27 September 2007.

The EIB's role

Created in 1957 by the Treaty of Rome to further the objectives of the European Union by making long-term finance available for sound investment, the EIB is an important player in financing the European transport sector. There are good reasons for this:

- Effective transportation systems are essential to Europe's prosperity, having a significant impact on economic growth, social development and the environment.
- The transport sector is an important industry in its own right and makes a major contribution to the functioning of the European economy as a whole.

Challenging Facts and Figures

Did you know that:

- The average European citizen travels 36 km daily, and 27 of these are by car;
- Freight transport grew by 30% in the EU over the past decade;
- More than 40,000 people were killed on European (EU25) roads in 2005 – down from more than 70,000 road deaths in 1990;
- Transport accounts for 31% of all energy consumption and 23% of greenhouse gas emissions in the EU;
- The cost of congestion on European roads has been estimated at between 0.5% - 1% of total GDP;
- The average speed of a freight train in Europe is 18km/h;
- Roughly one-third of total EIB lending goes to the transport sector;
- Out of the total of some EUR 106 bn loan signatures in the transport sector in 1996-2006, 45% were for rail infrastructure, rolling stock and urban transport, 36% for road investments, and 15% for airports, aircraft and air traffic management systems, leaving 4% for maritime transport (ports and vessels).

[1] An energy policy for Europe – revised version of the Presidency Conclusions of the Brussels European Council of 8/9 March 2007. Document 7224/1/07 REV 1, dated 2/5/2007, Annex 1.

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The ever-increasing mobility of citizens and exchange of goods is today part of everyday life but also a challenge to our economy and our environment.



- Mobility of goods and persons is an essential component of the competitiveness of European industry and services.
- The long-term perspective and the truly European dimension of major transport projects have made the EIB a natural financier of these projects.

A number of EU policies provide the basis for the Bank's transport lending: the development of the trans-European transport networks (TENs), cohesion policy, sustainable transport development as well as support for Research, Development and Innovation (RDI). In all cases the Bank's lending policy for this sector is multi-dimensional and integrates environmental concerns at all stages of the Bank's due diligence. Moreover, the Bank supports a range of transport projects where the explicit project aim is to achieve environmentally friendly and sustainable transport systems leading to substantial reduction of emissions of CO_2 and other pollutants. Lending to such projects has steadily increased in recent years, both in absolute and in relative terms. This includes lending to urban transport systems as well as projects in the field of research and development aimed at reducing exhaust gas emissions, enhancing fuel efficiency and improving safety. Furthermore, the Bank has demonstrated a clear preference for funding projects in the railway sector.

A new policy context of constant change

While the range of traditional policy objectives for the Bank's lending in the transport sector remains valid, a new and complex policy context is evolving rapidly due to the need to combat global warming.

It is evident that the construction of a modern transport system in the 21st century requires a sophisticated combination of all available transport modes. Transport needs are met in different ways in different situations, ranging from passenger transport in local communities to the long-distance haulage of industrial goods. The requirements are not the same in sparsely populated peripheral areas as they are in large urban concentrations around the EU's major cities.

The challenge for EIB support to the transport sector is therefore not to discard one or the other type of intervention, one or the other transport mode, but rather to seek to optimise the strategy for action and to strive for an appropriate mix of interventions to serve the complex set of policy objectives. The satisfaction of future transport demand in the EU requires the combined effort of all transport modes and means.

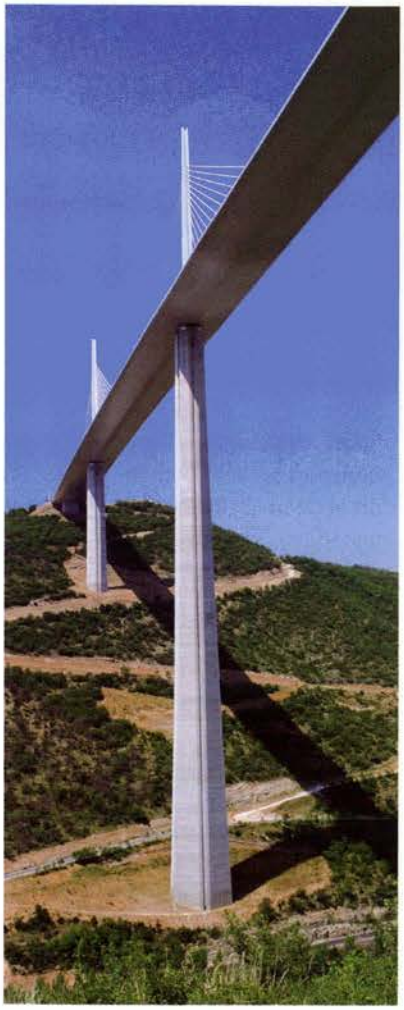
Rapid growth in transport, congestion, and safety concerns (the facts and figures mentioned at the beginning of this article) puts into perspective some of the future challenges facing the European transport system, both in terms of (lack of) economic efficiency and future sustainability. Investments are needed in all transport sectors to support RDI and address existing bottlenecks and congestion, but should be balanced with a need to promote environmentally-friendly modes of transport.

The renewed EIB transport lending strategy will ensure that the Bank continues to support key EU growth policies while at the same time responding to the new climate change policy. This requires a multidimensional approach, based on guiding principles for Bank interventions as well as a set of operational selection criteria that ranks projects in the individual sectors according to priority.

It should be underlined that the new policy environment will be dynamic. The Bank welcomes comments on the renewed lending policy, and the approach presented will be subject to periodic review.

For further information please consult www.eib.org, where the full policy document is available.

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Highlights of the main principles for future EIB transport lending:

Mobility is essential for the free movement of people and economic growth. In this context, the EIB will pursue an approach that strives for the most efficient, most economic and most sustainable way of satisfying transport demand. This will require a mix of transport solutions, covering all modes, though carefully planned to control the negative environmental impacts of transport.

The EIB will continue its strong commitment to the funding of Trans-European transport Networks (TENs). The long-term nature of these investments and their essential role in achieving an efficient and cohesive Community-wide transport system continue to make them the backbone of transport investment in the EU and essential for the functioning of the internal market. The relationship between the stock of infrastructure capital and greenhouse gas emissions is complex, but this does not in itself call into question this continued EU commitment to TENs.

Funding railways, inland waterways and maritime projects (in particular Motorways of the Sea) will continue to be a priority as these are intrinsically the most promising in terms of reducing greenhouse gas emissions per transport unit. The same applies to urban transport and inter-modal hubs. Road and airport projects must demonstrate high economic value to be funded in the future. Support will focus on improvements in safety, efficiency and reduced environmental impacts.

In the rail, shipping, and urban transport sectors, financing the purchase of vehicles is consistent with climate change goals. The financing of aircraft purchase will be limited to exceptional circumstances when very strong value added can be demonstrated. Examples could be connections to convergence regions if air transport is essential to secure the territorial integrity of the EU and fuel efficiency is improved. Further emphasis will be given to RDI activities with vehicle manufacturers whatever the sector involved. This should primarily focus on ensuring energy efficiency, emissions reduction and safety enhancement. Support for automotive manufacturing should, however, be selective and limited to projects in convergence regions, where their contribution to employment and to innovation diffusion, including through their links with the local mid-cap and SME network, is important. In all cases, projects supported should be fully in line with the orientations of EU environmental and energy efficiency policies, achieving higher environmental standards and accelerating the achievement of the goal of reducing CO_2 emissions (as, for example, through the development of energy efficient smaller cars and renewably fuelled vehicles).

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Sovereign wealth funds

Carolyn Ervin, Director, OECD Directorate for Financial and Enterprise Affairs

Should sovereign wealth funds be treated differently than other investors? An OECD project has set out to answer this question.

When Citigroup, a major US commercial bank, sold a large stake to an investor to offset subprime-related losses in late 2007, relief could be felt across the economy. But when people focused on the fact that the investor was Abu Dhabi Investment Authority, a wealth fund owned by a government in the Middle East, questions were raised.

Public concern was perhaps inevitable, given volatile financial markets and sometimes heated debates about globalisation and protectionism.

Above all, major changes in the environment for national security and the international economy in recent years have caused some governments to reassess their investment policies, and the growing prominence of foreign government-controlled sovereign wealth funds inevitably made them an important focus. A key question is should sovereign wealth funds be treated differently than other investors?

Since 2007, the OECD has been working at the request of G7 finance ministers and the other OECD members to develop guidance for recipient countries' policies towards investments from SWFs. The OECD has addressed this request as part of the Investment Committee's project on Freedom of Investment and National Security, which was launched to help governments counter rising investment protectionism and maintain open markets. The guidance which the Committee released in April is the result of the work of the 30 OECD countries, the ten non-member countries adhering to the OECD investment instruments, four other non-members participating in the project and the European Commission. The project also benefitted from consultations with SWFs and business and social partners.

Profile

Sovereign wealth funds contain assets that governments have decided to keep separate from their regular processes of government budgeting and asset management. The major SWFs from the Middle East, Norway, Russia and a few regional funds such as Alaska and Alberta, Canada, have been based largely on revenues from natural resources, mostly oil. China's SWF draws mainly on earnings from official foreign exchange transactions. Others, such as Temasek Holdings in Singapore, have been established to reinvest budget surpluses or the proceeds of privatisation.

If assets under management in SWFs vary between US$2.5 trillion and US$3.5 trillion the bulk of this amount–an estimated US$2.2 trillion–is managed by just seven entities. The biggest is the Abu Dhabi Investment Authority with more than $800 billion under management. Norway follows with over $390 billion. Singapore Government Investment Corporation holds about $330 billion dollars, while Singapore Temasek holds around $100 billion. Kuwait Investment Authority comes in at $250 billion dollars and the China Investment Corporation at over $200 billion dollars.

There are about 40 main funds–the other 33 collectively hold some $300-500 billion in assets, and so many of these are quite small.

SWFs have various goals or strategies. One is stabilisation, whereby the fund's main purpose is to cushion the fluctuations in resource or commodity prices. Others include spreading wealth across longer periods of time, and mobilising otherwise idle foreign reserves.

Sovereign wealth funds generally have long investment horizons, and many of the oil exporting countries invest for the benefit of future generations–effectively placing them among the most long-term investors on the planet.

A relatively small number of SWFs engage in corporate takeovers, or the acquisition of significant minority shares in listed companies, the Abu Dhabi-Citigroup transaction being one example. Norway has put a 10% limit on the size of stake in any

one company that its sovereign wealth fund can acquire (recently upped from 5%), essentially limiting it to the role of a portfolio investor.

Fair treatment

The OECD's experience with SWFs to date shows them to be a positive force. SWFs' recent injections of capital into several OECD financial institutions were stabilising because they came at a critical time when risk-taking capital was scarce and market sentiment was pessimistic. They help to recycle savings internationally and generally have a good track record as long-term investors. They contribute to the economic development of their home countries. As one of the world's main proponents of an open investment system, the OECD welcomes these benefits for home and host countries.

But, as is often the case, when new actors emerge on the international financial scene, the players need to become better acquainted. The growing role of SWFs raises issues regarding the smooth functioning of financial markets as well as investment policy questions, including legitimate concerns in recipient countries about protecting national security.

The OECD's existing investment instruments already contain fundamental principles for recipient country policies that can underpin the required guidance. Through their adherence to the OECD investment instruments, OECD and other adhering governments have committed to the principles of transparency, non-discrimination and liberalisation. These instruments: express a common understanding of fair treatment of foreign investors, including SWFs; commit adhering governments to build this fair treatment into their investment policies; and provide for "peer review" of adhering governments' observance of these commitments.

The OECD investment instruments recognise the right of adhering countries to take actions they consider necessary to protect national security. Investments controlled by foreign governments, such as those by SWFs, can raise concerns based on uncertainty regarding the objectives of the investor and whether they are commercially based or driven by political or foreign policy considerations.

However, adhering countries have agreed that the national security clause of the OECD investment instruments should be applied with restraint and should not be a general escape clause from their commitments to open investment policies.

OECD members and other countries participating in the Freedom of Investment project have agreed on a number of key principles which should guide governments when they design and implement investment measures to address national security concerns while preserving and extending the open international investment system. Participants consider that these principles are equally relevant to addressing national security concerns that arise in the context of investment from SWFs. These principles are the following:

The OECD's experience with SWFs to date shows them to be a positive force

Non-discrimination: In general governments should rely on measures of general application which treat similarly-situated investors in a similar fashion. Where such measures are deemed inadequate to protect national security, specific measures taken with respect to individual investments should be based on the specific circumstances of the individual investment which pose a risk to national security.

Transparency/predictability: While it is in investors' and governments' interests to maintain confidentiality of sensitive information, regulatory objectives and practices should be made as transparent as possible so as to increase the predictability of outcomes.

Regulatory proportionality: Restrictions on investment, or conditions on transaction, should not be greater than needed to protect national security and they should be avoided when other existing measures are adequate and appropriate to address a national security concern.

Accountability: Procedures for parliamentary oversight, judicial review, periodic regulatory impact assessments, and requirements that decisions to block an investment should be taken at high government levels should be considered to ensure accountability of the implementing authorities.

Investors and home countries can ease concerns through transparency. Observance of high standards by SWFs and their provision of adequate and timely information will facilitate recipient countries' efforts to implement their OECD commitments and its recommendations for preserving open markets while safeguarding national security. Therefore the OECD also supports the work underway at the IMF on best practices for sovereign wealth funds.

The next steps

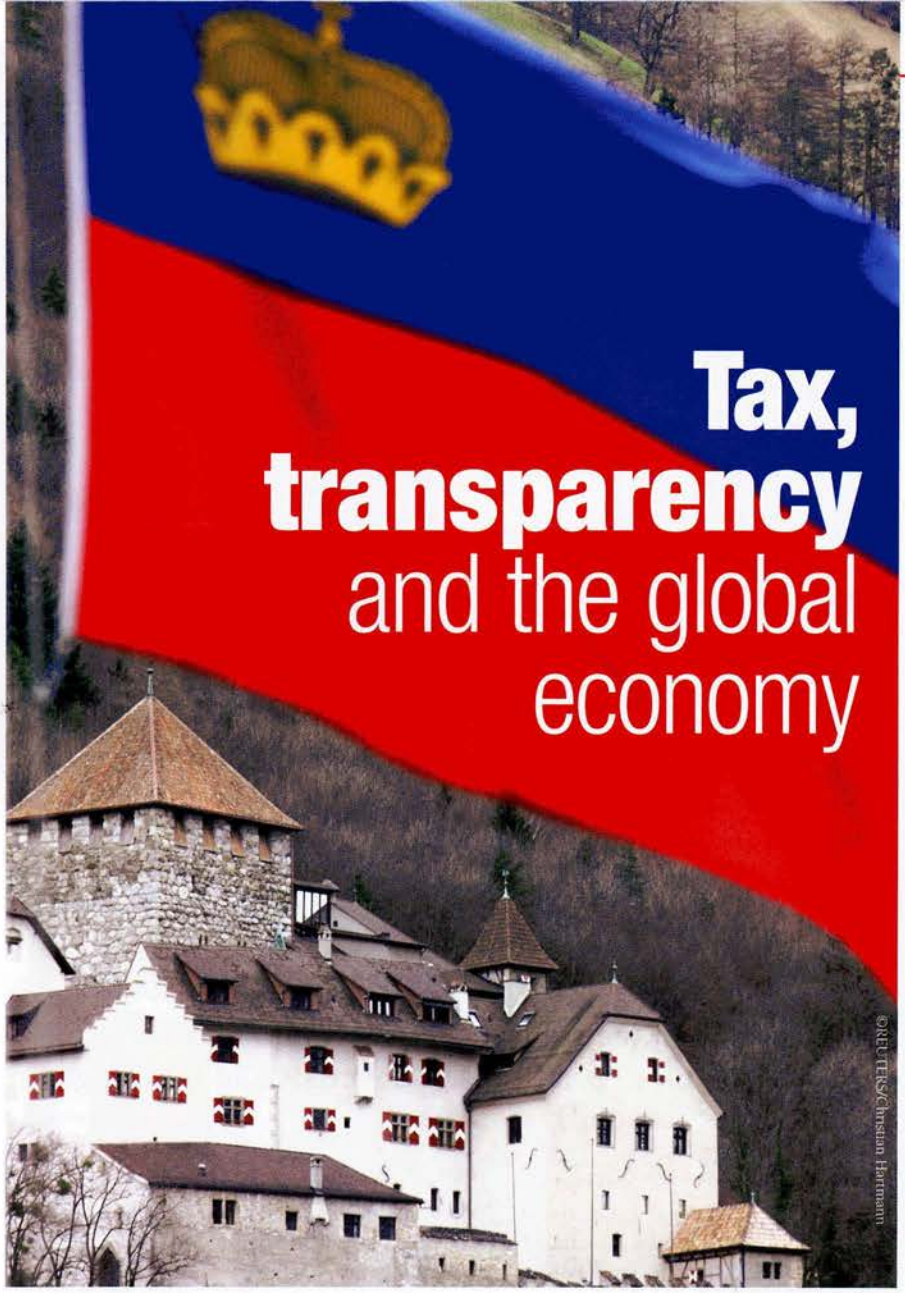
The work programme will include: further clarification of best practices regarding the implementation of the guiding principles, especially "accountability"; broader consideration of government-controlled investments; and any additional work which may seem appropriate in light of the results of the IMF's work. A final report on the Freedom of Investment project–bringing together all of the findings of the discussions–will be completed in spring 2009. Its recommendations may also contain suggestions for appropriate revisions/clarifications to existing OECD instruments.

The project includes a process of regular peer monitoring within which countries report measures in place or under consideration. As part of its ongoing work, the Committee will continue to monitor developments in this regard in light of the principles of transparency/predictability, proportionality and accountability and of adhering countries' commitments under the OECD investment instruments.

The spirit of co-operation that has characterised these discussions to date will continue through consultation and dialogue between home and recipient countries and between the IMF and the OECD. ■

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A secretive place

Tax, transparency and the global economy

Grace Perez-Navarro
Deputy Director, OECD Centre for Tax Policy and Administration

The OECD's campaign against harmful tax competition garnered a higher profile at the start of 2008 with disclosures concerning widespread tax evasion by Germans and others through Liechtenstein. The revelations drew wide media attention in Germany and beyond, and have prompted fresh resolve in many OECD countries to fight tax evasion via offshore havens. In fact, investigations have been launched in over a dozen countries since then, including Australia, Canada, France, Germany, Italy, New Zealand, Spain, Sweden, the UK and the US.

For the OECD, the Liechtenstein affair highlights a much broader challenge in today's interdependent globalised economy: how to respond to countries and territories that seek to profit from tax dodging by residents of other jurisdictions.

For a borderless financial world to thrive and be fair, the other side of the competition coin is greater co-operation. This includes offshore financial centres, which should be prepared to engage in effective exchange of information with other countries in return for the business opportunities that a borderless world provides. That is why OECD countries and co-operative financial centres around the world have been working together for a number of years to address the problems posed by excessive secrecy, both in OECD countries and offshore. Together, they have developed standards of transparency and exchange of information in tax matters that balance the interests of financial privacy with the need for countries to be able to enforce their own tax laws. Agreements on information exchange between Guernsey and the Netherlands and between the Isle of Man and Ireland in April 2008, are some recent examples of implementation of those standards.

No-one knows exactly how much public money is lost illicitly to tax havens–after all, if it could be measured, it would already be taxed. Nevertheless, while the OECD does not provide an estimate, the leakage is thought to run into several billion dollars.

In 2002, the OECD published a list of uncooperative tax havens, initially including seven countries. Several have now made commitments to work with the OECD and its partners to improve transparency. But three remain on the list: Andorra, Monaco and Liechtenstein.

As long as there are financial centres that refuse to co-operate in bilateral tax information exchange and that fail to meet international transparency standards, residents in other countries will continue to be tempted to evade their tax obligations through such secrecy jurisdictions.

Some say it is high taxes that drive people to cheat on their taxes by going offshore. But as long as there are taxes, there will be tax cheats. Even low tax countries suffer from tax evasion.

The OECD is trying to help countries tackle evasion; it is not trying to stop countries from competing with each other. On the contrary, the organisation encourages tax competition, on the basis of transparency and non-

discriminatory provisions, the quality of the economy and the range of services different countries provide. All countries should be free to set their own tax rates and establish their own tax systems. What is not acceptable is competition on the basis of excessive secrecy.

Bank secrecy in itself is not the issue. All countries have some form of bank secrecy, which serves a legitimate purpose in the financial world, not least the protection of privacy and individual rights. However, privacy rights are not absolute and have to be balanced with the legitimate needs of governments to enforce their own laws, including tax laws. The OECD believes this balance can be achieved by assuring some transparency for the effective exchange of information. That means prohibiting the use of anonymous accounts, which all OECD countries now do, and improving quality and availability of ownership information on shell companies, foundations and other non-transparent entities that are used by tax cheats and other abusers of the financial system such as money launderers to shield their identities and assets from law enforcement authorities.

What is unacceptable is competition based on excessive secrecy

The Liechtenstein affair has sounded an alarm in many countries that it is time to reinvigorate efforts to improve transparency and international co-operation in tax matters. But Liechtenstein is only the latest place where tax cheats have been caught red-handed. That is why the OECD will continue to work towards a level playing field in transparency and exchange of information practices so that tax cheats will have fewer places to hide. ■

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- See a related court case at www.usdoj.gov/usao/fls/PressReleases/080513-02.html
- Visit www.oecd.org/taxation

Subprime crisis
A capital issue



Adrian Blundell-Wignall, Deputy Director, OECD Directorate for Financial and Enterprise Affairs

The fallout from the subprime crisis continues to affect OECD economies. What caused the crisis and how might policymakers respond?

Financial market turmoil is at extreme levels and threatens economic growth in the OECD area and beyond. A near-term recession is likely in some countries, though the ultimate economic impact will depend on the ability of policymakers to soften the "credit crunch" now unfolding through the balance sheets of financial institutions.

At the origin of this crisis are the losses caused by increasing defaults in US subprime mortgage loans, most of which had been securitised and distributed to investors globally. Policymakers' responses to the crisis have been geared towards stimulating the economy and calming the markets, and regulators are discussing ways to enhance transparency and improve risk management.

Excessive leverage has been the key characteristic, particularly with respect to subprime mortgages and the securities based on them. Four causal factors have been at play. First, excess liquidity resulted in asset bubbles, particularly in housing and mortgage-based securities. These asset bubbles encouraged speculators to borrow, while the (rising) asset value of collateral comforted the lenders.

Second, there were clear gaps in regulatory and accounting standards regarding the treatment of "off-balance sheet" financial vehicles and lending practices.

Third is the key role rating agencies have played in the securitisation process. Normally banks assess credit and retain it as private information. But to sell these credits into the capital markets requires external ratings to allow investors to assess the risk-return profiles of these assets. The now well-known transformation of riskier securities into



vehicles with prime and triple-A ratings greatly smoothed the way for the boom in a whole range of structured products, like collateralised debt obligations, asset-backed commercial paper conduits and so on.

Fourth, notwithstanding all of this, there were notable failures in the corporate governance of financial intermediaries. Some banks stayed clear of these high risk products, and some managed to reduce their exposures significantly prior to the crisis, but others rushed headlong into major exposures, lured by fast profits and fees.

It is the confluence of these factors which has made this crisis so serious, and the situation now leaves policymakers little choice. Attempts to unwind holdings of illiquid mortgage-backed securities has already led to price collapses, and with mark-to-market accounting (linking the balance sheet value of financial products to current market prices), this has forced massive write-offs and heightened insolvency risks for well-known banks, as the Bear Stearns episode in the US and the bank run on Northern Rock in the UK well underlined.

Central banks have had to step in with new liquidity operations, extending the definition and time frame for collateral they are accepting in their dealings with banks. The aim is to keep markets functioning, as banks have refused loans to each other due to uncertainty about which firms are at risk. However, *insolvency* is the core of the problem: the insolvency of home owners who took on mortgages in the expectation of capital gains that did not materialise, and the insolvency of financial institutions that either managed their risk poorly or were too reliant on short-term wholesale funding of their balance sheets.

Banks are highly-levered institutions, with large funding liabilities and asset portfolios, with a thin sliver of capital in between. It does not take much to wipe out this capital if funding declines or asset write-offs occur, forcing banks (in the absence of new capital injections) to de-lever in order to meet capital rules or, in extreme cases, into bankruptcy. Restrained balance sheets of banks, can shut down financial intermediation, and directly affect GDP. Consequently, policies that facilitate the re-building of capital are vital for addressing solvency problems.

The OECD has increased its estimate of the ultimate mortgage-related losses from US$300 billion last autumn to a range of $350 billion-$420 billion now. About $90 billion of the likely ultimate losses are directly associated with US banks that play a key role in the intermediation process. Left to itself, this could result in substantial de-leveraging, as happened in the early 1990s.

The first line of defence, therefore, is to cut interest rates in order to help bank margins and earnings, while also encouraging cuts in dividend payouts to retain more earnings. It would take banks 6 to 12 months to recapitalise through earnings, depending on the extent of these cuts and any new balance sheet expansion they might be able to undertake.

Expanding bank balance sheets to support economic growth requires not only offsetting losses, but also building capital for the normal growth in their own businesses. To speed up the process, helpful capital injections have come from sovereign wealth funds and hedge funds–groups that are prepared to take more risk at times when others are not. Banks have already been quite successful in raising some of the capital they need, but the environment remains challenging and more injections will be required.

A final line of defence is the use of public money to shore up bank balance sheets. But as this would create moral hazard in banking for the future (by attenuating the consequences of risky behaviour and encouraging more such behaviour later on), it is a last resort–as with the case of Bear Stearns–to avoid damage to the real economy.

A pressing worry is that the de-leveraging, if not handled well, could spill into other asset classes

The subprime debacle is not confined to the United States, since European institutions too bought a substantial share of the subprime securities, and on average European banks are less well capitalised than their US counterparts. The current crisis could also spill over into equity derivative products, which are also more widespread in Europe, as is exposure to foreign currency loans in some countries, with currency risk increasing.

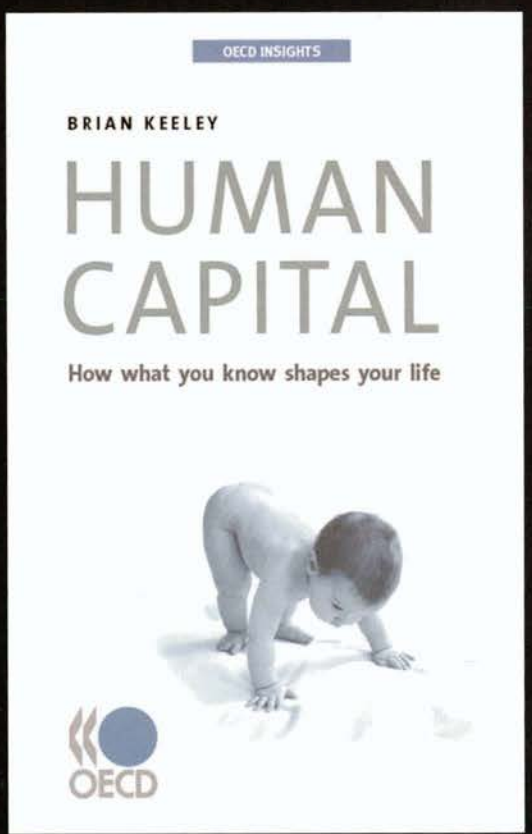
Let's not forget that while corporate balance sheets are generally in good shape, there is a "fat tail" of corporate over-borrowing built up through leveraged mergers and acquisitions. A pressing worry is that the de-leveraging that will accompany the losses on subprime mortgages and related securities, if not handled well, could spill into other asset classes (such as corporate bonds, equity derivatives and the like)–a scenario that policymakers would do well to avert. ■

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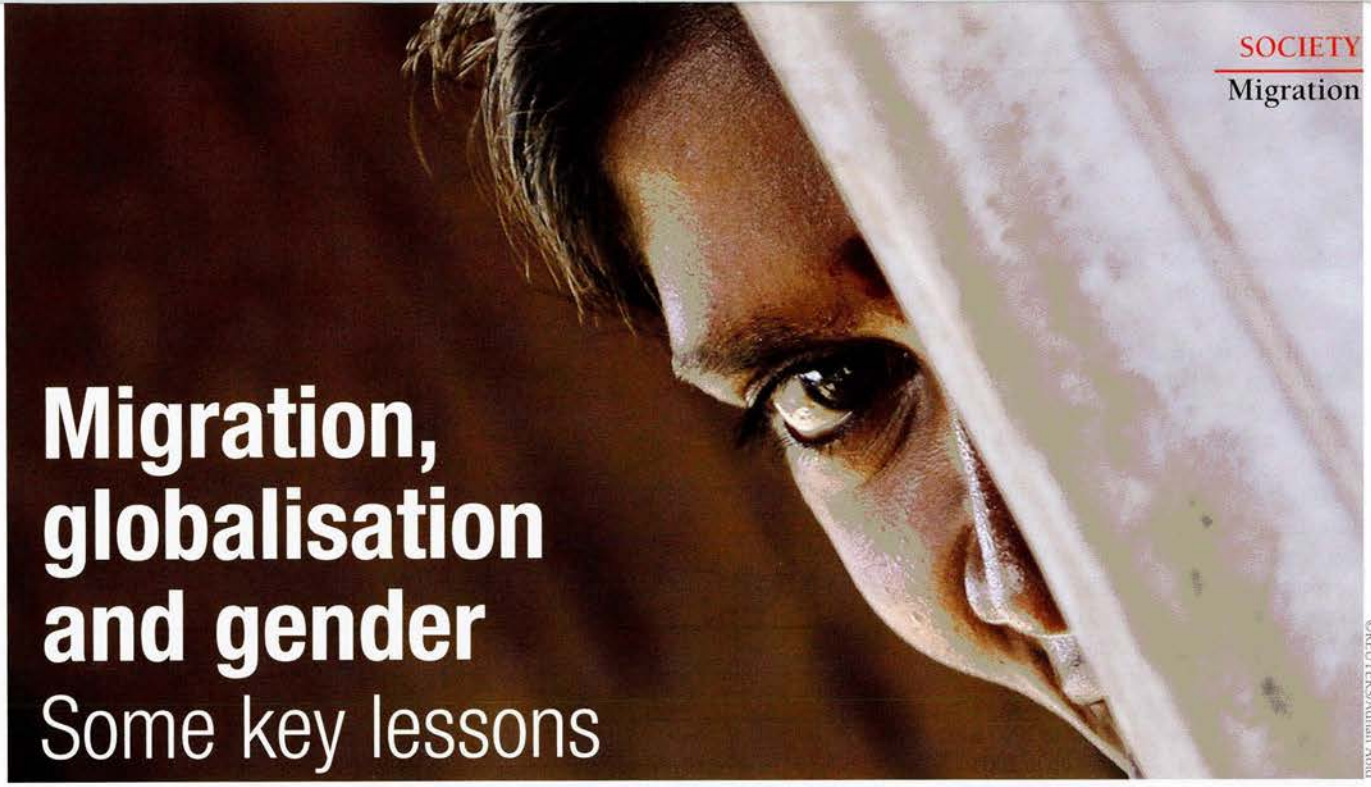
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- Visit www.oecd.org/daf

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Migration, globalisation and gender
Some key lessons

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For many, globalisation and migration go hand in hand. A closer look reveals some interesting trends, notably concerning women.

Just how significant is international migration in the light of other globalisation developments? One obvious starting point for answering the question is to ask how many of the current world population of 6.7 billion people are international migrants, defined as persons living outside their country of birth. The latest UN estimates put this at close to 185 million in 2005, or 2.9% of the global population. This can be compared with an equivalent share of 2.2% in 1970. At first sight, these seem rather small numbers, suggesting that international migration is only a bit player in the globalisation saga.

But there is an issue of comparing apples and oranges when one compares the immigrant population stock data with data on, say, trade and GDP which measure imports, exports, annual output and FDI flows. If we were to put the immigrant data on a similar footing, say by relating inflows of working-age immigrants to new additions to the working-age population, the resulting measure would average 30-40% for the OECD area, not so far from the trade-to-GDP ratio of 45% for OECD countries.

It is also important to disaggregate the global migration stock in order to understand better the international migration process. One obvious disaggregation is by level of economic development. All of the growth over the past three decades in the migration propensity among the world's population has been concentrated on the OECD countries: the share of immigrants in the OECD population almost doubled from just over 4.5% in 1975 to 8.3% in 2005. It is also noteworthy that 45% of immigrants living in OECD countries in 2008 came from other OECD countries.

In sum, while migrants account for only a tiny fraction of the global population, international migration appears to be an important contributor to the working-age population in OECD countries.

It is very helpful to remind ourselves that there is nothing unique about the current increase in international migration. The 19th and early 20th century witnessed the first great wave of globalisation and this was partly fostered by mass migration in a world of unrestricted migratory movements and rapidly declining costs of transportation between Europe and the New World. Immigration into the main European countries was a minor phenomenon during that period. However, this pattern of migratory movements shifted significantly in the half-century after World War II. While some of the main settlement countries (Canada, United States, Australia) continued to attract large inflows of immigrants, Europe became a major destination for migrants, many of whom come from Africa, Latin America and Asia.

Given the growing importance of international migration for the OECD countries, it is important to disaggregate the trend over the past half-century and see how it has been affected by specific factors such as the end of the colonial era, the oil shocks of the 1970s, the collapse of the Iron Curtain, etc. An examination of OECD data on net international migration rates from the mid-1950s onwards, shows that the trend net migration rate for OECD countries with respect to non-OECD countries was approximately 1 person per 1,000 population from 1956 until the early 1970s when the first oil shock arrived. This was the period of the so-called "guest-workers",

but the OECD net migration rate was relatively stable over this period, although with a number of peaks and troughs.

Since the first oil crisis, however, the net migration rate within the OECD has been increasing, with international migration contributing more and more to population growth, compared to natural increase (the excess of births over deaths) with each passing year. The increases in international migration during the 1990s, therefore, would appear to be part of an underlying trend that dates back to the late 1970s and early 1980s. Over the period considered, net migration from outside the OECD to OECD countries averaged 790,000 persons per year from 1956 to 1976, 1.24 million per year from 1977 to 1990 and 2.73 million per year thereafter up to 2005. Emigration countries show a more or less steady increase over the period in the net migration rate which was perturbed in the mid-1970s, mainly by the returns to Portugal from its former colonies in Africa. It is striking that the trend increase in net immigration to the emigration countries over the 1956-2003 period has accelerated since the turn of the century, to the point where the net migration rate of former emigration countries now equals that of traditional immigration countries.

Currently, family migration is the dominant motive among inflows of permanent immigrants to OECD countries, accounting on average for around 44% of inflows. Labour migration has been on the rise in recent years, but is still in the minority, accounting for almost one in seven of permanent immigrants. Persons moving in the context of free movement regimes represent fully 28% of all immigrants. Humanitarian migration accounts for most of the rest, and it has been declining in recent years. Two other trends in migration have attracted much attention recently: (i) the growing feminisation of migration flows; and (ii) the increased selectivity of migration towards the highly skilled. Firstly, for the world as a whole, the share of women among immigrants has risen slowly from 47% in the early 1960s to almost 50% in 2005.

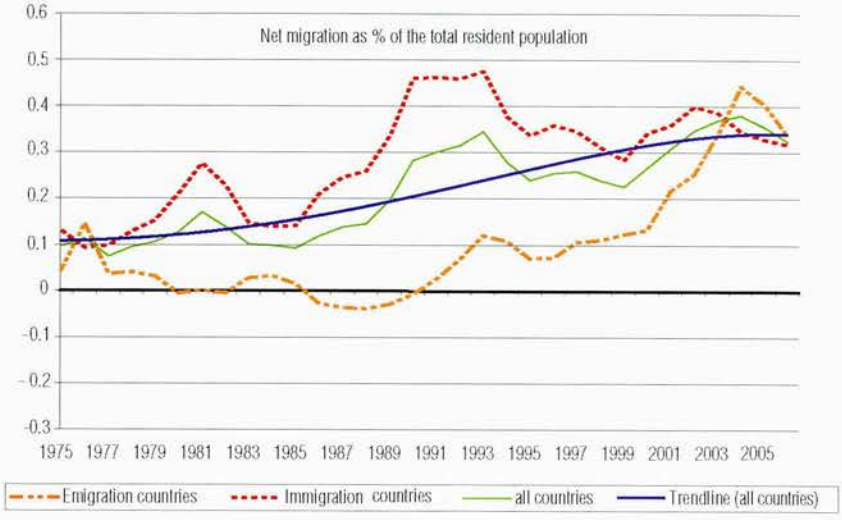
Secondly, a more surprising result, given that women still face an unequal access to tertiary education in many less developed countries, is that the brain drain is stronger for highly educated women. This latter finding gives a new twist to long-standing concerns about the brain drain given the key role played by women in human capital development. Estimates in a recent paper this writer co-authored show a negative impact of emigration of highly skilled women on three key education and health indicators in developing countries: infant mortality, under-five mortality and secondary school enrolment rates (see reference Dumont, Martin and Spielvogel 2007). These results raise concerns about the potential impact of the female brain drain on the poorest countries.

OECD countries have seen a large increase in immigrants from the rest of the world over the past two decades and this seems unlikely to stop. While it may be imprudent to speculate about the future, it is very likely that population ageing in the OECD area will increase the pressures to allow in more immigrants to help alleviate growing labour shortages in the coming decades and to ease funding pressures on OECD social protection systems. ■

Net migration to OECD countries from the rest of the world has tripled since the mid-1970s. Labour migration has been on the rise, but is still in the minority

Rising migration

Net migration rates, traditional immigration and emigration
OECD countries, 1975-2005



Note: The OECD emigration group includes the countries of southern and central Europe, Ireland, Japan and the Nordic countries except for Sweden. Not included are Korea, Mexico and Turkey because net migration data for these countries are sparse or non-existent. All other OECD countries are classified as immigration countries. A graph showing the trend since 1956 is available online; see note.

Source: OECD

Note: This is adapted from a paper by John Martin entitled "Migration and the global economy: Some stylised facts", presented in February 2008. The full paper is available at www.oecd.org/migration. Another longer version has been adapted for *Canadian Diversity/Diversité canadienne*, Vol 6, No 3, 2008. Permission to reproduce is acknowledged.

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Femmes d'affaires

Frédérique Clavel, Founder
President, *Paris Pionnières*

Women can break the glass ceiling by creating their own businesses, though help may be needed.

Long ago I gave up trying to break through the so-called "glass ceiling" that has kept women like me out of higher management. Instead I decided to create new enterprises in which management could be reinvented by women. On 8 March 2005, I launched a business incubator devoted exclusively to projects by female entrepreneurs. Why create a business incubator for women? Women have been attending France's top universities in large numbers for over 30 years. Moreover, women now account for nearly half the labour force. Despite this, only 6% of the board members and 5% of the CEOs of major French companies are women.

Yet, some 30% of entrepreneurs are women. However, because their companies start up with fewer resources and less aid, they hire fewer people and generate less turnover. It was because of the active role played by women that a record number of 320,000 new enterprises were created in 2007. Many women receive microcredit, and their repayment rate is considered better than average.

Too often, women are associated with social and community entrepreneurship, or at best very small businesses–a view that we found to be very simplistic. After conducting a survey, we discovered that only 5% of the projects accepted by incubators in France were being carried out by women entrepreneurs.

This figure convinced our first sponsor to help us address this challenge, for *Paris Pionnières* is financed through a public-private partnership that includes the city of Paris, the Regional Directorate for Industry, Research and the Environment (DRIRE), the Caisse des Dépôts, the Accor group, Grant Thornton, Barclays PE, HSBC and several others.

By creating *Paris Pionnières*, we wanted to show that women are ready to create enterprises that can generate jobs and revenue if only they are given the opportunty and the resources to do so. Women can be key drivers in terms of new occupations, new services and new jobs promoting the growth of our country.

We have invented an innovative model of incubator better adapted to women entrepreneurs. Its distinctive feature is its pre-incubation module, which makes it possible to start with an idea and develop a project at an earlier stage than normal incubators.

Three years on, some 27 companies (out of 600 applicants) have been accepted by the *Paris Pionnières* selection committee, creating 100 jobs. These companies have received support from the all-round enterprise-creation team–with their legal, human resource and financial expertise–all of whom are also business leaders in their own right.

We offer a variety of services tailored to each individual, ranging from consultancy to more practical aspects such as an office on our premises and personal services (shoe repair, shopping, etc.) to give them the time they need to develop their projects. All these benefits are specified in an incubation agreement costing between €500 and €1,200.

Take Valérie Chevrier and Stéphane Vigand. After two years of "pre-incubation", they have just launched their website BonsplansDeco.com, which makes the services of a wide network of interior designers available online. *Paris Pionnières* attracted the OECD's attention from the very start. Thanks to our participation in OECD seminars, we have been able to meet women entrepreneurs from abroad who share our vision. In Morocco, the women entrepreneurs of AFEM have created an incubator in Casablanca, based on the same model, *Casa Pionnières*. We are in contact with Serbia, Saudi Arabia and Canada to explore the possibility of setting up *Pionnières* programmes in those countries. In France, the model has been launched in Normandy and the Riviera, with the goal of helping about ten projects per year.

The women entrepreneurs that we have assisted remain very loyal to the support team and they network almost continuously, sending each other high-quality customers and suppliers. They all have talent, and want nothing more than a chance to prove themselves! ■

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Africa emerges



With the global economy mired in the fallout of subprime crises, costly oil and financial market volatility, it may seem a little surprising to learn that for the fourth consecutive year, Africa has experienced record economic growth. According to the 2008 edition of the *African Economic Outlook* (*AEO*) launched in May, the headlines are good indeed: 5.7% GDP growth and a per capita increase of 3.7% in 2007, with estimates looking quite bright for 2008 too. However, behind those numbers lies something more complex.

For a start, growth has been uneven from country to country and where there has been growth, the trickle-down of benefits to people in general has been limited.

A very significant fact to remember is that oil exports account for a disproportionate amount of the continent's economic growth. In 2008, average real GDP growth rates for oil exporters are expected to reach 6.8%, and only 4.9% for oil importers, but there is important intra-group variance. The gap between the two groups, however, is likely to narrow in 2009 due to a strongly reduced growth forecast in Angola, and some recovery among non-oil importers, including Kenya, South Africa and Senegal, who are expected to recover their growth paths.

To capitalise on current gains, African oil-exporting countries must boost capacity in non-extractive sectors (as some oil importers have begun to do), improve the business environment and use the oil bounty to finance more diversified paths of development. Diversification remains quite a challenge: the seven least diversified

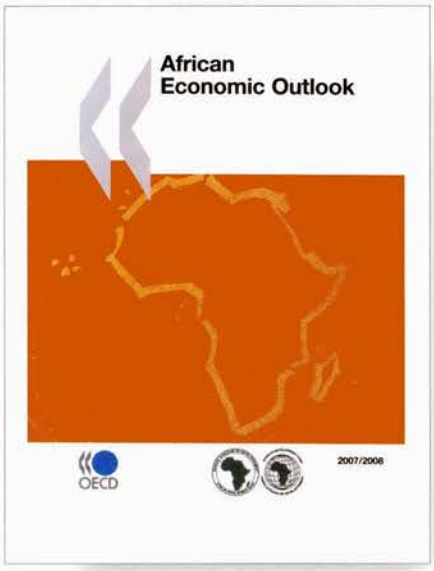
countries in Africa and four of the five bottom spenders on education (as a percentage of their GDP) are oil exporters. Notable exceptions are Algeria and Nigeria.

Skyrocketing food prices have been critical in recent months. Oil-importing countries have found themselves grappling with sustained rises in both fuel prices and international food prices. Oil exporters have also suffered, with strong growth in domestic demand pushing prices higher for their consumers. The 2008 *AEO* concludes that increasing local food production and fostering regional integration could offset the negative effects of rising food prices on long-term growth and political stability across the continent.

Africa continues to be hampered by widespread shortages of qualified staff, by obsolete equipment, ill-adapted programmes and weak links with the job market. According to a special focus on developing technical skills in this year's *African Economic Outlook*, the shortfall in African human capital development has resulted in workforces often ill-adapted to labour market demands.

African countries, however, have grown aware of these shortcomings and how critical technical skills training is for competitiveness, social inclusion, improved employment and poverty reduction. In response, more countries are attempting to reform their training systems, but require funds and guidance in best practices. Policy recommendations include effective training guidelines integrated into education and employment policies, and early identification of, and focus on, those sectors with best employment prospects. A strong partnership with the private sector also proves crucial to developing the skills that the labour market is calling for.

What of the broader outlook? Thanks to improved macroeconomic stability and additional resources for oil and mineral exporters, African countries have an opportunity to make the most of the strong, steady growth, both in terms of poverty reduction as well as in social and infrastructure development. But there are new threats too. Governments have to brace themselves against the shocks from rising food prices, not least resulting in political unrest. Vulnerabilities persist from overdependency on a single commodity, energy shortages and the global economic slowdown. Political and economic governance in Africa will be severely tested as a result. ■ *RJC*



Note: *African Economic Outlook*
Now in its seventh year, the comprehensive *African Economic Outlook* has become a barometer of economic, social and political developments in 35 countries, which together cover 87% of the continent's population and 95% of its output. It has been published since the start by the OECD Development Centre and the African Development Bank, and since 2008 also by the United Nations Economic Commission for Africa (UNECA). It incorporates work from local African research centres too, making it the fruit of a unique partnership. It can be ordered at www.oecdbookshop.org, ISBN 9264045856.

OECD and Africa

Did you know that over the last ten years, the largest bilateral donors to Africa, excluding debt forgiveness, were the United States and France? The US has focused aid on Egypt, Ethiopia and Sudan, whereas France's main aid recipients have been Morocco, Mayotte and Senegal.

This is just one of many instructive facts to come from a new short report, *OECD and Africa 2008*. The OECD's relations with Africa have been strengthened since the launching of the New Partnership for Africa's Development (NEPAD) and contacts organised in May 2002. Indeed, the OECD now has a mandate that calls for it to co-operate with the African Union/NEPAD. It focuses on four domains which are spelt out and explained in this report: 1. The African Peer Review Mechanism; 2. Peer learning and policy dialogue in support of reform; 3. Aid policies and aid effectiveness; 4. The monitoring of development trends and progress.

OECD and Africa 2008 provides an overview of the OECD's activities in each of these areas. In 2006, the OECD established a special unit to support, in close collaboration with AU/NEPAD, the work of the Africa Partnership Forum. It also collaborates with the African Development Bank and the United Nations Economic Commission for Africa in the production of the *African Economic Outlook*. Download *OECD and Africa 2008* at www.africapartnershipforum.org, click "Don't miss".

Sahel price strains

Several Sahel and West African countries have seen prices of agricultural commodities rising since September 2007 compared with 2006 and on into the first quarter of 2008. This has given rise to tension in some countries like Burkina Faso, Cameroon, Côte d'Ivoire and Senegal.

Also, figures show that the region has seen a slight decline in cereal output compared with 2006-07, even if there was a 16% increase on the five-year average. The decline is due to the cumulative effect of flooding and an early end to the winter rains (in September). In particular, the production shortfall recorded in northern Nigeria could have major implications for the other Sahel countries, particularly Niger, as the shortfall comes at a time of high demand for cereals from the agro-food industries for the likes of brewing and livestock feed.

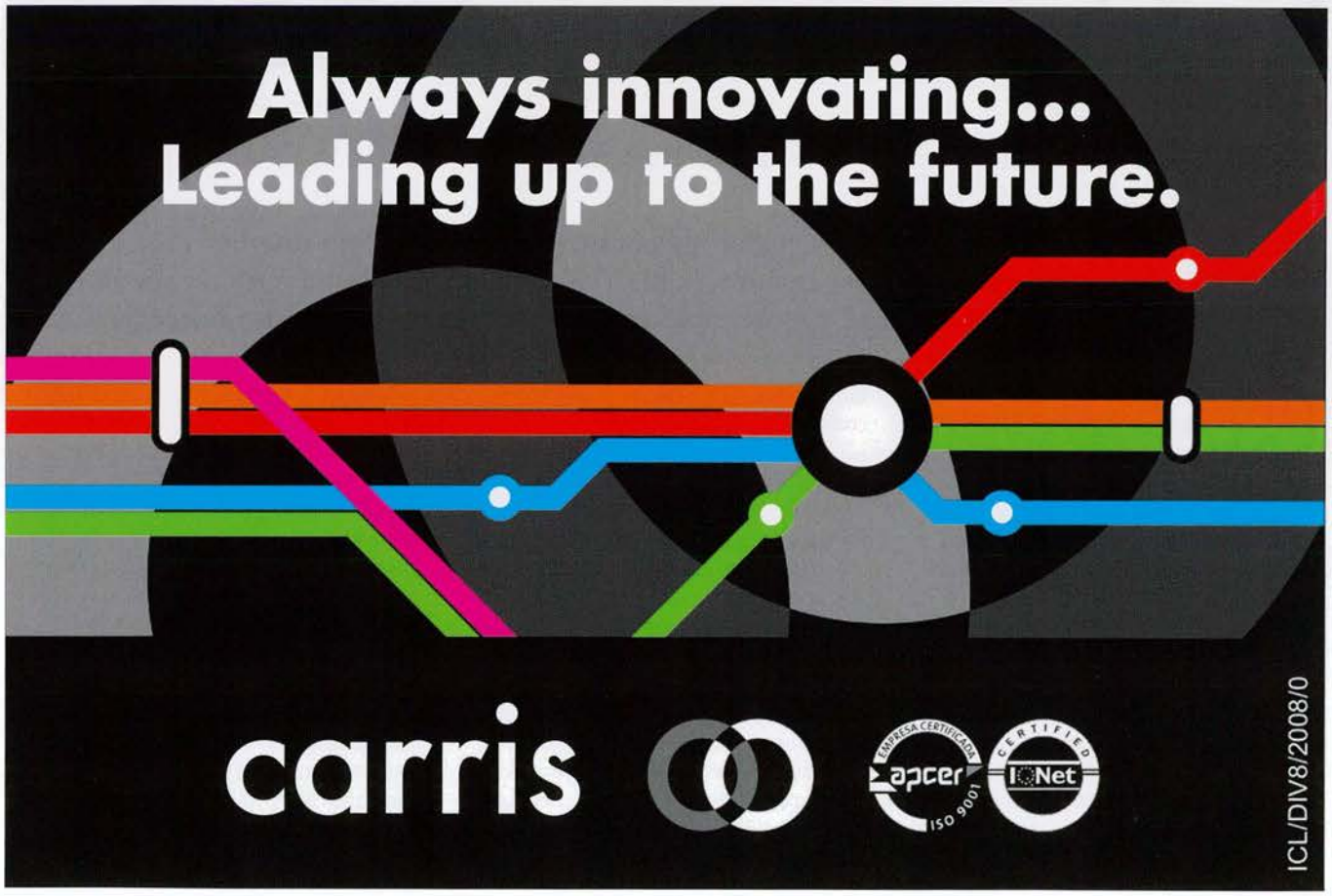
The strain on markets is palpable, and is compounded by the increase in world foodstuff prices. Some countries have taken steps to counter the rise by repealing taxes and import duties on some foodstuffs or releasing institutional stocks at subsidised prices, but these measures have so far had little effect. Now there is also uncertainty as to whether existing stocks can meet demand during the lean season, which is boosting speculative trading by private operators. The strain on the markets could well be long-lasting.

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Sahel and West Africa Club

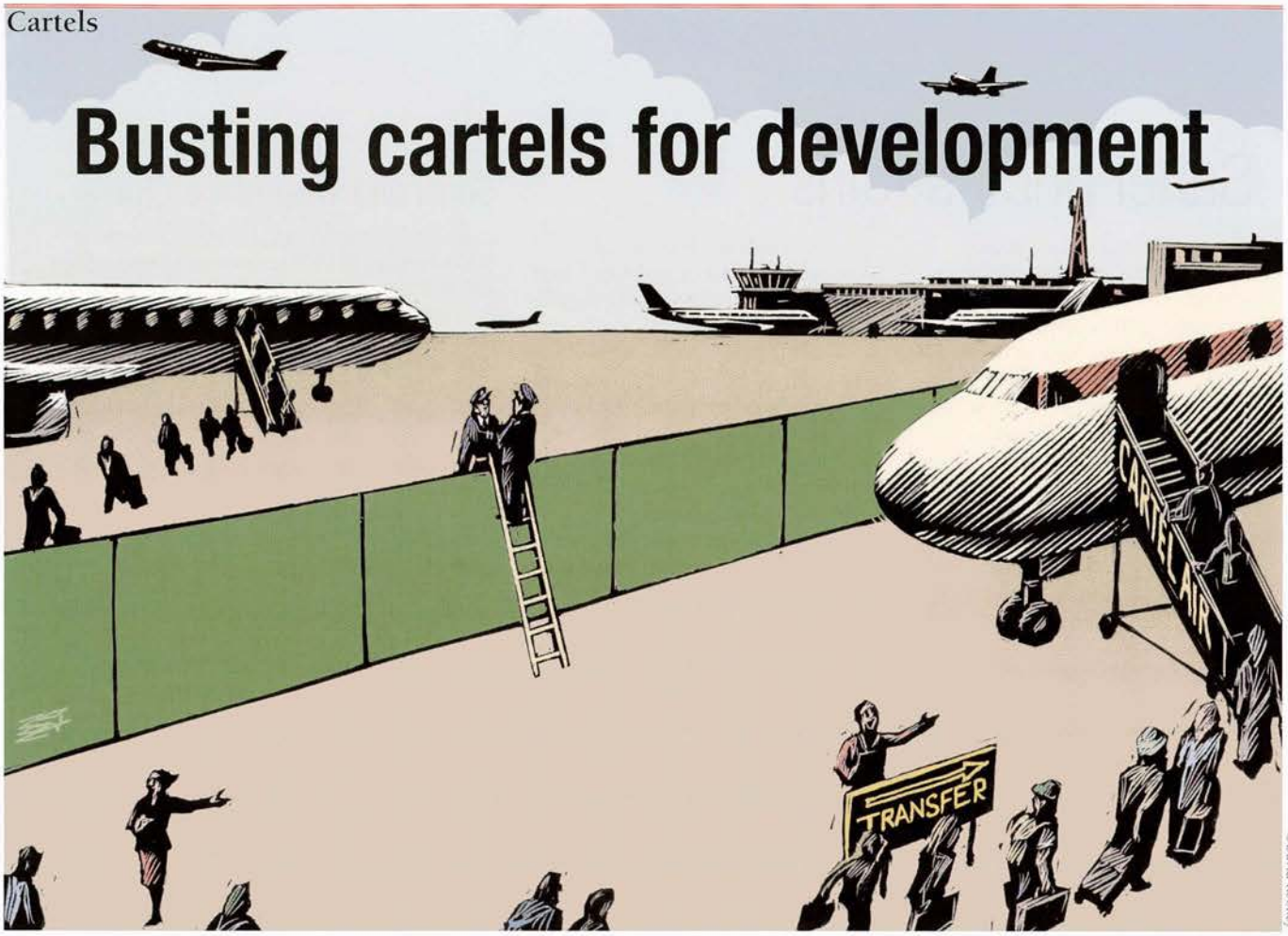
Originally founded by OECD member countries as "Club du Sahel" in 1976 to raise international support and awareness of the drought crisis in the Sahel region, the Club extended its geographic coverage in 2001 to encompass all 17 West African countries, home to approximately 290 million people. While taking into account the problems and challenges of the region, the SWAC along with its African partners has developed a prospective vision of West Africa which focuses on the identification and promotion of the dynamics of change as well as the drivers of change. Today, the SWAC's mission is to help identify and address strategic questions related to medium- and long-term development in West Africa.

Together with governments, regional institutions and civil society/private sector organisations, the Sahel and West Africa Club supports the development and implementation of action-oriented policies and investments that take into account the complementarities between local, national and regional levels. It supports West African initiatives to promote medium- and long-term development.



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Busting cartels for development



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Pradeep S Mehta, Secretary General of CUTS International*

Promoting effective competition in developing countries means getting tougher on cartels in the OECD area, and compensating customers internationally. Through a new competition fund, the OECD could play a lead role in making sure poorer countries get a fairer deal.

Cartels are the most egregious form of anti-competitive practice in the world. Rival firms explicitly agree not to compete with each other, to restrict output and raise the price of their products. They harm consumers in both developing and developed countries because of their upward impact on prices and their corresponding downward impact on consumer welfare. They also afford firms the luxury of being inefficient.

Little wonder cartel busting is one of the most important activities of competition authorities around the world. However, while enforcement is quite effective in many of the richer countries, it is lacking in the developing world, because of resource constraints and inexperience.

To be sure, the OECD runs training workshops to assist developing countries in building skills to deal with cartels and other anti-competitive practices. But innovative approaches are needed to compensate consumers from developing countries who fall victim to international cartels, most of which are based in OECD countries.

Cartels operate at both national and international levels. They are no small force. The imports of their products by developing countries sold by sixteen international cartels, which operated during the 1990s, amounted to US$81.1 billion or 6.7% of these countries' imports and 1.2% of their national incomes in 1997. The resulting increase in prices was about 20 to 40% of the market price, which illustrates the immense adverse impact they have had on economies. This means overcharges in the range of $16 billion to $32 billion, which corresponds to between one third to two thirds of the total development aid received by developing countries in the late 1990s.

Across the globe, cartel activities are being penalised. In recent times, record fines of more than $500 million have been levied by the UK and US competition authorities on British Airways (BA) for colluding with

Virgin on transatlantic flights. There are other airlines too, such as Korean Airlines, which have been actioned against. BA is also facing action under the EU laws and other jurisdictions. Furthermore, the affected consumers in the US have also filed for class action damages against BA.

The fines levied on the airlines will be credited to the treasuries in the US and UK, and citizens who have filed private action suits against the said airlines will be compensated. Many consumers from various countries in the developing world also fly to the US, often via Heathrow airport, yet neither these customers nor their governments will be able to fine the airlines or claim compensation! Should a portion of these fines not be used to strengthen institutions in the developing world that help in enforcing fair competition? The main reason this does not happen is because there is no effective global competition law and no agency to enforce one.

In many cases where the victims of cartels are numerous but cannot be identified, it is common practice for courts to award compensation to some public institution or public interest group. Though short of compensating the victims themselves, this is widely seen to be an acceptable alternative way of using the money–legally it is referred to as a *cy près* award, a Latin expression meaning "next best use". In India, when manufacturers won court cases against the government for excess excise payments, the money was not refunded to the manufacturers, but put into a government-administered Consumer Welfare Fund for investment in further consumer education, advocacy and research. Similarly, in Brazil the fines are put into a government-administered fund and used exclusively for consumer protection or competition advocacy. In Peru, there is a system whereby half the fines collected go to a recognised consumer association, again to be used for consumer education and advocacy.

In the US, fines in antitrust cases are quite often put into a trust account to be used only to pursue education and research on competition policy issues. In June 2007, the George Washington University Law School received a *cy près* award of $5.1 million from a class action antitrust lawsuit to endow a centre on competition law. The law school at Loyola University in Chicago received an award to establish the Institute of Consumer Antitrust in 1994.

These awards relate to mainly domestic cases. However, there are several international cases too, from which no award has been made to parties outside the domestic jurisdiction. One of the most notorious international cartel cases related to bulk vitamins. The cartel was penalised in all rich country jurisdictions, but not in a single developing country. In California, a Vitamin Cases Settlement Fund was created from an out of court settlement. It has already made grants totalling $29 million and more are in the pipeline.

There is a strong case for strengthening competition institutions in the poor world through funding from cartel fines

All such awards are given under national laws and remain restricted to their boundaries. Action by developing country authorities has been absent, because most of them, including big countries like India or China, do not have an effective competition law. Smaller developing countries too suffer for similar reasons.

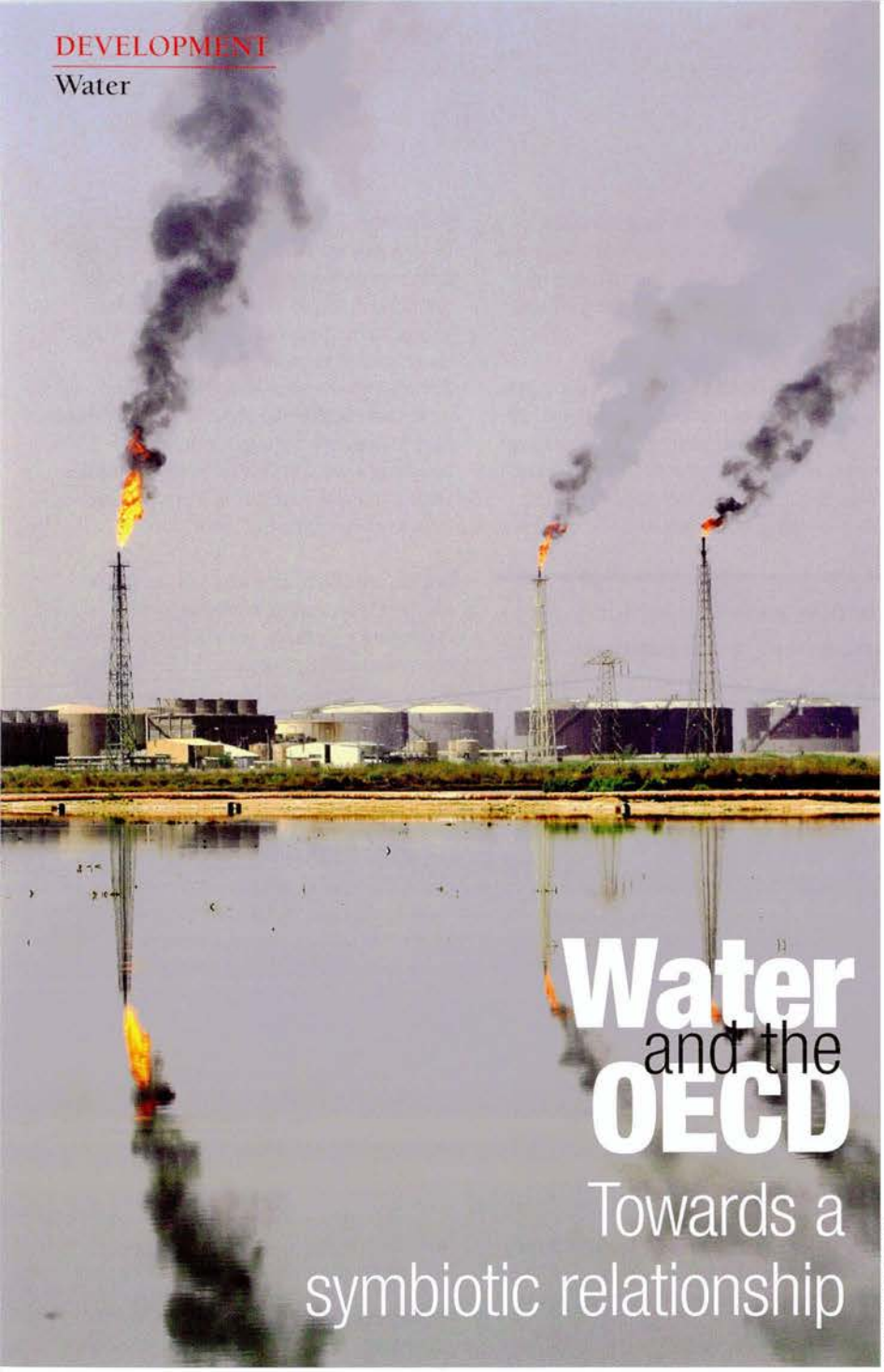
There is thus a strong case for strengthening the enforcement and advocacy roles of competition institutions in the poor world through funding from a part of the fines paid. This could be done by creating an international competition fund to be managed by a credible intergovernmental organisation such as the OECD. Such a fund should be accessible to competition institutions and non-government organisations in the developing world to strengthen their competition regimes. Secondly, to enable the creation of such a fund, national laws in the rich world will need to be amended to allow a transfer of a scientifically determined amount from fines. One has to remember that the case is to assess the damage of an international cartel on the developing world and allocate funds accordingly. We are not suggesting that fines be allocated on violations of a pure domestic jurisdiction, though some countries would not mind doing so. As we live in a global village, rather than being scientifically fussy about precise impacts of such cartels on developing countries, it might indeed be more cost effective simply to levy a portion of fines in breaking up international cartels by assuming a certain effect on poorer countries. Such minima would help discourage cartels from forming in the first place.

For the OECD, competition is a natural fit. And at a time when the organisation is expanding its contacts with large developing countries such as China and India, setting up a new competition fund could help it build stronger relationships with smaller, poorer victims of cartels too. ■

* CUTS (Consumer Unity & Trust Society) International is a leading research and advocacy organisation, based in India. The author is also the co-chair of the International Network of Civil Society Organisations on Competition and participates regularly in OECD competition fora. He can be reached at psm@cuts.org. Udai Mehta and Sonia Gasparikova contributed to this article.

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Water and the OECD

Towards a symbiotic relationship

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Asit K. Biswas, President of the Third World Centre for Water Management, Mexico, and

Cecilia Tortajada, Scientific Director of the International Centre for Water, Zaragoza, Spain*

Water is a growing challenge for all countries, and a fresh, more coherent approach to tackling it is now needed.

According to President John F. Kennedy, the person who can solve the water problems of the world should receive two Nobel prizes, one for peace and the other for science. More than four decades after his death, the world is realising the complexity and urgency of the water-related problems facing humanity, and the relevance of his remark.

Some feel that water problems of the world are primarily for the developing world: such problems have long been resolved in the OECD countries. This assumption is fundamentally incorrect for several reasons, only a few of which will be discussed here.

First, even though water contamination due to point sources, such as waste pipes, has been solved in most OECD countries, more diffuse non-point pollution still continues to be a major problem. For example, the Gulf of Mexico now has a dead zone which at certain times could cover some 22,000 km^2. Leaching of agricultural nutrients, carried subsequently by rivers like the Mississippi to the Gulf, has created this hypoxic (oxygen-depleted) zone.

Point sources of water pollution are still an important problem in a few OECD countries, particularly in rural and smaller urban areas. As new members join the OECD, the organisation as a whole needs to consider the health and environmental aspects of water quality management more widely.

Second, water infrastructure in all the OECD countries is ageing fast, and needs extensive and expensive rehabilitation. For example, the US Environmental Protection Agency has estimated that the country will need an *additional* $23 billion per annum for the next 20 years to keep the US water and wastewater infrastructure functional and in compliance with the necessary regulations. The situation is very similar in all OECD countries. This is an important funding gap on which not only more public debate is needed, but also research in terms of

finding better economic, technical and management solutions.

Third, the discussions on water-related issues in international fora mostly centre on the availability of clean drinking water in the developing world. Viewed only in this very narrow, albeit very essential, context, water is not a serious issue for the OECD countries. However, drinking water constitutes significantly less than 10% of global water use. The rest is used for food, energy and environmental purposes and to promote regional development, which are all important issues for OECD countries.

Water is a cross-sectoral issue, and its efficient use and management will depend more and more on policies in other development sectors. For example, water and electricity sectors are closely interlinked. No large-scale electricity generation is possible without water, either through hydroelectric power, or through cooling water requirements for thermal and nuclear power plants. For an OECD country like France, the energy sector is a major user of water. Similarly, the water sector is a prodigious user of electricity. In a country like Mexico, it uses nearly a quarter of the electricity generated. Yet, very few, if any country, including in the OECD area, have developed energy policies which explicitly consider water, and vice versa.

Similarly, the production of biofuels has significant water implications, both in terms of quantity and quality. It is now generally accepted that increasing production of biofuels in the US is likely to extend the dead zone in the Gulf of Mexico due to higher rates of leaching of agrochemicals from such production. In a rapidly changing world, the dimensions and extent of water problems are changing as well. Such new and emerging water-related problems will require additional intensified attention from the OECD countries.

Fourth, efficient water management due to climate change is a serious consideration for the future. Throughout history, climate has always fluctuated. When climate change considerations are superimposed over the usual climatic fluctuation, the problems become more complex.

For water management, it is not of much practical use to say that global temperatures will increase by a few degrees, or there will be more extreme climatic events. At our present state of knowledge, it is not possible to predict with any confidence the expected annual average changes in rainfall and temperature over an individual country, let alone over a river basin. Furthermore, more information on likely variations in rainfall will be essential for future water, agricultural, energy and environmental management.

For water management, it is not of much practical use to say that global temperatures will increase by a few degrees

The OECD must play an important role to bring such key development-related issues to the attention of national and international policymakers and scientists, so that our knowledge-base is expanded, and appropriate, cost-effective solutions are found.

The OECD should establish itself as a leading international institution on specific, forward-looking water-related policies, especially in those important areas where other institutions have not given, and are unlikely to give, adequate leadership. True, the OECD has already acquired a good reputation for its work on water policies. Nevertheless, it is very heartening to note that Secretary-General Angel Gurría has specifically identified water, health and migration as priority areas of work. It should be noted that there are significant cross-linkages between these three areas as well.

Policymakers should do more to co-ordinate water, energy, food and environmental policies, especially in terms of their symbiotic relationships: how different resources affect and interrelate with each other. Such interlinkages and interrelationships have not until now been explicitly considered in policies in any comprehensive manner. Accordingly, the present business-as-usual approaches are likely to become increasingly inefficient and ineffective, especially in social, economic and environmental terms.

The rapidly changing global landscape means that water management practices and processes will face increasingly complex and intersectoral challenges from other resource and development sectors, the types of which have seldom been faced in the past. Meeting these challenges successfully in a timely manner will require new mindsets, innovative approaches, and "business-unusual" solutions.

We are convinced that OECD is one of the very few institutions, if not the only institution, which has the necessary knowledge, breadth of expertise and scientific and technological know-how to define reliably water and water-associated problems of the future and then propose implementable solutions.

The OECD has to address the complex water-related issues facing the world in the coming years. The organisation simply has no other choice if it is to fulfill its mandate and meet its global expectations. ■

***Asit K. Biswas** is also the 2006 Stockholm Water Prize Laureate. An advisor to 18 governments, his work has been translated into 32 languages. **Cecilia Tortajada** is also the President of the International Water Resources Association.

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- See www.thirdworldcentre.org and IWRA at http://196.36.166.88/iwra/

ECODRIVING

Ecodriving is a way of driving that reduces fuel consumption, greenhouse gas emissions and accident rates. It also contributes to improve air quality. Ecodriving is a driving style that best fits modern engine technology: Smart, smooth and safe driving that leads to average fuel savings of 5-10%. Ecodriving is a low-cost, cost effective and no-regret measure which clearly contributes to meeting EU targets regarding CO^2 and other emissions.
Ecodriving offers benefits for drivers of cars, vans, trucks, buses and trains: Cost savings and fewer accidents as well as reductions in emissions and noise levels. Within the synchronised Europe spanning ECODRIVEN campaign nine European countries have successfully implemented ecodriving activities. ECODRIVEN is based on a bottom-up approach through European-wide local and regional collaborations with relevant national and local stakeholders such as car dealers, fuel companies, touring clubs, drivers' associations, driving schools, municipalities, SMEs, haulers etc. who support campaign activities and disseminate campaign materials. ECODRIVEN collaborates with Ford Europe, BP, the FIA, the German Road Safety Council DVR, ACEA, CIECA, EFA, GE Fleet Services and Leaseplan.

ECODRIVEN is funded by the EU programme Intelligent Energy Europe and will run until December 2008.

Sponsored statement

Examples of ECODRIVEN activities in the nine EU countries:

Netherlands I SenterNovem launched a national ecodriving competition De Zuinigste Rijder (the most energy efficient driver) in February 2008.

United Kingdom I Energy Saving Trust (EST) was involved in the Department for Transport 'Act on CO^2' campaign, which includes ecodriving.

Finland I Motiva Oy launched in cooperation with the Automobile and Touring Club of Finland the Easy, Rider! campaign at the Car Day in the framework of the European Mobility Week 2007.

Austria I Austrian Energy Agency (AEA) cooperates with Shell in the Shell Fuel Stretch Challenge.

Greece I Centre for Renewable Energy Sources (CRES) started an ECODRIVEN campaign in the framework of the European Mobility Week 2007 and parallel to activities for the "Car Free Day" in Athens.

Belgium I Bond Beter Leefmilieu (BBL) organised a tyre pressure campaign during two days in the Mobility Week 2007.

Poland I Krajowa Agencja Poszanowania Energii (KAPE) starts the ECODRIVEN campaign in cooperation with Leaseplan Poland and Toyota in Warsaw during the race track Sluzew in 2007 under the guardian of national TV and radio representatives.

Czech Republic I Stredisko pro Efektivi Vyuzivani Energie (SEVEn) promotes ECODRIVEN at the "import cars testing day" organised by the Czech subsidiary of LeasePlan including a fuel economy competition.

France I Regie Autonome des Transports Parisiens (RATP) organised in cooperation with ADEME several activities concerning an eco-challenge for RATP regions,





Golden rules of Ecodriving:

1. Shift up as soon as possible
Shift up between 2.000 and 2.500 revolutions/RPM

2. Maintain a steady speed
Use the highest gear possible and drive with low engine RPM

3. Anticipate traffic flow
Look ahead as far as possible and anticipate to surrounding traffic

4. Decelerate Smoothly
When you have to slow down or to stop, decelerate smoothly by releasing the accelerator in time, leaving the car in gear

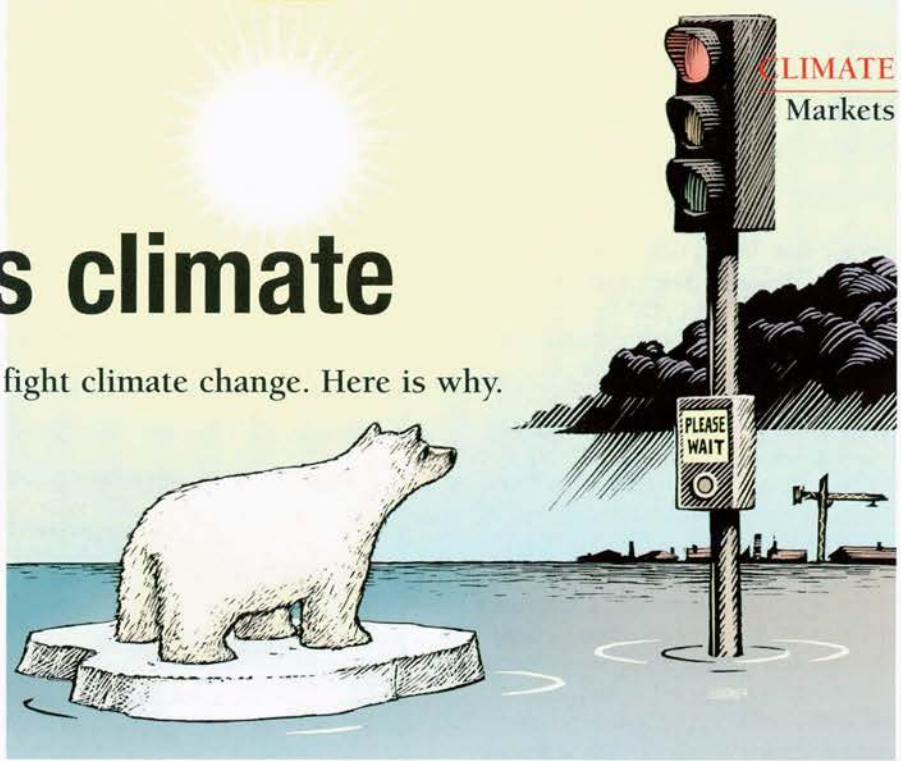
5. Check the tyre pressure frequently
25% too low tyre pressure increases rolling resistance by 10% and your fuel consumption by 2%

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www.ecodrive.org
SenterNovem/coordinator
Peter Wilbers - +31 30 23 93 501 - p.wilbers@senternovem.nl

Economics climate

Markets must be used to help fight climate change. Here is why.



© David Rooney

Harsh financial reality often rides roughshod over good intentions when it comes to corporate and national balance sheets. Climate change is no exception, for though it may rouse worldwide concern, it also makes people uneasy because of how much it might cost and who should pay.

The trouble is, climate change is itself a harsh reality. And with the world economy set to double over the next 25 years, it is clear that a business-as-usual approach is no longer an option. New policies are needed and it is high time economic tools were made to play a fuller role in the antidote.

The latest *OECD Environmental Outlook to 2030*, issued in March, has been the focus of wide media and policy attention, including at the 2008 OECD environment ministers' meeting in April. Its central message is a positive one: we can afford to tackle climate change, but new (and cost-effective) policies are needed sooner rather than later.

The report suggests some possible policy packages, and market-based instruments are the lynchpin in the strategy, including taxes and carbon trading. According to the *OECD Environmental Outlook*, early intervention could keep costs in 2050 down to about 2.5% of world GDP, or slowing annual growth by less than 0.1 percentage point on average between now and then. Mitigation would not be cheap, but it would be affordable, particularly in light of the expected costs of inaction and a projected three-fold increase of world GDP by 2050.

The OECD's aim is to make globalisation and growth an ally of the environment, and this depends on keeping the cost of action manageable. Given the complex nature of the challenge of climate change, however, a mix of policies will be needed which, while varying in detail by country, may include economic instruments such as taxes and carbon trading, as well as regulations, voluntary and sectoral approaches, and information-based tools.

But to keep the costs of action low, the policy mix should put a strong emphasis on price-based instruments. A market-price on greenhouse gas emissions (GHGs) gives an economic incentive to reduce emissions across all sources, increase efficiency and also spur innovation. They provide polluters the flexibility to reduce emissions wherever they cost the least.

Putting a tax on GHGs may seem a straightforward way of curbing emissions. Taxes can work (and be made politically more attractive) if their revenues are used to reduce other taxes, on labour for instance. They send a clear price signal, and most OECD countries levy some kind of fuel and energy taxes, and a few even specific carbon taxes.

The problem is many of these taxes are weakened by a plethora of exemptions or reduced rates, in particular for energy-intensive industries; at last count, there were 845 exemptions for fossil fuel taxes and 524 for motor vehicles taxes in OECD countries. To fight climate change effectively, policymakers should focus on reducing such exemptions. Subsidies are tricky too. Energy producers in OECD countries currently receive US$20-30 billion in subsidies, the majority going to fossil fuels. The most harmful of these subsidies should be reduced or cut altogether.

Public support for basic R&D, to stimulate new technologies and innovation, is needed, however, but otherwise subsidies have to be handled carefully because they tend to lock-in specific production methods and interest groups, and are hard to reform later on.

Carbon markets

Emissions trading is one market instrument that is spreading rapidly across OECD countries. More players have become involved, as more people now see a chance of making the market work profitably. The World Bank estimates that emissions trading tripled in a year, up from $10 billion in 2005 to $30 billion in 2006. Of all trading schemes, the largest and most familiar is the EU Emissions Trading Scheme, which covers some 10,000 facilities belonging to sectors responsible for 52% of carbon emissions in Europe. But it has had its teething problems: Phase I (2005-2007) has come to term, and Phase II (2008-2012) is being revisited in light of criticism over the generous free allocation of emissions permits, which diluted the market and let the price fall too low. Carbon markets work best when they not only fix the amount of carbon to be reduced, but also provide clear long-term signals for the price of carbon.

Emissions trading schemes now cover at least 20% of the GHG emissions produced by the countries that ratified the Kyoto Protocol.

A truly global carbon market must bring more countries into the marketplace. Something of this sort already exists in the CDM (Clean Development Mechanism), which allows firms to invest in emission reductions in developing countries and earn

"credits" from these to put against their own emissions allowances. Governments have set aside over $10 billion for CDM projects, a sum expected to skim 2 billion tonnes off expected GHGs by 2012. However, there have been some questions regarding the effectiveness of CDM projects in reducing emissions below business-as-usual.

Regulation and information tools–such as energy efficiency labels on appliances–also have a role to play, and can complement market price signals by providing information and overcoming other market barriers (see interview with Finland's transport minister, Anu Vehviläinen, page 44). For more efficiency, a number of improvements can be made at very low or no cost, such as phasing out incandescent light bulbs or setting an international "1-watt" standard for all standby power.

One way to encourage the use of renewable energy through the marketplace is to follow the example in some OECD countries of allocating "green" and "white" certificates to energy suppliers for each kilowatt of electricity they produce through renewables or through greater end-use efficiency.

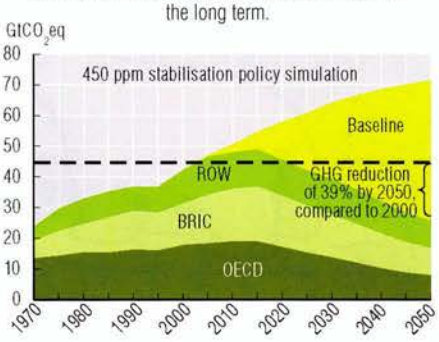
What about regulations? Some people may distrust them as much as taxes, yet rules that set standards, such as building requirements, insulation, or energy supply have already started to unleash new markets for goods, services and skills. Indeed, stipulating the rules of the game, rather than say, specific technologies or suppliers, can empower markets.

So can basic R&D. Between 1992 and 2005, OECD countries increased budgets for renewable energies and energy efficiency by 51% and 38% respectively, but will need to be raised further–after all, public R&D budgets for fossil and nuclear energy are still about double those for renewables and energy-efficient technologies.

There is also adaptation to the changing climate. Some climate change is already locked-in due to past emissions, and from Europe's ski resorts to farming in northern Canada, or coastal settlements in rich and poor countries, adapting will bring costs and opportunities.

Stringent cuts

Total greenhouse gas emissions under a scenario with stringent new policies to bring global GHG emissions down sufficiently to stabilise the atmospheric concentration of GHGs at 450ppm in the long term.



Note: BRIC = Brazil, Russia, India, China. ROW = Rest of world.
"baseline"= no new policies ppm=parts per million

Source: *OECD Environmental Outlook to 2030*
StatLink http://dx.doi.org/10.1787/258472880870

The developing world will be hit hard though. Bangladesh, Egypt, Fiji, Tanzania, Uruguay and Nepal are among the countries expected to suffer major economic losses as a result of climate change. And around 150 million people could be exposed to a 1-in-100 year coastal flood event by 2070, up from 40 million today.

Development aid must adapt too. The OECD has found that a large portion of official development assistance (ODA) is directed at activities that are exposed to climate risks, notably water supplies, sanitation and transport infrastructure. Such aid needs to be "climate-proofed".

This raises the thorny question of how to tackle climate change most cost effectively, and who should lead? OECD countries are historically the largest emitters and many consider that they have a particular responsibility for ensuring further emissions reductions. The trouble is, they have invested heavily in reductions already, and more cuts will cost far more without necessarily stabilising climate change.

The most cost-effective mitigation potential is therefore likely to be in developing and emerging countries, which will churn out three-quarters of emissions by 2030, although financing and technology support may be needed to achieve some of these emission reductions.

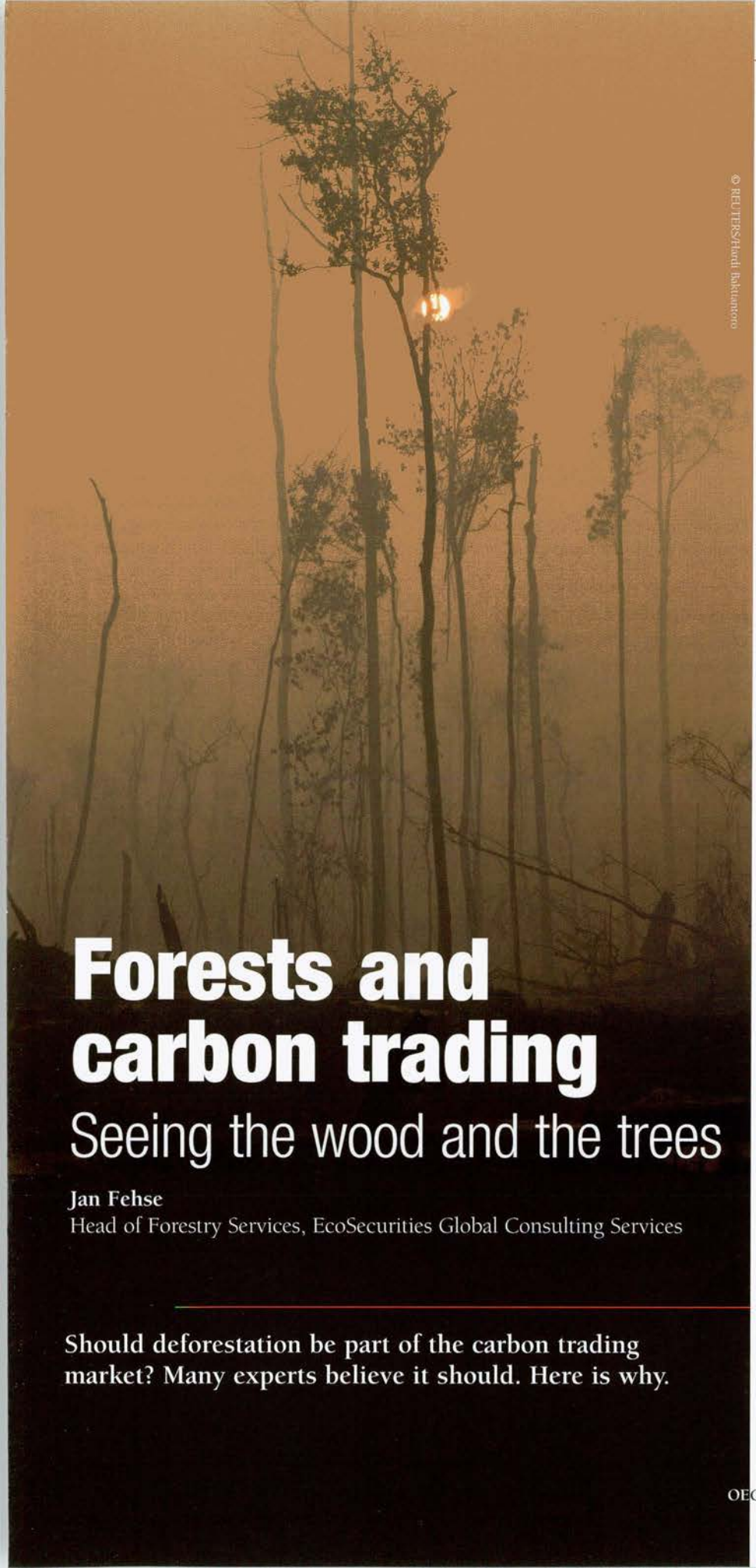
Many developing countries will need aid, more lenient reduction targets than those for developed countries, deferred engagement, financial support, technological co-operation, and so on. Some question whether all of these countries are that poor though. Take China. Since 2000, it has emerged as one of the world's largest economies and its largest emitters, overtaking the US. However, a closer look shows that its car ownership and GHG emission per capita in China are nowhere near OECD levels, reflecting a much lower level of development.

As ever, while carbon traders are eager to get going, sorting out a truly balanced, acceptable and effective global carbon market will demand political skill and compromise as much as market prices or business acumen.

No-one knows the precise costs of inaction, but can we afford to wait? What we do know is that we can move to a sustainable growth path, but to help that happen, markets need clear price signals. As philosopher Francis Bacon said, "a wise man will make more opportunities than he finds." Climate change demands us to find those opportunities fast. ■ *LT/RJC*

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- See other articles on climate change in *OECD Observer* Nos 264-65, 266 at www.oecdobserver.org/climate. Visit www.oecd.org/environment



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Forests and carbon trading

Seeing the wood and the trees

Jan Fehse
Head of Forestry Services, EcoSecurities Global Consulting Services

Should deforestation be part of the carbon trading market? Many experts believe it should. Here is why.

With the world's attention focused on climate change, the main question is how can global carbon emissions be reduced effectively? There is no single solution, which is why we must look seriously again at the importance of forests, in particular at an approach known as Reducing Emissions from tropical Deforestation and Degradation (REDD), and the incentives needed to achieve it.

Policymakers have been actively debating this issue since 2005, while conservation NGOs have been attempting to get things off the ground for the last 15 years, only to see their hopes dashed with the exclusion of avoided deforestation from the Clean Development Mechanism (CDM) in 2001. Yet, forests are vital for managing global warming: they absorb carbon dioxide and so can counter emissions, while conversely, deforestation releases carbon dioxide into the atmosphere. Avoiding deforestation means points scored in fighting climate change.

It is now imperative that the global community finally get serious about a sector that contributes up to 25% of annual global emissions, but that has so far effectively been kept outside climate change policy. Instead it has been demonised for distracting attention away from reducing the burning of fossil fuels. This grave mistake has caused billions of tonnes of emissions to go unchallenged since 2001. Climate change is a threat of such magnitude that no options to fight it should be disregarded, especially not ones of such significance. Furthermore, deforestation also causes the loss to mankind of many other useful goods and services, such as biodiversity, soil conservation and hydrological regulation.

The timing is right because parties to the Kyoto Protocol are preparing for the next round of negotiations on emission reduction targets after 2012. REDD is seen as an attractive mechanism to entice developing countries to join more fully in the fight against climate change. In addition, the final reduction targets to be agreed upon in, hopefully, December

2009, will no doubt be influenced by the possibility of being able to use what are generally regarded as cost-effective carbon emission offsets from avoided deforestation. In other words, firmly embedding REDD into a post-2012 policy agreement is likely to make countries more comfortable to take on higher targets.

This should in itself assuage opponents who fear "market flooding", as an added supply of large amounts of REDD credits risks reducing prices and diminishing the environmental effectiveness of this market-based instrument in other sectors. These fears are unjustified when the potential increase in supply of credits is matched by a corresponding increase in demand, which are after all to be determined by the targets set in 2009. In effect this means that if OECD countries want to maintain the carbon incentives for non-forestry sectors and include REDD in the system, it is essential that they agree to accordingly higher targets for emissions reductions.

Many issues need to be sorted out between now and 2009. There are technical issues such as determining baselines and setting up monitoring systems, but in principle these are manageable with the current technology and approaches already developed by forestry projects in the last decade. Data gaps should be filled rapidly once the system is up and running.

However, a big question remains: how will REDD actually work? Proposals range from rewarding entire countries for their national performance against a national deforestation baseline, to a CDM-like crediting mechanism based on individual projects. The national approach, which seems to be favoured by most policymakers, was brought forward to capture any possible leakage from activities in a national monitoring system, such as the displacement of logging from one area to another area in the country. If most tropical countries sign up to a REDD agreement, even international leakage could be monitored and accounted for.

A further argument used in favour of a country-level reward system is that it would provide incentives for governments to use some of their powerful command-and-control and fiscal instruments to reduce deforestation. However, in reality, constraints in capacity, governance and efficiency mean the instruments available to most developing countries' governments might not be effective enough to reach the hoped-for results.

This is where project-based crediting would help. Most conservation work is achieved by grassroots activities, with people working locally alongside the agents of deforestation. Direct rewarding of their activities in a project-based crediting mechanism would seem more efficient in terms of ensuring that the incentives really benefit those who currently wield the chainsaws.

It is imperative the global community gets serious about a sector that contributes up to 25% of annual global emissions

Important in this context is that credits in either case (national or project) would only be rewarded after the conservation activity has successfully been implemented. Consequently, the success of the incentive system depends on trusting the reward will indeed follow, and that it will be delivered over time periods needed to sustainably finance REDD activities. Clearly, this trust is essential for upfront investments and forward sales of carbon credits, and more conservation activities will take place if their reward does not depend upon a national government, especially one with a low credit rating, but directly on an internationally regulated, project-based system. This is key if, in addition to conservation organisations, we are serious about encouraging the private sector to engage fully in REDD activities.

The financing and facilitating power of the private sector should not be underestimated. Banks and carbon traders have embraced the CDM market and invested billions of dollars into emissions reduction projects. They also provide a credit transaction platform for projects and buyers whose core business is not carbon trading.

Kyoto compliance buyers have shown little interest in understanding the technical details of projects, which means they cannot properly assess risks associated with the forward buying of credits. Private sector intermediaries, such as this author's company, do have this expertise, and by aggregating credits from many projects in different sectors and regions, can mitigate these risks for buyers.

The private sector clearly plays an enabling role in bringing the carbon finance incentive to emissions-reducing activities, and in its search for profit it can achieve this very effectively. Similarly, if the forthcoming REDD system were to incorporate a CDM-like market-based trading system, financiers and trading intermediaries could lift REDD activities to a much larger scale than, say, the proposed fund-based alternative could ever achieve.

In short, there are good arguments for both a country-level and a project-level crediting system, yet each on their own face shortcomings. But there is no reason why they cannot be combined to reinforce each other. A registry system would be needed to avoid double-counting of avoided deforestation achievements by projects and governments. Projects could pay a commission to governments for monitoring services, so making it more attractive for governments to allow credits to be sold by others than themselves. Such a hybrid system would combine the best of both worlds and maximise much-needed reductions in tropical deforestation. ■

Climate change

A new contract



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John Sweeney
President of AFL-CIO and TUAC*

Current growth patterns are unsustainable and there is an urgent need for a change of course to a lower carbon path. For the unions, that means transforming the workplace too.

We hear again and again that we must choose between having a stable climate and having a strong global economy. This is a false choice.

The global economy cannot prosper unless we secure a stable climate and sustainable sources of energy. Global warming means global depression, food and water shortages and drowned cities. I have stood in New Orleans and seen that future—a future in which the poorest, the most vulnerable, the working poor suffer the most. How can we turn away from a future of global crisis and suffering for the worst off among us? Can we use these crises to build new opportunities, or will we just resume business-as-usual and wait for the next disaster?

Clearly, it is time to correct the path and change the way we think about a just and sustainable economy that works for all.

In the world of work, a number of possibilities and opportunities are at hand. A recently published study shows that in the US alone, the environmental industry created more than 5.3 million jobs–ten times more than in the US pharmaceutical industry. In Europe, a 20% increase in energy efficiency would create about a million jobs. The renewable energy programmes in Germany and Spain are just ten years old but have already created hundreds of thousands of jobs. By the year 2020, Germany will have more jobs in the field of environmental technologies than in its entire automotive industry. Germany is a world leader in solar technology: it is not a particularly sunny country, but for innovation and manufacturing craft, Germany has few rivals. For emerging and developing countries, the opportunities for change are just as tremendous.

It is an example for everyone: the low carbon economy is not just about wind or solar or reducing greenhouse gases, but about changing existing workplaces and ensuring decent work at the same time.

As unions, we are convinced that today's workplaces need to be transformed. The "greener" economy we must have will not emerge through the production of new goods or energy sources alone, but from a transformation of the production chain itself using workers' creativity and skills. And on top of the jobs that could be created to protect the environment, more jobs will be created in supplying and in downstream industries. Traditional jobs still need to be improved to participate in the transformation of the world of work, in its technology, organisation and final products.

The recently published *OECD Environmental Outlook to 2030* expresses the organisation's dismay at current policies regarding climate change, but also water or biodiversity, as they are clearly insufficient to protect our children's future. One can dispute the numbers, but the message is solid: current growth patterns are unsustainable and there is an urgent need for a change of course to a lower carbon path. The following points are vital.

First, there will be no such thing as environmentally-friendly production if workers' rights are not respected and

workers are not trained continuously for the jobs of the future. Workers are in the front line when it comes to the consequences of a deteriorating environment. Its effects are felt on our safety and our families' health. This means that workers can also act as indispensable guardians of the workplace and the planet, if we are given the right to do so.

Second, a massive transformation in our production methods won't be possible unless we take into account those who stand to lose their livelihoods as a consequence of changes in energy and production systems. Without a clear plan for an equitable and fair transition towards a low carbon economy, we will not be able to muster the global consensus necessary to act.

And third, there can be no climate and environmentally-friendly economy without ambitious public policies to accompany the world of work towards emission reductions, greater energy and resource efficiency, and which ensure that investments, jobs and wealth shall be equitably distributed within and among countries.

"Green jobs" are the low hanging fruit of the low carbon economy. We have to go further and build a more just and sustainable development policy, in which jobs are a source of wealth and social progress, but also yield a more sustainable environment for future generations.

In building the green economy we have a real opportunity to wipe the slate clean and build a fairer, better global workplace for everyone. Scientists tell us we have very little time. Let us begin now. ■

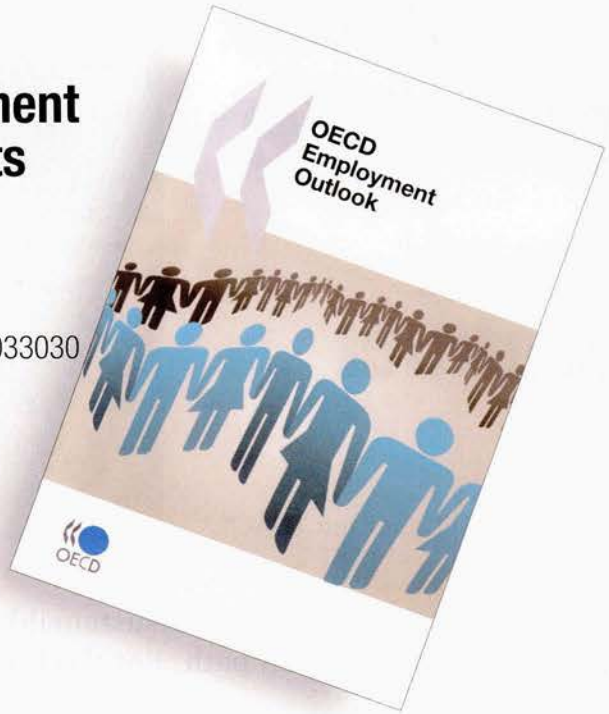
*AFL-CIO is the American Federation of Labor and Congress of Industrial Organizations, at www.aflcio.org

TUAC is the Trade Union Advisory Committee to the OECD, at www.tuac.org

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Employment prospects

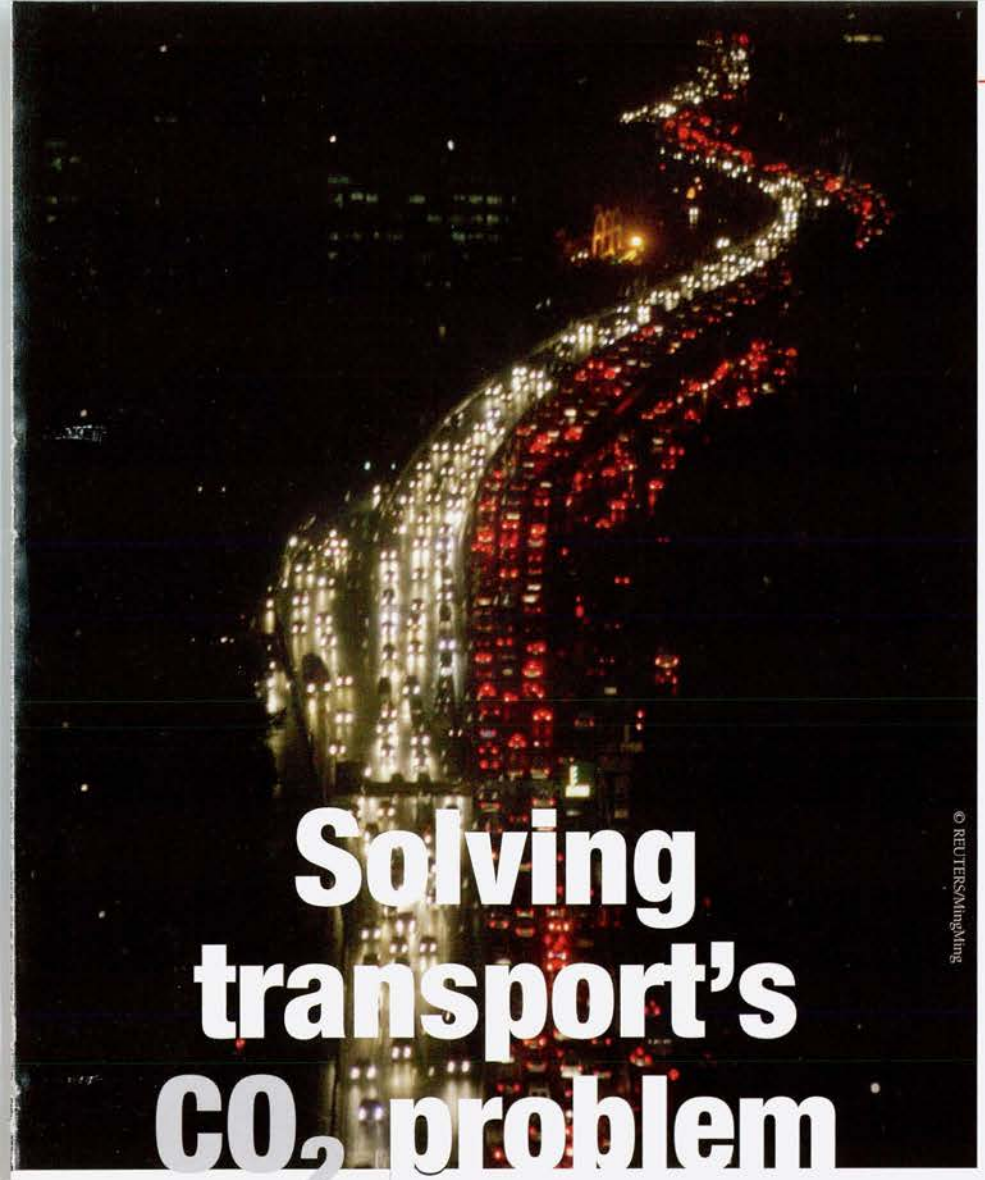


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Solving transport's CO_2 problem

Any serious attempt to deal with climate change must involve transport. Transport accounts for 13% of all world greenhouse gas (GHG) emissions, though this figure takes into account CO_2 sources other than fuel combustion, such as forestry, land-use and biomass burning. A look at CO_2 emissions from fuel combustion only shows the transport sector accounts for about 23% worldwide and about 30% in the OECD area.

Road transport emissions account for about 75% of global transport emissions, domestic and international aviation for about 11.5% and inland and international maritime transport about 10.3%. Between 1990 and 2005, transport CO_2 emissions rose by 22.3% in the EU-15 and by 44.7% in the new EU member states, by 28.7% in North America and by 32.3% in OECD nations in Asia.

Projections suggest continued strong growth in transport volumes in all modes, especially in non-OECD countries, with the motorisation rate likely to triple between 2000 and 2050. What can be done? What role is there for policy?

The OECD area is where most greenhouse gases come from, and governments are starting to act. Climate change is top of the agenda at both the OECD's annual Ministerial Council Meeting and Forum in June, and on top of the G8 agenda for Japan in July.

It is also the subject of the first International Transport Forum in Leipzig, Germany, from 28-30 May 2008. For Jack Short, secretary-general of the International Transport Forum, the transport challenge could not be clearer: "We know how to reduce many traditional pollutants and get accident numbers down, but can we decouple growth in transport from rising CO_2 emissions?"

Leipzig, according to Mr Short, will be a "high-level event geared towards action" aimed at setting out "an ambitious and responsible way forward."

The challenges are daunting. For a start, despite promising technological innovations, transport is still almost entirely dependent on oil. Also, substantial worldwide growth in transport use will add to CO_2 emissions over the next 30 years. Trade will continue to grow, so will consumption. Air passenger traffic will be two and a half times higher in 2025 than in 2005, and air cargo three times higher, as will maritime shipping volumes. A "business as usual" approach would be unsustainable.

Whether in new technology for aviation or simple eco-efficient car driving, the articles in this spotlight explore how technology, policy and behaviour can work together to improve prospects. They look at the biofuels debate, and consider technological breakthroughs alongside simple changes, such as better tyres and lubricants that can also help cut emissions.

As Mr Short noted in a recent *OECD Observer* article, "these are the kinds of affordable and proven measures that the Leipzig meeting must bring to the fore. They offer real and immediate returns, and that includes for the environment." ■

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The *OECD Observer* would like to thank the International Transport Forum, particularly Philippe Crist, Jari Kauppila, Stephen Perkins, Aline Plez and Michael Zirpel for their assistance as we prepared this spotlight on transport.

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Towards **integrated policies**

Transport is a major contributor to CO_2 emissions. But can policymakers make a difference? We asked Anu Vehviläinen, Finland's minister for transport, and chair of the first International Transport Forum in Leipzig in May 2008.



Anu Vehviläinen

OECD Observer: **What in your view are the priorities transport ministers should address in tackling climate change?**

Anu Vehviläinen: First and foremost an integrated approach is needed when tackling climate change. Bear in mind that transport, though an industry in its own right, is essentially an intermediary service, providing added value for other sectors of human life and other industries. This clearly means that a reduction of transport demand, volumes and related emissions should be supported by other relevant policies, such as land use planning, fiscal, industry, regional and spatial planning policies. What we need is an integrated approach, with better coherence between these policies.

An integrated approach means that all kind of policy instruments–economic, legislative and technical instruments, including also alternative fuels–are used as actively and widely as possible to reduce transport-related emissions. Economic instruments in particular can and should be used more widely to have an impact on transport behaviour and consumer choices.

Are there any innovative measures Finland is taking that you think we can all learn from?

One recent key initiative has been a new differentiation scheme for our car sales tax in accordance with CO_2 emissions, which the Finnish government introduced 1 January 2008. Each gram of CO_2 makes a difference to the sales tax and therefore also a difference to the price of the car. Already in the last three months, CO_2 emissions of new registered passenger cars have decreased quite dramatically–by around 10%–thanks largely to this differentiation scheme. Average CO_2 emissions of new registered passenger cars were around 179 g/km in 2007, but were 163 g/km in January-March 2008.

Similar differentiation schemes will be introduced for the annual motor vehicle tax–that's the so-called user charge–from the beginning of 2010. In order to enhance the positive impacts of our car sale tax amendment on consumer choices, we are planning to introduce a new, more informative eco-labelling scheme for passenger cars. Such a labelling scheme should be based on the ABCDEF model that is widely used for eco-labelling of household appliances.

Another example is the voluntary energy efficiency and energy saving agreements that we have agreed with transport operators, including freight and public transport operator associations. Our aim is to reach at least a 9% improvement in energy efficiency of freight and public transport in 2008-2016. This will mean energy efficient requirements for procurement of transport services, ecodriving and technical measures, such as tyre pressures and other inspection and maintenance measures.

Finally, I'd like to mention the high market share of public transport in the Helsinki metropolitan area. Around 70% of all peak hour trips back and forth between the city centre and the suburbs are made by public transport. Public transport fares, particularly for monthly or annual tickets, are very competitive. Moreover, public transport services are very reliable, frequent and of high quality in the Helsinki area.

What messages would you like ministers and the public to take away from the Leipzig conference?

Transport-related emissions are increasing globally and jeopardising the achievement of CO_2 reductions achieved in other sectors. Transport policy and the transport sector must take their share of the burden in climate change abatement. In the long run, vehicle technology and alternative fuels will assist us in decarbonising transport, but in the short and medium-term a wide selection of measures should be taken. As I emphasised earlier, we need an integrated and coherent policy approach to make a difference. The public should be made more aware of the role of transport in climate change. As we all are drivers or transport-service users, we as individual citizens can have quite an impact on transport-related emissions with our daily choices. We can all make a difference. The public should be aware that we as transport ministers are committed to fight climate change, but support from individual citizens is needed in this challenging work. ■

Visit the Finnish ministry of transport at www.mintc.fi/ (also in English) and Ms Vehviläinen's own website at www.anuvehvilainen.fi

Biofuels



© David Rooney

So far, biofuels have not always lived up to their billing as an alternative, non-polluting low emissions fuel. But there is hope.

As the UN called recently on the world's governments in an "extraordinary emergency appeal" for some $500 million to avert a food crisis in poor countries, many people were placing some share of the blame squarely on strong demand for grains from the biofuel industry.

The popular view of biofuels as an ecological panacea for everything from depleting oil reserves to global warming, has swung to widely-held scepticism in the past year or two. Do biofuels do more harm than good, environmentally as well as economically?

Biofuels are made from organic material of plant or animal origin and used mainly as a liquid energy source for cars, trucks and buses. They come in two main types: bioethanol, mostly derived from sugar cane, sugar beet and cereal crops, and biodiesel, derived from fatty acids such as soybean, rapeseed, vegetable oils and also animal fats and used frying oils.

If the biofuels market has become strong it is largely because of subsidies, and production and blending quotas. Governments have used a range of policies to promote biofuel production. Incentives to lower the cost to biofuel producers include tax credits, capital grants and subsidised loans. There are targets mandating the sale of a certain amount of biofuels, and fuel blending requirements imposed on petrol stations are other ways countries are encouraging the biofuel industry. The EU, for example, has set a target for its members that 10% of all fuel sold at petrol stations must be derived from plants within 12 years.

This backdrop, skyrocketing oil prices, rising demand for energy and the need to tackle climate change have all sparked biofuels into becoming more than just a brand new revenue earner for hard-pressed farmers, but a hot investment for energy and grain producers and traders. Production has been growing quickly in many countries, including Brazil, EU countries, the US, Canada, China and elsewhere in Asia. As well as for their environmental effects, some developing countries look to biofuels as a driver of economic growth, and others see them as a way to improve energy security.

But this is where the picture gets a little muddier. Governments have also put in place import tariffs and other trade restrictions that stimulate domestic biofuel production, while limiting competition from internationally competitive producers overseas. This hardly helps the goal of obtaining cost-effective fuel alternatives.

Farmers in many countries have been able to claim government subsidies for growing crops too, and not always for those best suited to biofuels. OECD countries together spend $13-15 billion a year in public money to support biofuel production. Brazil is one country that currently produces biofuel from sugar cane crops in an economically viable way. Even so, the Brazilian government supported the industry with $1 billion in subsidies in 2006.

To give some idea of the extent governments need to support biofuel production (at least in its current form): At

a hypothetical crude oil price of $60 per barrel—which is markedly lower than the actual price at the moment—public support along the lines of $0.15-0.55 per litre of gasoline or diesel-equivalent biofuel in most OECD countries would be needed to make biofuel economically viable. And, as crop prices have been spiking sharply, there has been no offsetting improvement in the efficiency of biofuel production.

Of course, these subsidies might be worth it if there was a real payback in terms of lower CO_2 emissions. But even this ecological case is weak.

For a start, though the amount of carbon dioxide that a particular biofuel releases when burned is generally no more than

Subsidies might be worth it if there was a real payback in terms of lower CO_2 emissions. But even this ecological case is weak.

that captured during the life of the source plant, crops currently used to make biofuel have a very low energy density compared with fossil fuel sources. This means vast amounts of arable land are needed if biofuels were to fully substitute for fossil fuels, rendering the environmental benefits questionable at best. For biofuels to meet just 4% of the world's transport fuel needs in 2030, it would take an area of arable land equal in size to France and Spain combined.

Another problem is that the very process of clearing land to sow crops releases large quantities of greenhouse gases from the soil. However, a more serious political concern now is that land being used to cultivate fuel, rather than food, is pushing up prices of all foodstuffs. "The shift to biofuel production has diverted lands out of the food chain," remarked Josette Sheeran, chief of the World Food Programme, on a visit to the European Parliament in early March. Ms Sheeran lamented that the "bonanza" for farmers is hitting the world's poor hard. OECD findings echo these concerns (see article, page 16).

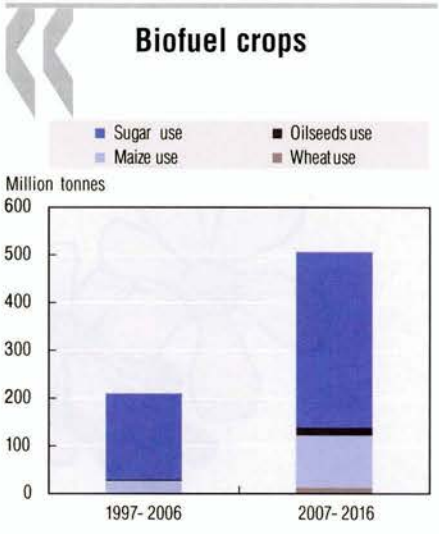
Moreover, the clearing of tropical rain forests to grow biofuels in some regions has attracted particularly harsh criticism over skewed incentives. In Southeast Asia, palm oil plantations are replacing forests and damaging fragile biodiversity. The intensive land use changes for biofuel production also stress water levels, erode soil quality, and poison the ground with ill-controlled pesticides and fertilizers.

Production costs also vary a lot by type of biofuel, and also by country, plant source, and even by soil type and how the plant is grown. In fact, a joint International Transport Forum-OECD roundtable in 2007 found that there is a wide variance in biofuel performance and, in the worst cases, biofuels produce far more emissions of greenhouse gases than petrol or diesel from well-maintained engines.

The overall picture for farmers is actually a mixed one. The rise in crop prices may bring some benefits for certain farmers, but those who rely on these crops as animal feed for livestock will suffer from the higher costs. At the same time, consumers are already paying more for food and will probably see firm energy prices continuing as long as tariffs and other trade protection jack up the cost of biofuel imports.

How can new policies help? The first step is to acknowledge that the environmental and economic benefits of many first-generation biofuels are at least smaller than had been expected, and in many cases the effects are negative. Support for ineffective biofuels should be stopped in favour of better alternatives.

There is no one right policy choice for all countries; policymakers should consider a range of alternatives and not just limit their hunt to biofuels. That said, "second-generation" biofuels, using technology that can produce energy from any plant material and not just food crops, may hold more promise as a lower cost, environmentally-friendly solution.



Source: "Biofuels for Transport: Policies and Possibilities", OECD Observer Policy Brief Series, November 2007

More research is needed here, and public funding to help R&D would be a sounder, more effective policy than lining the wrong pockets with public funds. ■ *RJC/JB*

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Making cars cleaner

Extreme choice? Stanford University's solar car, 2005

New technologies for cars can help reduce greenhouse gas emissions, but at what cost? The answer may be less than people think.

Would adding US$1,500 to the price of a new car be enough to help halt climate change? That's what US and EU experts broadly agree on as the average price tag for new technologies coming on stream to make cars more fuel-efficient and climate friendly. But what does that price tag entail?

Cars and sports utility vehicles (SUVs) represent 10% of global CO_2 emissions from fuel combustion and 41% of transport CO_2 emissions, most of that being in OECD countries. Now, apart from some far-fetched concepts or designs, there is quite an array of options available to help reduce their carbon impact, and not all of them are expensive.

There are projects promising more fuel-efficient aerodynamics or lower tyre resistance. Others plan to improve propulsion systems by equipping small engines with turbochargers, so competing with larger-engined cars. Then there are the more talked-about new technologies of recent years, such as hybrid vehicles that use gas to power their own electric drive train or "flex-fuel" vehicles that run off of petrol or biofuels. Some of these innovations, like plug-in electric hybrid and hydrogen fuel cell vehicles, would take costs well beyond that extra $1,500.

The question is whether these new technologies really work to reduce emissions. A recent review of low-carbon cars in the UK market commissioned by the UK government, the King Review, concludes that they do. In fact, the report argues that within just a decade, people will be able to drive cars that have the same level of power and comfort enjoyed today, but emitting nearly one third less carbon dioxide per kilometre. Were they to do this, they would buck a decade-long trend where consumers have traded important fuel-efficiency gains for more power and weight.

A major challenge, according to the report, will be how to cultivate a strongly growing market for low emissions cars that can still earn car makers enough profits to plough back into investments for the next stage of improvements.

The King Review's upbeat assessment is echoed by John Heywood and his colleagues at MIT in the US. They predict that over the next 20 to 40 years, cars' fuel consumption will fall by 30-50%, thanks to a combination of newly available and still-developing technologies that improve engines and transmissions, greater use of hybrid electric cars, and steps to reduce drag by taking some of the weight off cars. As technologies evolve, we may see more plug-in electric hybrids and hydrogen fuel cell hybrids too.

The nature of the challenge varies by region. The current preference for heavier cars in the US means there would be more potential for fuel savings from weight-reducing technologies than, say, Europe, where consumers have typically preferred lighter cars overall. Similarly, in Europe, where fuel-efficient diesel cars have been popular for some time, there would be smaller gains from technologies that improve fuel efficiencies than in the US, where diesel cars are rarer.

No technology-based solution is cheap–at least not in the early stages–with current hybrids running about €1,250 (US$2,000) more per car than non-hybrids. Plug-in hybrids, which are recharged and driven, are still too expensive to become widespread.

On the other hand, costs fall as technology evolves, and for the Heywood team, the "2035 hybrids" now being developed would halve fuel consumption compared with the ones currently on the road.

The EU Commission has taken a look at the impact of its proposed standards for lower

car emissions and concluded that the savings from fuel bills could more than offset the costs of buying a car with new fuel-saving technology. They see net savings to consumers of around €1,000 (US$1,600) over the life of the car, which is more than the extra $1,500 price tag mentioned to cover costs. Some critics even believe the EU's cost projections are too high, not taking into consideration economies of scale in manufacturing the cars or the effect of new knowledge.

But do consumers really opt to buy more environmentally-friendly cars over those that are not? After all, consumer tastes, fashions and technologies vary all the time. Some studies find that people put more weight on features such as power and comfort than fuel consumption, when buying a car.

Providing more information in sales rooms about environmental impact or emissions may help alter mindsets, even in the absence of strict regulations (see interview with Finland's transport minister, Anu Vehviläinen, page 44). Tests that account for embarked electronics, air conditioning and other fuel-sapping devices would also give a clearer picture to the potential buyer.

Indeed, where car makers are not faced with a stiff mandatory standard on emissions levels and have continuing choice in deciding how well their product line complies with targets, buyer preferences and competitor behaviour will have the final say. This is evident in vibrant demand for large, gas-guzzling, high-end cars, where the fattest returns are made.

Policy can help to change this behaviour. France's environment minister, Jean-Louis Borloo, reported at the environment ministers' meeting at the OECD in late April that the French "bonus-malus" system that rewards low polluting cars by penalising polluting ones, has noticeably affected customer decisions in buying new cars.

The real issue to watch for is growth in overall car usage. In the EU, where technologies have become more fuel-efficient, the number of cars on the road increased substantially over 1995-2003, when people drove their cars more often and over longer distances. Cheap oil was one reason, but also at play was economic expansion, longer journeys to work as people live further away from urban centres, and the simple fact that fuel-efficient cars make increased driving more affordable.

In other words, policies should really focus on reducing the ecological footprint of transport generally, and not just fixing emissions targets by weight classes of different vehicles. In the US, one of the world's largest single-country sources of emissions, the Department of Transportation chose Earth Day on 23 April to release its proposed interim requirements that auto makers must follow to achieve the average minimum fuel-efficiency target of 35 miles per gallon by 2020.

No matter how much OECD cars improve, ultimately it won't matter unless those improvements quickly spread to the rest of the world

According to the proposed target, signed into law at the end of last year, by 2015, new passenger cars would need to get at least 35.7 miles to the gallon while SUVs and other "light trucks" would have to drive a minimum of 28.6 miles per gallon. Some flexibility is envisaged, and there are proposals for a credit system to enable car manufacturers to trade emissions permits with each other to meet these targets overall.

Clearly, a mix of policy actions is needed, combining market-based responses such as fuel taxes and carbon emissions trading schemes with regulations that compel car makers to improve the fuel/emissions performance of their products. These were the conclusions of a recent International Transport Forum-OECD roundtable held earlier in 2008 to weigh the costs and effectiveness of policies to cut emissions.

Regulating car manufacturers to achieve better fuel economy may cost more to implement than taxes or other incentive-based measures, and may take longer–as much as 15 to 20 years–to have their full impact, not least because of the lag caused by new car turnover times. Fuel taxes and CO_2 emissions trading schemes have the advantage of affecting all transport now, not just new cars; but taxes on fuel are already high in some countries in the EU.

Whether taxes can jack prices up enough to reduce journeys or take unnecessary traffic off the streets is debatable and is largely linked to peoples' expectations about future driving costs–but not too far in the future! What is clear is that there is no panacea and each measure has its pros and cons.

Nor is high tech the only way forward. Policymakers would make major inroads by picking the low-hanging fruit first, such as encouraging use of low resistance tyres, higher performance motor oils, ecodriving (see article, page 49) and other steps to reduce fuel consumption. Just switching off air conditioning could reduce emissions by up to 15%, some studies say.

But here's the catch–no matter how much OECD cars improve, ultimately it won't matter unless those improvements quickly spread to the rest of the world. While the OECD currently dominates transport CO_2 emissions, growing incomes and demand in China, India and other rapidly growing economies will make gains from fuel economy improvements there much more relevant by 2050.

This means that what little breathing space there is left to get technology solutions right must also be also to ensure that the global market for fuel-efficient car technology expands in line with global demand for cars. ■ *JB/RJC*

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KEY DRIVING competences

Ecodriving

Das Auto, Das Ecodriving

The urgency of reducing fuel consumption rates while transport moves towards massive development over the next two decades, notably among developing economies, is clear. Any weapon counts as part of the overall package. Enter "ecodriving".

The notion may still be unfamiliar to many, but "ecodriving" is the latest buzzword among policymakers whose job it is to find cost-effective ways of meeting CO_2 reduction targets. It especially appeals to governments because it requires no new technology, although dashboard-mounted vehicle computers and other on-board devices can be useful. It also demands negligible public funding while offering immediate financial gains to drivers and companies. It is a simple, cheap and potentially popular way of suppressing up to 10% of every driver's fuel-burning CO_2 spillage–a significant amount if applied to all road users. What's more, it could help to reduce road accidents, which currently claim one million lives every year worldwide.

Ecodriving is the concept, and some governments and organisations promote it under various labels, like Eco-Driven, or with real pilot projects, such as ECODRIVE. The idea requires nothing more complicated than re-educating drivers about the use of their vehicles. Its CO_2 reduction target is obtained by keeping the engine of a moving vehicle

turning at between 2,000 and 2,500 revolutions per minute, the practice of decelerating and accelerating gently and the avoidance of prolonged idling, along with ensuring that tyres are correctly inflated and limiting the use of on-board electrical accessories, notably air conditioning, all of which can raise fuel consumption.

At first glance this may appear to be as pertinent an initiative for slowing down global warming as a boycott of imported strawberries. However, the EU Commission's European Climate Change Programme estimated in 2001 that adoption of ecodriving across the then 15 EU countries had the potential to remove 50 million tons of CO_2 per year from their total road traffic emissions.

Indeed, real world tests among the half-dozen countries currently leading national ecodriving campaigns have found an immediate mean reduction, from Japan to Germany, of 10% of CO_2 among the vehicles of volunteer participants. The challenge, however, is that of reaching a sufficient number of hearts and minds so that there is some arguable impact on the ozone layer; but if only 10% of drivers save 10% of CO_2 output, it's back to boycotting those strawberries.

The costs of promoting ecodriving are so minimal that no-one can afford to ignore it

Among the countries that have adopted ecodriving as part of their national CO_2 reduction policy, Germany, Finland, the Netherlands and Sweden have also made ecodriving behaviour an integral part of the driving licence test. Whether the candidate keeps it up afterwards is a question, but the aim is to influence habits among future drivers.

Along with these countries, Austria, Canada and Japan and, to a lesser degree, the UK, sponsor programmes promoting ecodriving, targetting freight haulage companies with training campaigns, ecodriving programme models and public events like providing simulators at vehicle exhibitions. All of them also target road transport companies, where there is an obvious attraction in significant cost savings.

Other agencies that encourage ecodriving include the EU, the Fédération Internationale de l'Automobile (the international umbrella organisation for motoring organisations which has to date led 10,000 ecodriving courses across five continents aimed at both private and business vehicle users), and vehicle manufacturers such as Ford Europe, BMW and Isuzu.

But the country that has done the most to promote ecodriving is the Netherlands, and the results serve as an interesting model for others. The Dutch programme, which stemmed directly from the 1997 Kyoto protocol to reduce greenhouse gases, is a 10-year campaign that began in 1999 and which was costed at 35 million euros. It even includes ecodriving practices on inland waterways.

Latest available figures from yearly evaluations of the Dutch programme show that in 2006 the ecodriving campaign was directly responsible for slashing 0.3 million tons of CO_2 from road traffic emissions. The target is that by 2010, ecodriving will account for a yearly reduction of 1.5 million tons of CO_2 emissions. If that ambition is achieved, the Dutch government estimates the cost of the 10-year programme (principally a communications campaign) will have been equivalent to less than 10 euros per ton of CO_2 saved.

Interestingly, the Dutch campaign to persuade public adoption of ecodriving focuses principally on the non-environmental benefits, namely saving fuel costs, increased safety and passenger comfort. Energy savings and CO_2 reduction are presented as subsidiary issues.

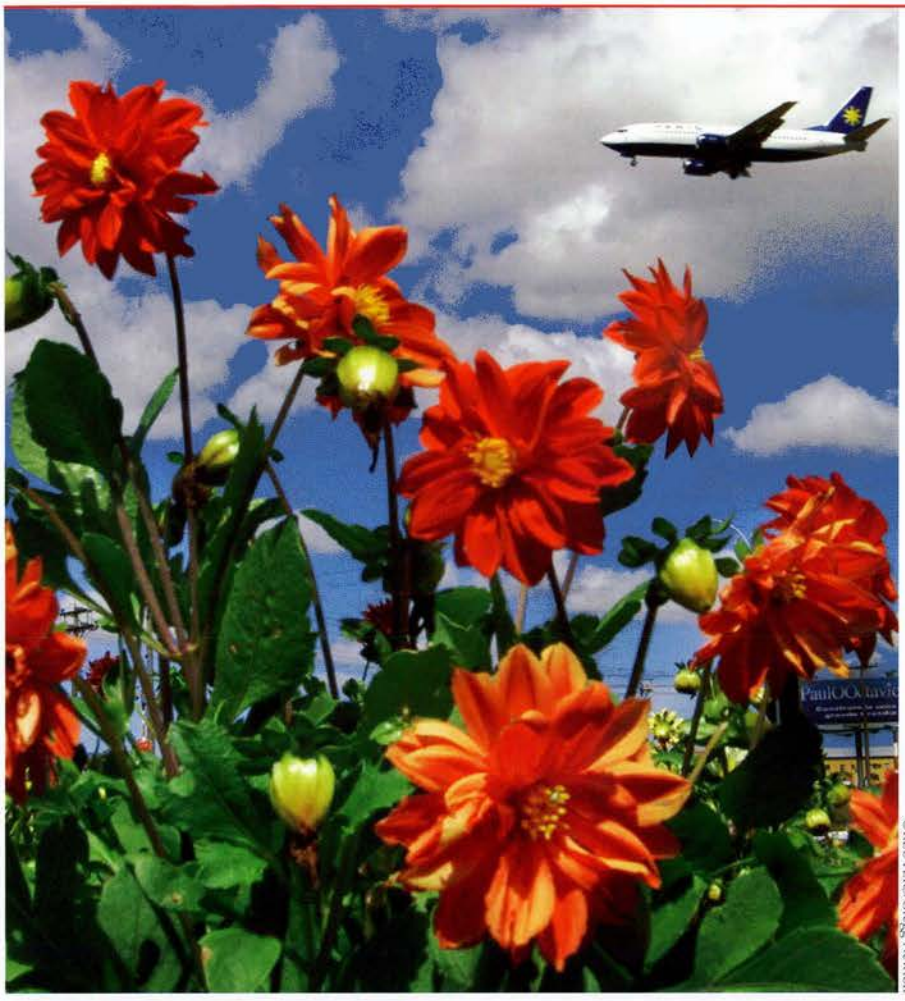
Or consider Sweden, another country boasting a vigorous ecodriving campaign. One good reason it is applying it is that, according to an EU-15 country comparison, its vehicle stock was found to be among the oldest, heaviest, most powerful and, consequently, the most fuel-consuming there is. Driving older cars better would make sense, rather than, say, wastefully dumping them and replacing them with hi-tech lighter versions.

And therein lies a problem: for while drivers may cut their fuel bills, one also has to calculate the offset in indirect CO_2 production if they then use the money saved to buy energy-intensive consumer goods or drive longer distances. But there are other criticisms of ecodriving. Current monitoring of the long-term habits of trained ecodrivers show that the majority eventually regain a few old habits, slashing the 10% CO_2 savings by half. More importantly, some (perhaps cynically) argue that the cost-effectiveness of ecodriving does not generate revenue for local authorities, unlike fines, taxes and road tolls.

The ecodriving lobby insist that this assumption misses its very *raison d'être*; it is because the costs of promoting ecodriving are so minimal that they could never be usefully re-directed at other, more involved efforts to improve vehicle fuel efficiency. It is, they argue, a complementary measure and precisely because it is so cheap and potentially popular, no-one can afford to ignore it. ■ *GT/RJC*

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Responsible growth for a global industry

Billy Glover
Managing Director, Environmental Strategy for Boeing Commercial Airplanes, The Boeing Company

With aviation growing in terms of the number of planes operating and passengers taking to the skies, the industry is engaged in an important and candid dialogue—how to continue to grow responsibly, while further reducing its impact on the global ecosystem.

As an industry, aviation is accustomed to addressing challenges. Every day we overcome technological barriers in our efforts to bring new innovation to our customers, while managing our business in dynamic and challenging market conditions. Coupled with record-breaking fuel costs, we now have a new challenge; reducing carbon dioxide (CO_2) emissions.

Why the strong emphasis on CO_2? Because it is one of the longest-lasting greenhouse gases and the only Kyoto gas produced by aviation, which contributes approximately 2% to man-made emissions. To address it directly, the industry is taking aggressive steps to keep aviation emissions low, without losing sight of other issues such as local air quality or noise. In fact, recently in Geneva, industry leaders gathered to sign a declaration of commitment to action on climate change that includes identifying a pathway to carbon-neutral growth with an aspirational goal toward a carbon-free future. As an industry, we believe technology and innovation will guide us to improved performance for current and future generations of aircraft.

Airline operators are stepping up and doing their part, from washing their planes between flights to requesting optimised route structures from air traffic officials as a way of attaining fuel and operating efficiencies. Several carriers have begun tracking the routes they requested versus the routes they were assigned and estimate they would have gained an additional 10% in efficiency if their initial route requests were granted. Other airlines are improving their fleet performance by retrofitting existing aircraft with new technology enhancements, or acquiring newer, more efficient aircraft, while looking to retire older, less efficient ones.

At Boeing, our environmental commitment begins with research and development, and ensuring that our own environmental strategy has a clear and precise focus. As we actively address these issues, we must balance the need

for improved environmental performance without disrupting the flow of people and commerce around the world.

Through the introduction of progressive new aircraft such as the 787 Dreamliner and the 747-8 Intercontinental, we are poised to deliver significant reductions in noise and fuel emissions, while demonstrating to passengers that aviation is doing its part. Demonstrating commitment with innovation will help assuage the "guilt of flying" element that has cropped up in some countries.

But environmental performance is not just a by-product of aircraft design; it's a very deliberate effort that has driven us to continually improve fuel efficiency for our customers. That's good business sense which, in an age of record fuel prices, coincidentally has environmental benefits. For each litre of fuel that isn't burned, it means *not* emitting 3.2 litres of CO_2.

To reduce fuel burn, the 787 design uses carbon fibre, making it lighter than comparably sized aircraft. Less weight means less drag, allowing the Dreamliner to use less fuel (on a per-passenger basis) than similarly sized airplanes. This equates to an immediate and measurable reduction in CO_2 emissions. The plane's efficiency gains also mean a 60% smaller noise "footprint." Indeed, both the 787 and 747-8 programs have taken a lifecycle approach to ensuring that the climate impact of both airplanes will be lower than the airplanes they replace.

In other technology areas, Boeing is helping guide the industry towards the commercialisation of a new generation of sustainable, plant-based fuel sources that offer a lower carbon footprint and don't compete with food and land resources. These new biofuels—or biojet—offer significant benefits when you consider a lifecycle approach. Plant-based fuel sources absorb CO_2 when they are growing, meaning those fuels that are produced through sustainable growing practices have the ability to reduce the industry's dependence on fossil fuels, while offering a 50-80% CO_2 reduction over the course of their lifetime. That's a tremendous progression for the industry and its ability to support destinations that rely on tourism, commerce and aviation contributions to its GDP.

Industry leaders have signed a declaration of commitment to action on climate change

We've already conducted the first commercial biofuel flight to prove their applicability and have announced two more are being planned. In addition, we recently conducted the first aircraft flight powered by clean, quiet hydrogen fuel cell technology. But solutions take time, and while we're still 5-7 years from seeing biofuel solutions become available for commercial use, with commercial fuels cell applications even further out, the technological foundation is being established today.

Lastly, we are continuing to push for improvements to the global air transportation system. Even the most advanced aircraft will fall short of performance expectations if they are forced to operate in an antiquated system that results in holding patterns, missed flights and less than optimised route patterns. That's why we recently announced jointly with Airbus, that our companies will work together to accelerate improvements to the world's air transportation management system to eliminate unnecessary traffic congestion.

This is an emotional and personal issue and we all have a role to play. People want to move freely throughout the world, without having misguided guilt placed upon them. Not until we effectively replace misinformation with facts, data and innovative technological solutions will we be able to say that we've effectively solved a crucial element of the climate change puzzle. As aviation takes progressive strides to do even better, Boeing will continue to do its part to be a good environmental steward by demonstrating commitment with action.

Visit www.Boeing.com ■



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If CO_2 emissions from transport cause climate change, why not encourage more cycling? This is precisely what places like Brussels, Copenhagen, Vienna and Berlin are starting to do. One much talked about initiative is in Paris. As the home of cycling's greatest race, the Tour de France, you would be forgiven for thinking the French always loved cycling. Yet until last year, cyclists and bicycle lanes were a rarity in the capital.

Now a revolution is in the air and a major catalyst is Vélib'. Composed from two French words, *vélo* meaning bike and *liberté* meaning freedom, this computer-based, 24/7 self-service rental service has doubled in size since its launch by the city of Paris and advertising company JCDecaux in July 2007. The 20,000 French-built bikes are safe and sturdy, and are cheap and easy to use too.

Parisians and visitors like Vélib' because it is practical, says Ágoston Fáber, who tested it for a current affairs weekly in Hungary: "You no longer have to worry about having your bike pinched, you can switch to other transport if it rains, it is far cheaper than buying a new bike if you stick to the rules, and there is no repair needed, as this is the responsibility of JCDecaux."

However, despite almost 400 km of cycle lanes, traffic junctions are not designed for cyclists, and getting motorists and cyclists to live together is difficult.

Still, cycling is back in Paris. One bike shop even says business has boomed since Vélib's launch! But whether Vélib has helped cut Paris's CO_2 emissions is far less certain. *RJC*
See www.en.velib.paris.fr; See Mr Fáber's article in www.hvg.hu ■



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Towards a greener flight path

Watch that gradient

Andrew Watt, Environment Manager, EUROCONTROL*

Improving flight control and air traffic management can benefit the environment, though solutions to meet future demand must be found.

On a single busy day in the summer of 2007, 3.2 million people took to the skies above Europe in 33,000 flights which covered a total distance of 34 million km. That's 42 billion passenger kilometres generated in just one day of European air traffic movements. Impressive though these numbers appear, they are in fact expected to double shortly after 2025, assuming that the demand forecasts hold true and that the capacity issues across the European air traffic system are solved.

What is the likely environmental impact of all this? At this stage, we are not completely sure, but clearly it is difficult to imagine the impact falling by then. However, there is no reason why it should increase at the same rate as demand.

In other words, we anticipate a steady decoupling of environmental impact from traffic growth. This will be achieved through technical, operational and economic measures which, together, can deliver substantial improvements in aviation's environmental performance.

EUROCONTROL, the European Organisation for the Safety of Air Navigation, based in Brussels, has been charged by its 38 member states with finding operational solutions that will contribute to reducing noise and local air quality impacts around airports and the reduction of gaseous emissions that contribute to global warming. Although noise and air quality are issues of vital importance locally, aviation's focus is increasingly influenced by concerns over its contribution to climate change.

The contribution of air traffic management (ATM) comes through ensuring that aircrafts fly at their optimum flight level and over the shortest distance between airports so that fuel burn and CO_2 emissions are kept to an absolute minimum.

The target that we have set ourselves is to deliver a 10% reduction in emissions per flight by 2020. This complements the technological push to deliver airframe and engine technologies that, by 2020, will together deliver a 40% reduction in emissions from a new production aircraft.

Flying within an enhanced ATM system, such an aircraft would emit 50% fewer emissions than it would have 20 years previously, thereby meeting the target set by the Advisory Council on

Aeronautics in Europe in 2000. The key programmes to achieve this overall goal for the air transport system are the Single European Sky Research Programme being driven forward by the European Commission, EUROCONTROL and industry to improve the European air traffic management system, and the "Clean Sky" Joint Technology Initiative funded by the Commission to stimulate the research and development required to deliver mature airframe and engine technologies.

A lot has been done. The efficiency of the pan-European ATM system has been systematically improved over the last 15 years, handling more and more flights while maintaining safety and delay parameters within strict limits. These enhancements have delivered environmental benefits, principally through more efficient flight profiles.

The introduction of EUROCONTROL's Central Flow Management Unit has substantially improved the organisation of the flow of traffic across the system and, by holding aircrafts at the departure gate until airspace is available for an entire flight, has avoided en-route delays and the unnecessary generation of CO_2 emissions.

The introduction of six new flight levels in 2002 and the move towards a more dynamic management of European airspace, especially through the effective management of military and civil users' needs, have improved capacity, safety and environmental performance across the board.

In May 2007, EUROCONTROL, acting upon a recommendation of its independent Performance Review Commission, set itself the target of reducing the average additional flight distance of 49km by 2km annually for the period 2007-11.

EUROCONTROL is also leading work to implement so-called Continuous Descent Approaches, to avoid segments of level flight in the vicinity of airports. This reduces noise, fuel burn and the release of emissions. It is also looking at improving flight profiles on departure tracks to reduce noise, and in the climb phase to reduce fuel burn and emissions. Overall, EUROCONTROL estimates that its ATM efficiency measures have already reduced gaseous emissions by some 3.4 million tonnes per year–that's 1.1 million tonnes of fuel–with at least a further 2 million tonnes to be saved annually in the near future.

We have set a target to deliver a 10% reduction in emissions per flight by 2020

We have also put in place systems to predict and monitor improvements in environmental performance. In particular, our PAGODA facility is now widely used to generate performance indicators for flight efficiency, fuel burn and greenhouse gas emissions; to support members and organisations requiring accurate domestic and international emissions inventories; and to support operational and policy-setting organisations in the analysis of how aviation's CO_2 emissions could be incorporated in the EU's Emissions Trading Scheme.

EUROCONTROL is therefore becoming an increasingly key actor in the push to control aviation's environmental impact. It has the systems, expertise and operational capabilities to support the air transport industry's efforts to meet society's demand for mobility, with the competing demand to reduce the environmental impact that the demand will itself generate.■

*EUROCONTROL, the European Organisation for the Safety of Air Navigation, was created in 1963. See www.eurocontrol.int

Sea fairer

Maritime transport and CO_2 emissions

International shipping emits as much CO_2 as some of the world's largest countries. What can be done?

Some 90% of world trade in tonnes is carried by ship, and containers represent 70% of total maritime trade by value. Per kilometre, shipping is one of the lowest emitting freight transport options around; at 10-15 grammes per tonne-kilometre, it is lower than rail (19-41g/tkm), trucking (51-91g/tkm) and aviation (673-867g/tkm). But the carbon footprint of the sector as a whole is as large as some major countries.

International maritime activity accounted for 543 Mt of CO_2 emissions from fuel combustion in 2005, according to data from the International Energy Agency (IEA), a sister organisation of the OECD and the International Transport Forum. The figure is calculated by the sale of fuel to vessels whose next port-of-call is outside the country, and it places CO_2


© REUTERS/ Nikola Solic

A clean launch

emissions from international maritime transport in 8th place in the world between Canada and the UK.

The International Maritime Organization, however, has recently updated its own estimate using a detailed bottom-up fleet inventory and has found that international maritime activity emitted a total of 1,120 Mt of CO_2–more than twice the IEA estimate for 2005.

This new estimate places international maritime emissions in 6th place in the world between India and Germany and nearly three times that of international aviation. The bulk of shipping's emissions stem from cargo vessels, with passenger ships representing only 3% of total ship CO_2 emissions, a share which is declining.

Total maritime trade has doubled from 1985 to 2007; total containerised trade has grown eight-fold over the same period and currently represents 16% of all maritime trade by weight (and a much larger share by value). Depending on the weight carried per container unit, trade in containers measured by deliveries is projected to more or less triple from 2000 to 2020.

In terms of container movements including transhipments, Drewry Shipping Consultants forecasts a more than six-fold rise from 2000 to 2020. This growth has important GHG repercussions as the average installed power on container vessels is higher than on most other types of vessels and, given the speeds at which container vessels travel, increased container vessel activity will result in greater maritime CO_2 emissions than might otherwise have been expected based on past fleet structure. Nonetheless, in aggregate, energy use per tonne delivered by sea has generally followed a decreasing trend from 1985 to 2007 with the advent of more efficient engines, better propellers and larger vessels.

The potential for new technology penetration within the world ship fleet is limited by the long life-span of vessels–up to 30-40 years. Many vessels built today incorporate energy-saving technologies. But as with cars, in many cases, much of these energy savings have been used to buy more power and speed, not to reduce energy use.

This is particularly evident in the fast-growing containership market where new vessels are being built to carry upwards of 10,000 containers and sail at 25 knots, compared with speeds of 21-23 knots in the 1990s. Because a ship must overcome water resistance, changes in energy use and CO_2 emissions are particularly sensitive to ship speed–a 4% increase in ship speed entails about a 13% increase in CO_2 emissions.

Better hull and propeller design and incremental engine technology improvements can contribute up to 30% energy efficiency improvements for new builds. Future propulsion options based on fuel cells may also be feasible in two or three vessel generations. Advanced sail technology is already being trialled and may also play a limited role in the future.

However, much of the energy saving potential for maritime transport comes through operational changes to the existing fleet which could deliver up to 20% fuel savings. The foremost option is reducing speed. However, this raises operational challenges, especially for container vessels that run on set routes and schedules. Providing the same level of service at slower speeds might require adding vessels to the route, thus eroding some of the fuel savings, or increase costs to owners as vessels arrive at night or on the weekend when stevedoring costs are higher.

Other sources of energy-saving improvements for existing vessels entail shifting in-port power to shore-based auxiliary power units rather than ship engines. Improvements in on-board auxiliary power generation can also be a source of non-negligible fuel savings. ■

References

- See International Maritime Organization's website at www.imo.org
- See Drewry Shipping Consultants, www.drewry.co.uk
- For more on International Transport Forum's work on maritime shipping, contact Philippe.Crist@oecd.org

RATP, serving a city aiming to contain global warming

aimer la ville

RATP

RATP operates, in the Ile-de-France region, one of the world's leading multimodal networks made up of 14 metro lines, 2 RER (suburban rail) lines and 3 tram lines, along with 350 bus lines. Its 45,000 employees are mobilised into carrying 10 million passengers per day, providing all of them with the best urban public transport system at the best cost for the community. With a strong investment programme, that amounted to 933 million Euros for the year 2007, RATP aims at improving living conditions of city-dwellers, for now and the future, through a cost-effective, environmentally friendly transport system based on quality, safety and corporate social responsibility.

By operating energy-saving, widely accessible transport modes with low greenhouse gas emissions, RATP plays a decisive role in maintaining a sustainable lifestyle. Its transport services use 5 times less energy than private car. And by emitting 10 times less greenhouse gases, they avoid every year spreading the equivalent of 2.1 million tons of CO_2 in the Ile-de-France region, itself emitting around 60 million tons eq CO_2 per year.

But RATP moves even further: to fulfil its mission with the greatest consideration for the environment and its inhabitants, it commits itself enthusiastically to an environmental policy into all aspects of its functions. Accordingly, all its activities and initiatives are led with a view to reducing their environmental impact. For this reason RATP pays great attention to recycling waste, recovering water, noise abatement, traceability of procurement, eco-designing, economy of resources - in particular energy.

On this last point, RATP has undertaken to reduce its energy consumption and related greenhouse gas emissions by at least 5% between 2006 and 2010, without reducing services. This goal is based on an action plan involving road and rail transport, underground and RER stations, industrial and land real estate. It also decided to integrate energy criteria into its purchase process for rolling stock. The next generation of rolling stock will help to use 30% to 40% less energy than previous generations, while buses will be purchased keeping in mind their lifetime cost cycle (LCC). In a few months time, customers will be able to compare, on RATP's website, CO_2 emissions according to their choices in terms of transport modes.

Beyond its contribution to mobility, public transport also promotes social cohesion and integration through its decisive influence on urban planning and by contributing to opening-up remoter neighbourhoods. With various initiatives in favour of corporate social responsibility, designed both to fight against exclusion and promote respect and citizenship, RATP shows every day the crucial role of public transport in creating a sustainable city built on corporate social responsibility.

As a signatory to the United Nations Global Compact in 2004, to the UITP Charter on Sustainable Development in 2005, and to the French Public Companies Charter on Sustainable Development in 2008, RATP willingly proved its expertise during the "Grenelle de l'environnement" group debates (an official French conference on the environment), thus positioning itself as an active sustainable development stakeholder, at local, national and international level.

www.ratp.fr

Sponsored statement

Calendar of forthcoming events

Please note that many of the OECD meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For a more comprehensive list, see the OECD website at www.oecd.org/media/upcoming, which is updated weekly.

MAY - highlights

7-8 **Financial Education**, conference organised by the Directorate for Financial and Enterprise Affairs and the US government. Washington, D.C., US.

8 **High-Growth SMEs and Innovation**, workshop organised by the Centre for Entrepreneurship, SMEs and Local Development. Kansas City, Missouri, US.

11 *African Economic Outlook 2008* launched at the African Development Bank annual meeting. Maputo, Mozambique.

15-16 **Learning in the 21st Century: Research, Innovation and Policy**, conference organised by the Directorate for Education.

20-21/5 **Global Forum on Development**, organised by the Development Assistance Committee (DAC), followed by the **DAC high-level meeting**.

24-26 G8 environment ministers meeting. Kobe, Japan.

28-30 **International Transport Forum 2008, ministerial meeting** on Transport and Energy: the Challenge of Climate Change. Leipzig, Germany.

JUNE

2-3 **High-level meeting of senior budget officials.** Vienna, Austria.

3-5 **World Food Security and the Challenges of Climate Change and Bioenergy**, high-level meeting organised by the Food and Agriculture Organization. Rome, Italy.

3-4 **OECD Forum 2008**: Climate Change, Growth and Stability.

4 *Economic Outlook No 83* published.

4-5 **OECD Council meets at ministerial level**: Outreach, Reform and the Economics of Climate Change, chaired by France.

5-6 **The Emerging Global University Market**, conference organised by the Education Directorate. Reykjavik, Iceland.

7-8 G8 energy ministers meeting. Aomori, Japan.

10-11 **Motorcycling Safety**, workshop organised by the OECD Joint Transport Research Centre and the International Transport Forum. Lillehammer, Norway.

13-14 G8 finance ministers meeting. Osaka, Japan.

17-18 **The Future of the Internet Economy, meeting at ministerial level**. Seoul, Korea.

23-24 **High-level roundtable on Corporate Responsibility**, organised by the OECD and the International Labour Organization (ILO).

26-27 **Chinese and OECD Government Approaches to Encouraging Responsible Business Conduct**, symposium organised by the Directorate for Financial and Enterprise Affairs. Beijing, China.

26-27 G8 foreign ministers meeting. Kyoto, Japan.

JULY

2 *OECD Employment Outlook 2008* published.

7-9 G8 summit. Hokkaido, Japan.

15 *OECD Economic Assessment of South Africa*, publication launch. Pretoria, South Africa.

AUGUST

17-20 **Inclusion and Integration through Innovation**, conference organised by the Education Directorate and the New Zealand government. Auckland, New Zealand.

17-23 **World Water Week**. Stockholm, Sweden.

21-23 Federal Reserve Bank of Wyoming **Economic Symposium**. Jackson Hole, US.

SEPTEMBER

2-4 **High-level forum on Aid Effectiveness**, organised by Development Co-operation Directorate. Accra, Ghana.

8-10 **Outcomes of Higher Education: Quality, Relevance and Impact**, conference organised by the Directorate for Education.

11-12 **Education for Sustainable Development**, workshop organised by the OECD Programme on Sustainable Development.

25-26 **High-level seminar on Road Safety**, organised by the OECD Joint Transport Research Centre and the International Transport Forum.



Climate and economic rationality

OECD Environment Ministers' Meeting, Paris, 28-29 April 2008

How to be green and competitive was the centre of attention when environment ministers of OECD countries met at the end of April for the first time in four years. How to fight climate change and maintain competitiveness is a question that concerns many countries outside the OECD too, and the governments of four candidate countries for OECD membership–Chile, Estonia, Israel and Slovenia–participated at the conference, as did Brazil, China, Indonesia and South Africa, four countries with whom the OECD is strengthening its relations in a programme of "enhanced engagement".

A new departure at this well-attended meeting was to invite business, labour and non-government organisations to the actual ministerial meeting, rather than a mere consultation in the margins of the meeting.

Four years ago sustainable development was the word on most people's lips, and it was not



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Lorents Lorentsen

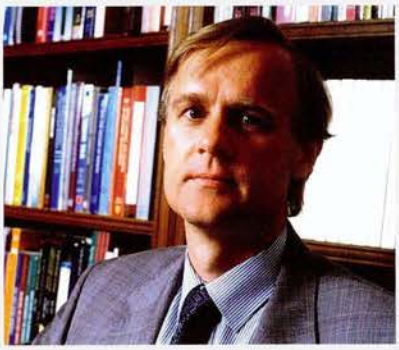
evident that only a couple of years later climate change would become the main dimension of this challenge. It also has a bearing on other priority issues, including biodiversity loss, health impacts of pollution and water scarcity/shortage.

At the April 2008 meeting, environment ministers stressed that "climate change is not

(continued on page 63)

New chief economist

Klaus Schmidt-Hebbel has been appointed chief economist of the OECD. A national of Germany and Chile, he joins the OECD after 12 years as chief of economic research at the Central Bank of Chile. From 1988 to 1996 he was successively economist, senior economist and principal economist at the World Bank. He has worked closely with several financial organisations, including the IMF, the World Bank, the Asian Development Bank and others, as well as central banks, governments and universities. He has provided key policy advice on a wide array of topics, ranging from macroeconomics and growth policies, to pension systems and capital market reforms, institutional organisation and policy design. Mr Schmidt-Hebbel has been published in the field of capital market development,



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monetary policies, pension systems and reforms.

Mr Schmidt-Hebbel will take up his position in September 2008. He takes over from Jean-Philippe Cotis, who was appointed head of the French national statistics institute, INSEE, in October 2007. See: www.oecd.org/economics ■

Recent speeches by Angel Gurría

For a complete list of speeches and statements, including those in French and other languages, go to www.oecd.org/speeches

Labour market and employment policies for addressing the needs of vulnerable workers and areas in a globalising economy
11-13 May 2008
Speech at the Meeting of the G8 Employment and Labour Ministers, Niigata, Japan.

Short and long-term prospects of the Czech economy
25 April 2008
Introductory statement at roundtable, Czech National Bank, Prague, Czech Republic.

Globalisation and rising competition: Challenges for the Czech economy
24 April 2008
Lecture at Charles University, Prague, Czech Republic.

Czech Republic outlook
24 April 2008
Speech at the launch of the *OECD Economic Survey of the Czech Republic*, Prague, Czech Republic.

Tax and growth: What direction should Sweden take?
22 April 2008
Lecture at the Stockholm School of Economics, Stockholm, Sweden.

Africa Partnership Forum
7 April 2008
Opening remarks at the Africa Partnership Forum, Tokyo, Japan.

Japan's outlook
7 April 2008
Statement delivered at the launch of the 2008 *OECD Economic Survey of Japan*, Japan Press Club, Tokyo, Japan.

The changing landscape of development co-operation
5 April 2008
Remarks at the G8 development ministers' meeting, Tokyo, Japan.

"We must do better": trends in development assistance
4 April 2008
Presentation of the preliminary figures on official development assistance for 2007, Tokyo, Japan.

A European approach to the climate change challenge
1 April 2008
Remarks at the European Commission Seminar on Climate Change, Paris, France.

New ambassadors

6 May 2008 - Cristina Narbona Ruiz takes up her post as the new ambassador for Spain. She succeeds Fernando Ballestero Díaz.

(continued from page 62)

just an environmental challenge, but also an economic challenge". In fact, moving towards a low-carbon society needs to be a process involving all areas of government, and this demands co-ordination and co-operation among the various ministries of finance, agriculture, transport, energy, industry, trade, development co-operation and so on.

Environment ministers appealed to colleagues in finance, economy and trade ministries as those responsible for getting the financial incentives right–taxes, subsidies, and tariffs, etc–to strengthen the use of market-based approaches in moving towards a global carbon price and to keep the costs of action manageable. The potential role of sectoral approaches was also mentioned.

Local authorities also had a major role to play, ministers said, and businesses and trade unions will also need to be key partners in addressing climate change.

Climate change is a challenge, but also an opportunity, and ministers said that some countries that move early can reap competitive advantages, in areas like renewable energy technologies. On the other hand, ministers also warned about the costs of waiting too long, or pursuing "business as usual" policies. Climate change is a reality, and inaction will merely delay costs, was the common view.

The April meeting echoed the main findings of *OECD Environmental Outlook to 2030* by emphasising the economic aspects of climate change and other environmental challenges. "As the evidence laid out in *OECD Environmental Outlook to 2030* shows, it is economically rational to implement ambitious climate policies, especially when we take into account co-benefits", says Lorents G. Lorentsen, chief of the OECD Environment Directorate. "Countries need to put in policies to encourage green energy and buildings now in particular because new investments in energy infrastructures and building construction around the world over the next 10-20 years could lock in their environmental performance for decades to come," he added.

Public and private sector financing will need to be mobilised, not least to encourage technological development, deployment and transfer to poorer countries. Environment ministers welcomed the idea of an international funding mechanism to help distribute the costs of action, and asked finance and economy ministers to take the lead in developing one.

For more information, contact Kumi.Kitamori@oecd.org
See www.oecd.org/envmin2008 and www.oecd.org/environment/outlookto2030
Order OECD Environmental Outlook to 2030 at www.oecdbookshop.org ■

New communications director

Anthony Gooch took up his post as director of public affairs and communications at the OECD on 1 April 2008. Before joining the OECD, Mr Gooch led the European Commission's media and public diplomacy operations in the UK projecting the EU's policies on global issues including climate change, trade and development.

In 2003-2006 he headed the Commission's media and public diplomacy operations in the US from Washington DC, focusing on EU-US economic and trade relations, competition, environmental and energy initiatives, and homeland security policies. From 2002 to 2003, Mr Gooch was the EU's Visiting Fellow to the University of Southern California Los Angeles Annenberg School, teaching and researching on globalisation.

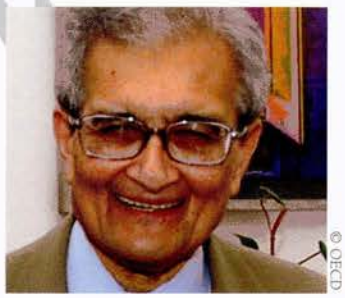
Between 1999 and 2002, he acted as the EU's trade spokesman and special adviser to the then chief trade negotiator and current WTO chief, Pascal Lamy. His briefs



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included the WTO ministerial meetings in Seattle, the launch of the Doha Development Round, China's WTO entry, free trade agreements with Latin American and African countries, and the Everything but Arms initiative. From 1995 to 1999, he specialised in EU relations with Latin America, co-ordinating the EU negotiating team to secure a global agreement and free trade agreement with Mexico.

Prior to joining the Commission, Mr Gooch worked for a strategic EU public affairs consultancy and as a freelance journalist. He was educated at Cambridge University and the Institut d'Études Politiques de Paris. For more, contact Observer@oecd.org ■



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Amartya Sen, 1998 Nobel Prize for Economics, on a visit to the OECD in May. Now at Harvard, Prof Sen has taught around the world, and is perhaps most noted for his work on development, human development, poverty, gender and welfare, for which he won his Nobel prize. His wife, economic historian Emma Rothschild, has written for the *OECD Observer* (The politics of globalisation circa 1773, No 228, September 2001). Visit http://nobelprize.org/nobel_prizes/economics/laureates/1998/sen-autobio.html ■



METRO DO PORTO IN THE COMMUNITY

MOBILITY IMPACTS

Market share	**12,5%** of the inhabitants of the AMP use the Metro	2007
Transfer from Individual Transport (IT)	**23,6%** of the current clients of the Metro were users of individual transport	2007
Transfer from Collective Transport (CT)	**65,4%** of the current clients of the Metro were users of other Collective Transport operators	2007

ECONOMIC IMPACTS

GDP	**215.4** million euros/year - average annual improvement of GDP induced by the construction of the metro system	annual average 99-06
Jobs created	**9,987** full time equivalent jobs/year created	annual average 99-06
Jobs created	**47** jobs created by year per 1 million euros invested in the MP	annual average 99-06

SOCIAL IMPACTS

Time Gains	**59.6** million hours/year saved
Time Gains	**295.9** million euros/year
Total annual social benefits	**353** million euros/year

ENVIRONMENTAL IMPACTS

Greenhouse gases	**-54,713** tonnes of CO2 eq issued, in local terms	until 2007
Greenhouse gases	**-33,560** tonnes of CO2 eq issued, in national terms	until 2007
Trees planted	**5,000** trees planted	until 2007
Intervention area (sidewalks and urban requalification)	**812,000 m2**	until 2007

SUSTAINABILITY OF THE 1ST FASE

Net Present Value (NPV)	**6,197 to 8,076** million euros
Internal rate of return (TIR)	**91% to 92%**

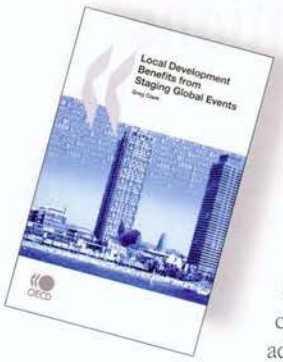
Metro do Porto. Life in motion.

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omdesign

Going for gold

Local Development Benefits from Staging Global Events



Two major international sporting events take place this summer, with the Olympic Games in Beijing and the European football championships in Austria and Switzerland. The question on many policymakers' minds will be less about medals on the track or pitch, but whether holding such major events can make or break the cities that host them?

For many, the answer depends. Events can be risky affairs, with the huge expense of holding some of the biggest events making them affordable to just a handful of global cities. Even big cities can find the burden hard to bear, such as the 1976 Montreal Olympics, which left the city with expensive facilities that have no use, and a big bill to pay into the future.

Still, the competition to host them is as intense as the event itself. Just look at the battle royal between Paris and London to host the 2012 Olympic Games. China's bid to organise this year's summer Olympics committed the country to one of its most ambitious construction projects since the building of the Great Wall two millennia ago, with a massive investment of $20 billion in environmental and infrastructure improvements. In soccer, South Africa hopes that being the first African country to host the World Cup, in 2010, will give the country a showcase and an economic boost.

Sport is not the only hook for major events. There are also WTO summits, the Bali meeting on Climate Change, or a major fashion week in Paris or Tokyo. These mega events are not entirely gilt-edged, and merely bidding for the Olympic Games or other such events is a costly exercise.

Still, for the OECD report, *Local Development Benefits from Staging Global Events*, revenue from the event is not the only goal, but also innovation and community development. Organising an event can create solidarity and purpose, building confidence, advertising and more. Kiev, for instance, which was the venue for the Eurovision Song Contest in 2005, used the occasion to promote Ukraine's European identity.

There are long-term spin-offs that make the enterprise worthwhile. Take the Turin winter Olympics in 2006. The city in northern Italy used the games to jettison its industrial city image and rebrand itself as a vibrant cultural capital. It now attracts more international gatherings, including the 2007 Winter Universiade.

Staging a mega event is not all fun and games, not only because of the risk of losing money but also the political stakes. Security measures add to a venue's cost, especially when it brings political protests, like Seattle's WTO meeting in 1999 or indeed the tussles over the Olympic torch as it passed around the globe in 2008.

Returns are possible, of course. The Scottish government estimated the cost of holding the G8 summit in Edinburgh in 2005 at £60 million, but the value of worldwide media coverage was assessed at over £66 million. ■

ISBN 9789264042063

Bio-people

People and Biodiversity Policies: Impacts, Issues and Strategies for Policy Action



© Haji Ohtman/Sarawak Medichem

Life saver: a substance from this rare tree, Calophyllum lanigerum, has helped in the fight against AIDS.

Improving the diversity of biological habitats and ecosystems is a vital goal in itself, yet policies to encourage biodiversity, like most legislation, will have both supporters and naysayers. Limitations on land use to protect biodiversity can sometimes reduce income, but have broad benefits for the general public. In developing countries where natural resources are an important livelihood source, biodiversity protection can also hurt income. Looking at studies ranging from community resource management in Lapland to wildlife management in Zimbabwe, *People and Biodiversity Policies* shows ways of totting up the social costs and benefits, and developing best practices.

Take Kakadu National Park, a World Heritage Site in northern Australia, where co-management and benefit-sharing flourish in the local community. Approximately half the land is held as inalienable freehold land by Aboriginal groups, who have been continuously present in the area for more than 50,000 years. True to Australia's Environment Protection and Biodiversity Conservation Act ratified in 1999, Aboriginal groups practise their traditional rights of gathering and hunting, while consulting with government on the sustainable take levels of different species.

Another study explores how the conversion of common-property mangroves for private agriculture and aquaculture in Vietnam affect income distribution between two villages. Common property regimes appeared better for income distribution as well as sustainable development. Also, in flood-prone Bangladesh, studies show how some floodplain management measures reduce the catch of fish, which the local poor depend on. ■

ISBN 9789264034310

New OECD publications

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Faithful to its tradition, the ***Development Co-operation Report 2007*** gives the world's most comprehensive statistics on development co-operation over the past year, and provides some analysis of what the data mean. The first chapter is a "report-card" on the foreign aid effort, as seen from the DAC Chair's perspective over the past few years. The second offers key lessons from peer reviews on the effective management of aid. The third chapter puts DAC's aid effectiveness work into context. The last chapter provides a short introduction to the aid programmes and performance of each DAC member, and also rightly embraces other OECD countries and significant players outside the OECD for which comparable reporting exists.



"The better targeted immigration policies are, the more successful integration will be. This in turn will help reduce the risk of political backlash against immigrants," said OECD Secretary-General Angel Gurría at the launch of this new publication. "Much greater emphasis needs to be put on helping recent immigrants learn the host-country language and become familiar with workplace practices." The publication, ***A Profile of Immigrant Populations in the 21st Century,*** gives accurate information on and a better understanding of patterns of immigration over recent decades, based largely on national censuses from 2000.

Publications listed on these pages are available at subscribing institutions via our online library, **SourceOECD**, at the URLs indicated. If your institution is not a subscriber, ask your librarian to subscribe today! These publications are also available through the **OECD Online Bookshop** at www.oecd.org/bookshop

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EMPLOYMENT

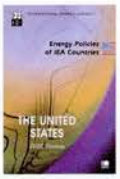
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"Solutions to the key environmental challenges are available, achievable and affordable, especially when compared to the expected economic growth and the costs and consequences of inaction", OECD Secretary General Angel Gurria said at the worldwide launch of the ***OECD Environmental Outlook to 2030***. It is a pathbreaking report that marries economic and environmental projections for the next few decades and simulates specific policies to address the key challenges.



The relevance of tourism to countries' economic, services and employment performance is widely recognised. Governments, increasingly aware of the strong potential of tourism, travel and leisure, now give serious policy consideration to this industry at national, regional and local levels. ***Tourism in OECD Countries 2008: Trends and Policies*** is the first edition of a biennial publication which analyses best practice in OECD and selected non-member economies. It surveys a number of initiatives taken by governments and businesses in the tourism field. The report opens with an overview of the key issues and challenges in tourism policy, and then reviews two important aspects of tourism policy: the impact of global value chains and the role of services trade liberalisation in tourism development. It also profiles organisation, budgets, policies, programmes and statistics in tourism for 32 countries.

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For each indicator, there is a two-page spread. A text page includes a short introduction followed by a detailed definition of the indicator, comments on comparability of the data, an assessment of long-term trends related to the indicator, and a list of references for further information on the indicator. The next page contains a table and a graph providing–at a glance–the key message conveyed by the data. A dynamic link (StatLink) is provided for each table directing the user to a web page where the corresponding data are available in Excel® format. *OECD Factbook 2008* is a key reference tool for everyone working on economic and policy issues.

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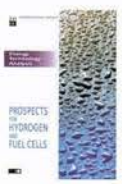
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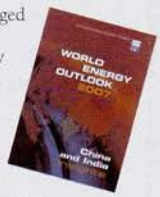
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HIGHLIGHTS



According to the ***OECD Environmental Outlook to 2030***, the transport sector is the second largest (and second fastest growing) source of global greenhouse gas (GHG) emissions. If developing countries follow the same path of private car dependence in the future as OECD nations have in the past, technological advances are unlikely to be able to offset the large increase in vehicle-related emissions. Governments need to prioritise policy action to reduce the energy intensity of transport. Policy options include applying carbon and fuel taxes, reforming vehicle taxation and regulating vehicle standards.



World leaders have pledged to act to change the energy future. Some new policies are in place, but the trends in energy demand and greenhouse gas emissions to 2030 in this year's ***World Energy Outlook*** are even worse than projected in *World Energy Outlook 2006*. The unprecedented pace of economic development in China and India will require ever more energy, but it will transform living standards for billions. There can be no question of asking them selectively to curb growth so as to solve problems which are global. So how is the transition to be achieved to a more secure, lower-carbon energy system? With extensive statistics, projections in three scenarios, analysis and advice, *World Energy Outlook 2007* shows China, India and the rest of the world why we need to co-operate to change the energy future and how to do it.

More than meets the ice

Long-life Surfaces for Busy Roads



Imagine a road surface that turns pink when cold. A new road varnish developed by a French firm, Eurovia, promises to do just that. Road surfaces treated with the varnish change colour, so drivers would be warned when roads turn icy.

Looking after road surfaces accounts for almost half of a country's road budget, and a safe, comfortable and durable road surface could substantially cut the costs and frequency of road works, and save time and money for road users too. Whether a road varnish is a solid investment is a debatable point; what does matter is the quality of materials beneath the surface.

Long-life Surfaces for Busy Roads presents the results of research that evaluated the technical and economic potential of the most promising long-life pavements. Phases one and two of this International Transport Forum project confirmed the viability of two surfaces in particular, epoxy asphalt and high-performance cementitious materials (HPCM). These cost two to three times more than conventional asphalt, but lengthen durability from around 10-15 years to 30-40 years (see "Smoother surface", in OECD Observer No 251, September 2005, www.oecdobserver.org).

The Shell Oil Company developed epoxy asphalt in the late 1950s as a jet fuel and jet blast resistant specialty pavement for airfields. In 1967, a wafer-thin layer of epoxy asphalt was used for its first commercial roadway application on the deck of the San Mateo-Hayward Bridge across San Francisco Bay. After 40 years, the surface is still functioning under extremely heavy use, with 30,000 cars peeling through each lane per day, and the total passage of over 250 million vehicles.

HPCM consists of ultra-high performance, steel fibre-reinforced fine mortar, in which hard, polish-resistant aggregate particles are embedded. Testing has shown that a 10-30mm layer of HPCM shows great strength and integrity, and may be practically maintenance-free for 30 years.

Both materials will now be tested on heavily trafficked roads. This phase of the project will look at glow paint adherence, noise levels, skid resistance and safety in wet conditions, as well as its ability to be quickly mixed, applied and dried. ■

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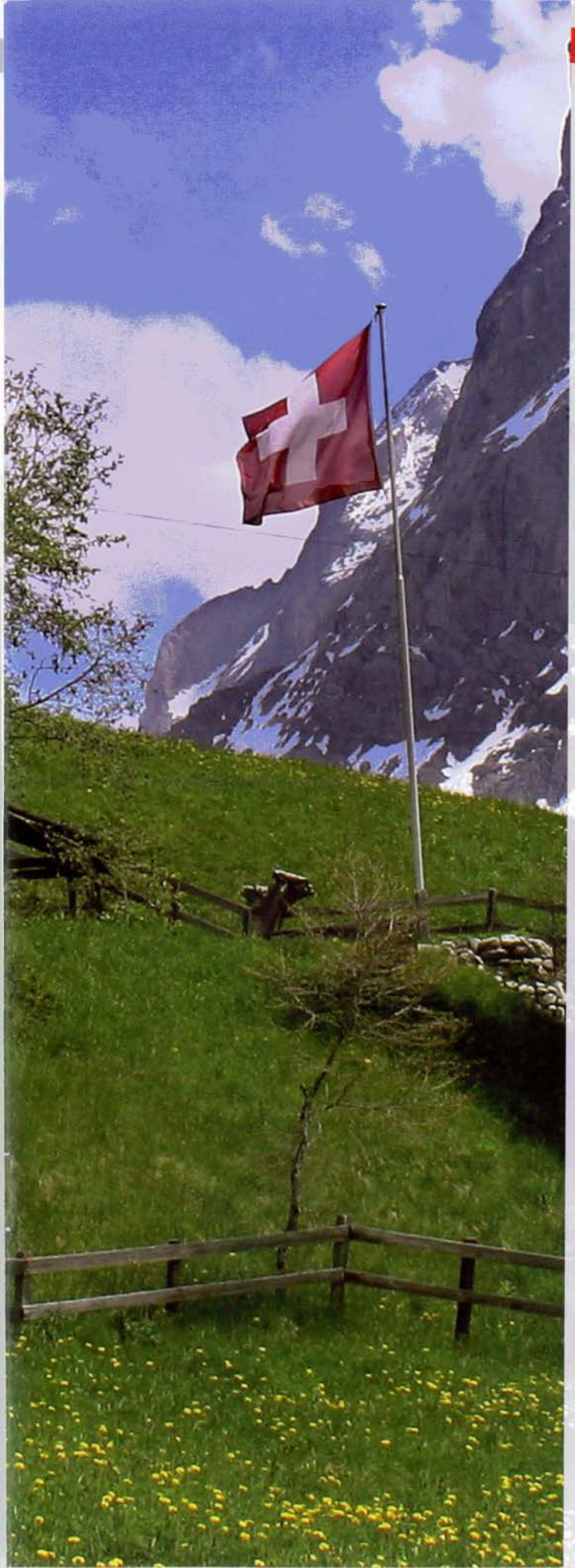
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This special extra on Switzerland was prepared by Pressgroup Holdings Europe especially for the OECD Observer.
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Interview

with Doris Leuthard, Member of the Federal Council and head of the Department of Economic Affairs*



By **Haig Simonian****

International trade is very prominent right now. Can we start by looking at Switzerland's position?

As a very export orientated country, trade is extremely important to us. Switzerland has for years been open to trade deals, both as a member of the European Free Trade Association and through bilateral agreements, with 19 in all now. This year alone, we have agreements ready for signing with Colombia, the Gulf Co-operation Council and Japan. In the latter case, we're the first European country to do so, by the way.

Looking ahead, in January, we opened talks with India, with a formal round to begin in June. And in May, we deepened contacts with China. Both are extremely important countries for us.

What about broader international trade issues?

We are very active in backing free trade, especially in the current Doha round. We share the European Union's position that a deal should be reached as quickly as possible — and ideally by the end of this year. I believe this is a last chance, and say, it's not just a window of opportunity, it's a window of necessity.

Reaching an agreement is essential for integrating emerging markets. In the previous WTO round, agriculture was left a little to one side. It hardly seems fair to concentrate on industry and services and somewhat ignore farming. We see industry, services and farming as three equal pillars. But, the stress of the G20 countries on market access in agriculture, while remaining tentative on industrial products, let alone services, seems unbalanced to us.

But doesn't Switzerland, with its protected agricultural sector, share such concerns?

You forget agriculture accounts for just 1% of our gross domestic product. Services, by contrast, amounts to 60%. Obviously, agriculture has a special resonance for Switzerland from a tourist and environmental point of view. And our preference for quality foodstuffs inevitably comes at a cost. But we've always said we're ready to make our contribution to a world trade deal. Our priority, however, is that it must be balanced.

Will Swiss farmers go along?

We have to support them by adequate measures. We understand we'll lose some domestic production and imports will go up. That's partly why we've proposed an agricultural free trade agreement with the European Union — our biggest trading partner, accounting for more than 70% of imports and exports. We see this as a great opportunity for Swiss farmers, given prosperous consumers' interest in high quality foodstuffs and readiness to pay slightly more for such products. The cheese market has already been liberalised: now we'd like to do the rest.

Turning to the broader economy. Switzerland has seen impressive growth recently. But it's not always been like that. What is different now?

It's true that, after 1992, we had a period of slow growth. But matters have changed in the past three years. A major reason has been the government's decision to initiate a medium term growth strategy. That's now become standard policy: in April, we submitted the latest four year programme as part of a permanent policy to go for

growth, which we've also proposed to the 26 cantons.

We've outlined three priorities. To benefit consumers, we need to develop the domestic market and stimulate competition. We also need to ensure and develop Switzerland's role as an economic centre, building on the advantages we have, such as competitive taxes, an excellent infrastructure, a flexible labour market, high standing research and a reputation for safety and stability. And finally, we need to look at our labour market. We face, like other countries, longer term demographic issues and the risk of skills shortages.

But isn't it the buoyant world economy that has been the real reason behind Switzerland's recent growth spurt?

Obviously, strong world growth has played a role. But the steps we've taken to open up our labour market to people from outside Switzerland following the bilateral treaties with the EU have been very significant. We've created 86,000 new jobs. Clearly, we're a winner from globalisation.

Can we switch to climate change, another big world issue. It's not just the risk of less snow that's important to Switzerland?

We have strong views here too. As a very services orientated country, we have among the lowest CO^2 emissions. But that means our potential for further reductions is limited, although still possible.

We've set out two ways to proceed: First, through national targets, in areas such as construction or traffic. We've favoured an incentive system offering, for example, tax breaks for investments reducing harmful emissions. And we're looking at further measures, such as incentives to encourage energy efficiency in new houses.

Our second priority is agreement on post-Kyoto goals. We'd like to join the European Union's emissions trading system. And we think developed countries need to think much harder about technology transfer and other methods to keep emissions down. For example, "climate neutrality" is one of the options to work against high emissions

We've also emphasised the need for climate issues to be given due weight in multilateral organisations, such as the World Bank or the EBRD. And at the WTO talks in Bali, we backed the idea of "rewarding" efforts through lower tariffs for ecological products.

Sovereign Wealth Funds have come very much to the fore, I know your own department has done some work on this. Can you tell us more?

Indeed. We brought out a paper in January for approval by the Federal Council. Basically, Switzerland is very liberal. We encourage investment and make clear one can't make distinctions based on the nationality or origin of funds. Don't forget Switzerland is one of the world's biggest investors, with about CHF632bn (US$ 600 bn) invested outside the country at the end of 2006.

But we recognise transparency is an issue. We think there must be agreement at international level, and reckon there's a role here for multilateral agencies, such as the IMF or the OECD.

Obviously, any guidelines must include some basic principles, such as that an investor has to observe national laws. But we oppose any calls for quotas or restrictions.

What about Switzerland itself? In spite of the country's many strengths, the domestic market has often attracted criticism for being too rule bound and protected?

We have done a lot to open the home market. For example, 1 January saw the liberalisation of the electricity market, in the first step of a two stage process. We've started with supplies for big customers. In January 2011, the market will be opened to retail customers too.
Other changes have included opening the postal market. Deliveries of parcels is already unrestricted. In April 2006, the Federal Council agreed to open the market for letter weighting more than 100gms. Next April, the threshold will fall to 50gms and the aim is to achieve full liberalisation by April 2012, subject to parliamentary approval.

It's true that there are some areas that are proving more difficult. We've regularly been criticised for running a health system that's too expensive. But making changes here is very difficult. We're trying to make progress through small steps: the health insurers are supportive, but there is strong resistance in the medical community.

I've already mentioned progress in agriculture, with the planned free trade agreement with the EU. And remember, farm export subsidies will be completely abolished next year.

To conclude, can we discuss briefly Swiss politics — a subject that is pretty obscure for most foreigners, given the tradition of coalition governments and priority of referendum based direct democracy?

When we analyse Switzerland's strengths, political stability definitely emerges as one of our strongest assets. True, Swiss politics may be complicated to outsiders. But working via coalitions means you're always obliged to seek allies. You always have to find ways for dialogue and for reaching consensus. That may seem cumbersome, but it enjoys broad support among citizens, resulting in Switzerland's high degree of implementation.

I can't imagine any change to direct democracy. Admittedly, nothing is ever perfect, and we always need to work on it. But, if anything, I see the trend abroad going more our way, with countries increasingly trying to encourage greater political participation.

*__Doris Leuthard__ is a leading speaker at the 2008 OECD Forum. Visit www.oecd.org/forum2008

** __Haig Simonian__ is Switzerland Correspondent of the *Financial Times* ■

Innovation

It is with a mixture of pride and embarrassment that Swiss federal officials speak of their country's innovation policies.

The embarrassment stems from the fact that funding is relatively modest compared with that available in some neighbouring countries. But the pride comes from the fact that national policies have been proved to be remarkably successful, in spite of the limited resources at hand.

Public sector finance in Switzerland for clever ideas or discoveries comes from two sources. The Swiss National Science Foundation concentrates on pure research. Meanwhile, the Swiss Confederation's Innovation Promotion Agency (CTI), part of the Federal Agency for Training and Technology, focuses on supporting the transfer of knowledge and technology between universities and business.

The two are complementary and work together. While the SNSF is "the big tanker", the CTI represents the "speedboats whizzing round", says Domenico Alexakis, executive director of the Swiss Biotech Association (SBA).

The National Science Fund, established in 1952 and with annual resources of CHF500m (US$476m) a year, covers natural sciences and engineering, biology, medicine and the humanities and the social sciences. It works through supporting academics directly, targeted research programmes and national centres of competence in research. In biotechnology, for example, the seven national centres back work into everything from molecular oncology to neural plasticity.

The Fund finances more than 7,000 researchers, the great majority of them aged 35 or younger. It promotes projects submitted for evaluation, supports individual scientists — notably during the critical post doctoral career phase before candidates are appointed to assistant professorships, and backs the centres of competence. The latter, linked to universities or specialist research institutes, focus on targeted needs deemed of strategic importance for Switzerland.

While the fund's prime focus is long term, the CTI's priority is to bring science to the market as quickly as possible.

Its origins go back to the Second World War, when, perilously aware of its scant natural resources, Switzerland realised it had to leverage two key national assets — "brains and money", says Suzanne Auer, an official at the Training and Technology Agency.

"The prime task of the CTI is to be a bridge between researchers and the market", she says.

Last year, the CTI, which has a CHF532m funding package for 2008-11, received almost 500 applications, mainly from engineering and enabling sciences, micro-and nanotechnologies, and life sciences. Of the total, 277 were approved. The funds allocated, handled by a staff of only about 20, ranged from grants of up to CHF1m — the great majority — to larger amounts in a handful of cases.

Approval from the CTI can be an important boost for researchers looking for matching private finance. The CTI's vetting procedures are highly regarded: significantly, some 85-90% of the start ups it has financed survive their difficult opening years, says Ms Auer.

Between 1986 and December 2005, the CTI backed about 4,500 projects, generating a total SFr3bn in research and development spending. About 60% of the costs came from industry, with the state covering the remainder.

Mr Alexakis is generous in his praise. "The CTI is simple, smart and well managed. It also has a certain catalyst function. Switzerland does a fairly good job by international standards", he reckons. In biotech alone, work at Swiss universities in the past 10 years, often with CTI backing, helped the creation of more than 50 new biotech companies, he notes.

Such developments have been boosted by the country's relative openness to outsiders, strong encouragement of networking between researchers, and, above all, the existence of a wide and well informed industrial and private investor base.

The SWX Swiss Exchange, the country's stock market, is weighted towards life sciences and medical technology – so much so that non Swiss companies periodically opt to make their initial public offerings on the Swiss market, rather than their home bourse, because of the informed investor base.

Public markets are complemented by significant private funding opportunities, whether through the venture capital arms of many big, science based, companies, or wealthy individuals, many with direct knowledge of engineering, chemicals or pharmaceuticals. Such advantages have helped to boost innovation, particularly for researchers poised to make the crucial but expensive jump from small scale experimentation in the laboratory to larger scale trials. ■

By Haig Simonian

Inward Investment

The list of prominent US companies with regional headquarters in Switzerland reads like a roll call of the Fortune 500.

General Motors, Procter & Gamble, Dow Chemical and, most recently, Kraft are among the top industrial names with operations for Europe, and, in some cases, the Middle East and Africa, centred in Switzerland. But the roster increasingly includes newcomers from information technology and pharmaceuticals, such as Yahoo, eBay, Google and BiogenIdec.

All have selected Switzerland not for its small and linguistically fragmented market, but for a range of "soft" and "hard" factors that have made the country among the most attractive and successful inward investment locations in Europe.

Many of the reasons are familiar. Switzerland lies conveniently at the virtual heart of Europe, with excellent road, rail and air links providing easy access to other parts of the continent and beyond. Moreover, as a relatively small country, it is genuinely neutral, in the sense that headquarters operations are not dominated by any one nation, language or culture.

Lifestyle also plays a part. The regular quality of life indices produced by management consultants and employment specialists are often led by Zurich and Geneva, which regularly jostle for first and second place. Basel is often not far behind.

That dominance is based on outstanding infrastructure and public services, high quality education, good hospitals and excellent transport. Although Swiss cities are relatively small – Zurich, the biggest, has only 360,000 people, Geneva half that — they offer services and facilities normally only available in much bigger conurbations.

At the same time, the two lakeside centres provide a quality of life usually associated with smaller towns, if not the countryside. The pace of life is civilised, people are polite and public services reliable. Most summer and winter sports are available on the doorstep, amid outstanding natural scenery and largely unspoiled surroundings.

"Apart from the usual suspects, like lifestyle, tax and schools, we offer a unique mix of people from all over the world. Some 38% of the people are foreigners," notes Steve Bernard, director of Geneva Financial Center, a trade promotion lobby.

Of course, companies' decisions to relocate or set up shop are not based on more than the scenery or the proximity of the ski slopes.

"Switzerland also scores highly on most of the 'hard factors', like labour laws and taxation," says Stefan Kux, former head of economic promotion for the canton of Zurich.

Labour laws are business friendly and flexible. Taxation is relatively low, and can be very benign, depending on canton and company. Switzerland's federal system, which includes tax competition between the 26 cantons, has encouraged relatively slim and efficient cantonal administrations. Moreover, the small size and approachability of most public bureaucracies can facilitate problem solving, with cantonal officials, for example, willing to discuss issues face-to-face, rather than insisting on formal submissions and then responding in kind.

Such a proactive approach is particularly encouraging to smaller companies and start ups, which form an important, if sometimes overlooked, part of Switzerland's corporate patchwork.

"We had very strong support from the canton from the outset," says Ross Newman, chief executive of Spectraseis, a start-up geological services company that decided to establish itself in Zurich, partly because of close links with the locally based Federal Institute of Technology (ETH).

"The authorities were very pragmatic and welcoming. That covered everything from work permits to helping us to get started. Switzerland is very accommodating about bringing in specialist expatriates," adds Mr Newman.

The company, which now employs 35 people, has not looked back. "Initially, we thought of obvious oil industry locations, such as Houston or Aberdeen. But we had the link with the ETH, and, as we've grown, we've settled in and set up branch offices in Houston and Abu Dhabi instead. We've found there just hasn't been any reason to move."

The quality of education, and especially technical training, has been decisive for many such newcomers. Switzerland has so far avoided many of the skills shortages plaguing some neighbours. Although politicians have expressed concern about possible shortages ahead, the country's relative openness to outsiders has largely alleviated the problem so far – with notable benefits to inward investment, whether from the corporate leaders of today or their potential successors of tomorrow. ■

By Haig Simonian

A link for security of energy supply

and climate protection in Europe

Matthias Warnig, Nord Stream AG

Sponsored statement

For years, European citizens and many policy makers have taken abundant available energy for granted. This is changing: supply security and climate protection have shown themselves to be interdependent long-term challenges for policy makers, the energy industry and private consumers around the world.

In its Outlook 2007, the International Energy Agency (IEA) set out in the strongest possible terms the growing concern about global energy supply. The report foresees a future in which global regions will have to compete for diminishing energy resources – foremost oil and subsequently gas reserves. Meanwhile, the Intergovernmental Panel on Climate Change (IPCC) has presented its own worrying reports on climate change. "The consequences of a 'business as usual' policy will cause much higher costs than active climate protection," concludes the IPCC in the 3rd volume of its 2007 assessment report. This perception is shared not only by international institutions, but also by dozens of renowned research institutes in the EU member states. According to the Wuppertal Institute for Climate, Environment and Energy, Germany, the current developments and "business as usual" approach do not yet reflect climate protection needs. The European Commission recognised these two main challenges in 2000, when it presented security of supply and climate change as major interrelated issues in its Energy Green Paper. Furthermore, in terms of actual policy implementation, programmes to improve the infrastructure and networks that serve Europe have run for some time, whilst research and development have long been encouraged and coordinated at a European level. In 2007, the Commission took its work one step further by formulating the ambitious "Energy and Climate" package containing the "20-20-20" climate plan: a 20% cut in greenhouse gas emissions, 20% of primary energy to be delivered by renewables and a 20% reduction of primary energy consumption by 2020.

Natural gas: sufficient supply vital for Europe's energy mix

Natural gas can play a decisive role in reaching the outlined objectives, as it has the lowest greenhouse gas emissions of all fossil fuels. For example, it emits 40% less CO_2 than coal. Representing an average 26% of Europe's primary energy consumption today, natural gas is an essential component of the European energy mix. According to the IEA, the consumption of natural gas will continue to increase. By 2020, natural gas will account for more than one-third of primary energy consumption.

While demand grows, only a few EU member states can rely on domestic reserves. Countries like Germany will have to work together with import partners like Russia. However, also European domestic producers (including Norway, which exports nearly all of its gas to the EU or the United Kingdom) will have to look for alternatives, due to declining reserves in areas such as the North Sea.

But rising import needs also direct attention to another sector of the European energy industry where investments are necessary. By 2015, current transport capacities will no longer be able to cover the growing natural gas demand in the EU. This presents great challenges regarding supply and climate protection for EU member states. The natural gas pipeline across the Baltic Sea – Nord Stream – can contribute to solving these challenges. By delivering the most environmentally friendly fossil source of energy via an infrastructure that keeps environmental impact to a

minimum, Nord Stream will play an important role in diversifying and sustaining the European energy mix, and consequently help the EU to reach its stated climate protection targets.

Additional pipeline capacities indispensable

According to a 2007 survey by Global Insight, a supply gap of roughly 200 billion cubic meters in the year 2015 can only by prevented by strategic expansion of transport capacities. Of course, European energy companies have always planned with long-term needs in mind.

In the case of the Nord Stream gas pipeline, which will connect the Baltic Sea coasts near the town of Vyborg in Russia with Greifswald in Germany, the process began with feasibility studies in 1997. Nord Stream's offshore route is the result of detailed analysis of technical, environmental and economic factors. The integrated feasibility studies, conducted over three years, considered several alternative routes. The one currently envisaged was assessed as the most feasible way to transport gas from the world's largest reserves to those markets with the highest expected increase in gas demand in the European Union.

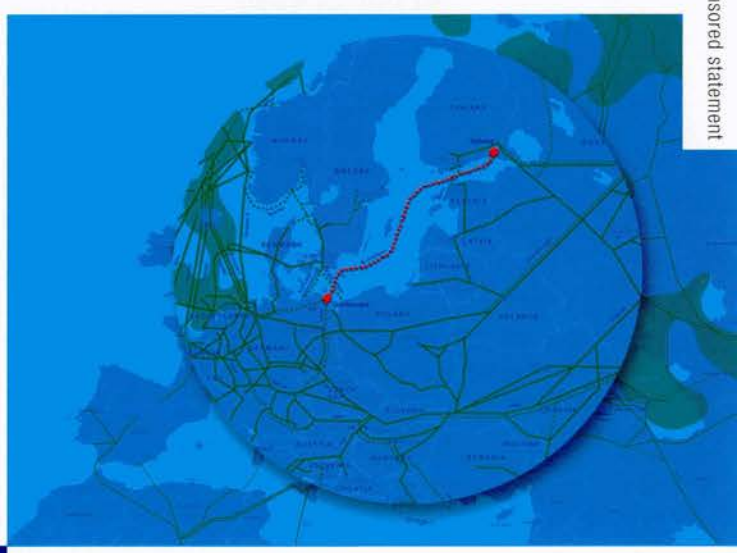
Nord Stream will complement the existing infrastructure and – by meeting about 25% of that additional requirement (55 billion cubic metres of gas a year) when fully operational in 2012 – help to fill the looming import gap.

EU confirms importance of the Nord Stream project

The European Union understands that infrastructure is the key to maintaining supply and hereby ensuring the economical competitiveness of its member states vis à vis other leading economies worldwide. Thus, it actively supports new infrastructure projects through a variety of programmes and measures. These include the Trans-European Energy Network (TEN-E) Guidelines, comprising Nord Stream and other potential new import routes such as the Nabucco pipeline. The guidelines were first adopted in 1996, and are significant in defining European policy towards the establishment of networks and the development of the internal energy market. The latest update of the

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Nord Stream
The new gas supply route for Europe



Established: 2 December 2005

Shareholders: OAO Gazprom, BASF/Wintershall AG, E.ON Ruhrgas AG and N.V. Nederlandse Gasunie

- Mission: Plan, build and operate an efficient gas pipeline infrastructure for the secure supply of natural gas in Europe
- Investment: € 7.4 billion
- Total capacities: 55 bcm of natural gas per annum (two pipelines with 27.5 bcm capacity each)
- Completion of the first line 2011 and the second 2012

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Mr Matthias Warnig

guidelines was issued in 2006 and Nord Stream was designated a "Project of European Interest," cementing its status as one of the most important projects to meet Europe's energy infrastructure needs.

Today, Nord Stream is the most advanced of all the potential new import routes to Europe. Before construction of the pipeline begins, a complex planning process and comprehensive Environmental Impact Assessment (EIA) in accordance with the Espoo Convention must be carried out.

The EIA documentation, which is almost completed, is a detailed study of possible impacts of the pipeline on the Baltic Sea environment in a trans-boundary context. Five countries are defined as "Parties of origin" by the Espoo Convention: Finland, Sweden Denmark, Germany and, as a signatory party to the Convention, Russia. This means that the project is planned to pass through their Exclusive Economic Zones. Furthermore, Latvia, Lithuania, Estonia and Poland are also involved in the Espoo process as "affected" parties. Nord Stream engages in an ongoing dialogue with all of these countries. Its objective is to choose the best possible route and technologies for the pipeline construction and operation, and thereby minimise the impact on environment.

The first of Nord Stream's two parallel pipelines, each approximately 1,220 kilometres long, is set to become operational in 2011 with an initial transport capacity of 27.5 billion cubic metres per year.

A project of European dimension

Nord Stream itself is an international commercial joint venture based in Zug, Switzerland. Its four shareholders come from Russia, Germany and the Netherlands. The companies Gazprom, BASF/Wintershall, E.ON Ruhrgas and Nederlandse Gasunie combine market-leading expertise in constructing, operating and maintaining both offshore and onshore pipeline networks. Establishing Nord Stream's headquarters in Zug was a strategic decision made by all shareholders. The city's leading role in international commodity trade and the financial sector, as well as its highly developed infrastructure, were the main criteria.

The gas that will be delivered through the pipeline to Germany will be transported onwards to France, the Netherlands, the UK, Denmark and other areas of Western Europe, countries where the increase in demand is projected to be highest over the coming years. Forwarding transportation projects are being planned or already realised, including: the onshore pipelines OPAL (Ostsee-Pipeline-Anbindungs-Leitung) and NEL (Norddeutsche Erdgas Leitung) by German WINGAS, as well as the onshore and partly offshore pipeline BBL (Balgzand-Bacton-Pipeline) by Gasunie and E.ON Ruhrgas.

Furthermore, the Shtokman gas field in the Barents Sea is being developed and is planned to be connected to Europe through Nord Stream, guaranteeing that gas from this major new source of natural gas will provide consumers in the European Union with energy. Although new LNG terminals can be used for gas imports from all over the world, pipelines connecting production fields with consumers will give Europe a clear advantage over global competitors for energy resources in terms of long term reliability. In addition, transporting gas by pipeline is ultimately cheaper, safer and more environmentally friendly than by tankers.

In this sense, Nord Stream is an example of a truly European project and it is one that is contributing to European energy needs as a whole. As the European Union rightly takes a lead on energy and climate protection issues that concern all member states' energy companies, national governments and the European institutions have to make a joint effort in order to ensure security of energy supply throughout Europe. Of course, gas imports are only one part of this complex task, and there are significant ongoing projects to encourage new technological developments, e.g. in the field of renewable energies, to increase efficiency and reduce emissions, and to develop other forms of energy. But it is crucial that Europe relies on a mix of energy sources that secures supply, and thus economic and social well-being. Gas, as compared to conventional fuels, is a clean, sufficiently available and reliable source of energy.

Nord Stream takes all of these prerequisites into consideration. Planned with utmost thoroughness and keen awareness of environmental issues and conditions in the Baltic Sea, the project will observe national and international environmental, maritime and legal requirements during planning, construction and operation of the pipeline. ●

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Corporate Governance in Switzerland

Sébastien Bettschart, Tavernier Tschanz

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General framework

The main corporate entities used to conduct business in Switzerland are the stock company, the most common form of companies and the subject of this short article, and the recently overhauled limited liability company.

Companies' corporate governance is governed by the relevant provisions of the Swiss Code of Obligations and, as far as voluntary corporate restructuring is concerned, the Federal Act on Mergers. Additional requirements, mainly based on the principle of self-regulation, apply to listed companies. Regulation applying to the financial sector also includes aspects of corporate governance.

The umbrella organisation representing the Swiss economy, economie suisse, published in 2002 the Swiss Code of Best Practice for Corporate Governance ("SCBP"). These non-binding recommendations intended for listed companies and economically significant entities represent the current standard of practice widely accepted by Swiss companies. In 2007 the SCBP was supplemented by ten recommendations on directors' and managers' compensation.

Structure of management

The board has quite broad flexibility in its organisation and can either manage the company itself, allocate management responsibilities to certain directors or delegate them to officers – within the limits of the so-called non-delegable powers of the board (general strategy and organisation, supervision of the management, financial reporting to the shareholders, etc.) – as provided for in the by-laws and specified in organisational regulations.
In practice, the management and the board are usually clearly separated, especially in large companies where it is recommended that the majority of the board be non-executive; in fact 90% of listed company directors are non-executive.

The board should establish committees, including an audit committee, a compensation committee and a nomination committee, whose tasks are detailed in the SCBP.

A majority of the audit committee and all members of the compensation committee should be independent. As a rule a non-executive director is independent if he or she is not involved in management or was involved more than three years ago or has no (or comparatively minor) business relations with the company.

The ordinary term of directors should not generally exceed four years, and staggered terms are desirable.

The board should determine whether one person can simultaneously be the chairman of the board and the CEO, depending on reasons specific to the company or relating to the availability of senior management. If one person holds both roles, the company should exercise adequate control, for example by appointing a non-executive lead director.

The General Meeting of the Shareholders

The general meeting of the shareholders has non-delegable powers encompassing the modification of the by-laws, the election and removal of the directors and the auditors, the approval of the annual report, the use of the annual profit, the modification of the share-capital.

The ordinary general meeting must take place within six months after the end of the business year; more stringent deadlines apply to listed companies.

Save for specific decisions which require a higher threshold, decisions are generally passed with a majority of the votes allocated to the shares represented (majority vote).

Shareholders that either represent at least 10% of the share capital or hold shares of a par value of at least CHF 1 million can (US$ 950,000) request that the board convene a general meeting and/or include specific items in the agenda. The SCBP recommends that the by-laws lower these thresholds to facilitate the exercise of shareholders' rights.

At the general meeting, directors must provide shareholders, at their request, with information concerning the company to the extent that is necessary to exercise shareholders' rights, provided this does not jeopardise business secrets or other company's interests. Shareholders can only inspect company books and correspondence if they are authorised to do so by the general meeting or the board.

A shareholder can propose that specific facts be subject to a special audit if necessary, provided he has already exercised his right to information or inspection. If the proposal is rejected by the general meeting, shareholders can ask the court to appoint a special auditor, if they either hold at least 10% of the share capital or shares with a par value of at least CHF 2 million.

Remuneration

In addition to the general requirements of company law, the recently revised SCBP provides for ten detailed recommendations regarding the remuneration of directors and managers.

In particular, the remuneration should be commensurate to market conditions and be conditional on the company's sustainable success and the individual contribution; it should reward medium and long-term interests. False incentives should be avoided.

The dilution effect caused by share option schemes should be minimised, and the conditions for exercising options should not be subsequently modified in the option-holder's favour.

As a rule, the company should not grant golden parachutes or severance compensations.

The board should establish a compensation report for the general meeting and involve the shareholders in the compensation system by bringing it into the discussion regarding the approval of the financial statements or by submitting it to a consultative vote of the general meeting.

The board should ensure transparency and provide information that is readily comprehensible.

Listed companies must disclose the content and method of determining directors' remuneration, including the authority and procedure.

Listed companies must disclose in the notes to the financial statements remuneration, loans and guarantees to directors (on an individual and aggregate basis), senior managers (on an aggregate basis), and the senior manager with the highest remuneration. All participation rights in the company's share capital (as well as convertibles and option rights) held by directors and senior managers must be disclosed on an individual basis.

Conflict of interests

Generally, a director should not participate in a decision where he or she has a conflict of interest, and the other directors should ensure that he or she does not do so.

The SCBP sets out the legal framework and procedure to be followed should a conflict of interest arise, and recommends that anyone with a permanent conflict of interest should not be a board member.
Transactions between a director (or his or her relatives) and the company should be carried out at arm's length and approved without the participation of the person concerned. As a rule, the agreement must be in writing.

The board should take measures to prevent insider trading (such as declaring periods of time during which the directors cannot deal in the company's securities) in connection, e.g., with, takeovers, before media conferences or announcing corporate results.

Directors or managers who trade listed shares of the company or inform third parties based on important confidential information which are likely to have a significant influence on the shares' market price are subject to criminal liability (insider trading).

Disclosure of information

General information on companies is publicly available (most of it online) from the Trade Register and/or is published in the Swiss Official Gazette of Commerce.

The board must inform in writing any shareholder or creditor who can prove an interest worthy of protection of how management is organised.

Listed companies must disclose their internal organisation and the allocation of responsibilities. Information on the activities of non-executive directors, their vested interests outside the company and their (former) connections with the company must be disclosed (see also above regarding the disclosure of the remuneration system).

In addition, listed companies are subject to stringent disclosure requirements regarding the regular publication and the availability of financial statements, the changes to shareholding structure and ad hoc publicity.

They must disclose to the SWX Stock Exchange ("SWX") the direct or indirect purchase or sale of the company's securities by directors and senior managers. If a transaction or the total value of the transactions concluded by one person within one calendar month exceeds CHF100,000, the SWX makes the information publicly available.

Internal controls, accounts and audit

It is part of the general duties of the board to set up an internal control corresponding to the size and the type of the company and covering financial and operational risks. In addition, the notes to the financial statements must disclose information on the implementation of risk evaluation measures; the statutory auditors of companies subject to a regular audit (see below) must certify the existence of an appropriate internal control.

There are two different sorts of audits, namely the regular audit and the limited audit, which depend on the size of the company, whether the company is listed or has issued bonds, or whether it has to establish consolidated financial statements. Shareholders representing 10% of the voting rights may request that a company subject to a limit audit be subject to a regular audit (opting-up). The shareholders of small companies having less than ten full-time employees may choose, by a unanimous vote, to ease or to waive the requirements of the limited audit (opting-down or -out).

Auditors have to be registered with the Federal Auditing Oversight Authority. In addition, auditors of listed companies or having issued bonds are supervised by this Authority.

Auditors must be independent. Detailed rules set forth the scope of the independence which depends on whether the auditors perform regular or limited audits.

Listed companies must apply accounting standards recognised by the SWX and their auditors must be approved by the SWX.

Proposals of reform

A thorough reform of company and accounting law is to be discussed by Parliament. The main issues relate to corporate governance, the structure of the share capital, general meetings of the shareholders and accounting and financial reporting requirements.

The government has been asked to prepare a draft bill to protect persons who internally or publicly reveal cases of bribery or other irregularities which have been discovered at their place of work from abusive dismissal and other discrimination.

The scope of insider trading prohibition will be extended in the near future by removing the current narrow definition of important facts. Price manipulation on stock exchanges will also be revised. ●

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Market dominance under Swiss competition law

Dr Marcel Meinhardt and Dr Benoît Merkt, Lenz & Staehelin

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Article 27(1) of the Swiss Constitution states that economic freedom is a fundamental right. The State must create an adequate environment so that private individuals can make use of their economic freedom without being unreasonably restricted by restraints on competition.

In 1995 the Federal Law on Cartels and Other Restrictions of Competition ("LCart 1995") led to a paradigm shift in Switzerland. It provided for stronger protection for institutions and the protection of private interests no longer took priority. Since the LCart 1995, Swiss competition law has been focused exclusively on competition objectives. Other public interests cannot be taken into account by the Swiss Competition Commission or judicial authorities (and only exceptionally by the Federal Council).

An amendment to the LCart 1995 ("LCart"), which came into force on 1 April 2004, reevaluated the protection of private interests. The LCart is aimed at preventing the economic and social damage caused by cartels and other restraints of competition and, as a consequence, is intended to stimulate competition in the interest of a free market economy (Article 1 LCart). The LCart provides that abusive conduct of dominant enterprises is unlawful and can be punished after a first infringement with fines up to 10% of the turnover made in Switzerland in the previous three business years. This led, for instance, in February 2007 to the imposition by the Competition Commission of a fine of more than CHF 333 million (US$ 315 million) on Swisscom Mobile.

For the purpose of legal certainty, the amended LCart provides for a notification and opposition procedure. This allows enterprises to notify potential infringements to the authorities in case of doubt on the legality of their conduct. If the authority does not oppose the notification, the risk of fines is eliminated. Nor will there be a fine if the restraint on competition has not existed for a period longer than five years prior to the opening of the investigation or if the Federal Council has granted an exceptional authorisation.

In addition, the Swiss Federal Act against Unfair Competition and the Swiss Federal Act on Price Control can be applied to the conduct of dominant enterprises. Also, there are sector specific laws that warrant network access as well as access to certain essential facilities.

Private interests may also be protected before the civil courts in Switzerland. This is particularly true in relation to alleged abusive conduct of dominant enterprises where private interests often prevail. The Competition Commission does not take up a case if its main focus is not in the public interest, but rather is focused on individual interests though in practice, the distinction between public and private interest may be rather difficult to establish.

Assessment of dominance

According to Article 4(2) LCart, one or more enterprises are deemed to have a dominant position if they are able, as regards supply or demand, to behave in a substantially independent manner with regard to the other market participants (eg. competitors, suppliers or customers).

In practice, the question of market dominance is based on the following criteria: market share(s) of the company in question and its competitors; existence, ownership and access to essential facilities; market entry and exit barriers; vertical and horizontal countervailing market power; switching costs; financial power; portfolio effects; vertical integration; market conduct; and economic dependence.

The concept of market dominance in Article 4(2) LCart in connection with Article 7 (illicit behaviour of dominant enterprises) requires a far stronger market position than mere market power.

There have been cases which have created market share levels from which, as a general rule, the existence of market dominance can be presumed or

rejected. According to the Competition Commission's practice, market dominance is in general presumed for market shares of 60% or higher. Civil courts generally consider market shares of up to 45% to be unproblematic. Certain legal scholars suggest that market dominance will be presumed with a market share of 50% or more though the Commission Competition stated recently that a market share of between 40% and 50% suffices as an indication of dominance. The concept of "super dominance", as known to EU competition law, has not yet been introduced into Swiss competition law.

There is no safe harbour rule in Swiss competition law applicable in the area of abuse of market power and up to now the case law of the Competition Commission has not been very significant in this area. Part of the doctrine proposes a safe harbour for market shares of below 20%.

The Commission recognises the notion and concept of collective dominance not only in the field of merger control, but also in the context of Article 7 of LCart. Therefore, two or more companies which are collectively dominant can commit an abuse of their dominant position.

The relationship between intellectual property law and competition law is governed by Article 3(2) of LCart. The law states that the effects on competition that result exclusively from laws governing intellectual property are in general excluded from the LCart but in assessing market strength, one indicator is whether a company has a broad or a strong intellectual property rights portfolio.

Outlook

The 1995 and 2003 laws have developed the competition regime in Switzerland and it is for the most part coherent and in line with the EU's and other European countries' legislations.

It remains to be seen whether this will change in the future based on the slightly amended definition of dominance in Article 4(2) of LCart. Certain scholars interpret this provision broadly so that dependence in bilateral relationships between two enterprises can also lead to so-called relative market dominance, i.e. irrespective of the market power in the relevant product market. Furthermore, dominance may occur if an enterprise holds a "paramount market position" compared to the other competing enterprises. This broader interpretation is sometimes based on the argument that dominance may be more easily achieved in smaller economies such as Switzerland.

A welcome move would be if the more economic approach of European competition law also indirectly affected the application of Article 7 of LCart.

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LENZ & STAEHELIN

The Swiss Financial Market

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Switzerland is one of the world's leading financial centres. This is true not only for banking, but also for insurance and re-insurance, commodities trading and trade finance. There are many Swiss financial intermediaries of international weight: UBS is the largest and Credit Suisse is the fourth-largest global asset manager, Swiss Re is the leading global re-insurer, Glencore is one of the world's leading commodities traders, to name just a few.

Switzerland hosts, since its formation in 1930, the world's oldest international financial organization, the Bank for International Settlement (BIS), which acts as bank for the most important central banks. Switzerland is one of the G-10 countries and member of the Basle Committee on Banking Supervision.

Switzerland is neither a member state of the European Union (EU) nor of the European Economic Area (EEA), but it is a member of the European Free Trade Association (EFTA) and of OECD. Swiss regulation is based on two pillars: (i) supervision of the market actors such as stock exchanges, banks or securities-dealers by the regulators and (ii) self-regulation. Already since 1977, based on self-regulation, Swiss banks have adhered to know-your-customer rules and implemented and constantly improved means to identify beneficial owners. The Anti-Money Laundering Act (AMLA), in force since 1998, and further legislation translate recommendations of the Action Task Force on Money Laundering (FATF) into national law.

The Federal Banking Commission (FBC), as the banking supervisory authority, and the Swiss National Bank (SNB), as lender-of-last-resort, are responsible for supervision of liquidity, risk control and capital adequacy and have a good international reputation. Over the last few years, new legislation has been put in place and is still underway to keep up an up-to-date supervisory legal framework. The new Financial Market Supervision Act (FMSA), which will fully enter into force on January 1, 2009, will merge the FBC, the Federal Office for Private Insurance (FOPI) and the Federal Control Body for the Prevention of Money Laundering into one integrated supervisory authority, the new Financial Market Supervisory Authority (FINMA).

Despite the US subprime crisis, turbulence on the exchanges in the second half of 2007 and the increase in prices of commodities and credit risk premiums, Switzerland's economy continued to show robust growth in 2007, thanks to firm domestic demand and strong exports. The Swiss Minister of Finance recently reported a surplus tax revenue of CHF 4.1 billion (US$ 3.9 billion) for the year 2007.

Although the US subprime crisis triggered massive write-downs by the investment banking divisions of the Swiss international banks, their private banking divisions operated profitably and continued to grow. Switzerland has been a centre both for private banking and investment banking for many years. It is estimated that Swiss financial intermediaries have a 30% share of the global cross-border wealth management market. According to SNB statistics as per the end of 2007 assets under management by Swiss banks amount roughly to CHF 5,236 billion (CHF 5,374 in May 2007 and CHF 4,900 billion as per end of 2006), of which CHF 334 billion were structured products (CHF 284 billion as per year end 2006). Structured products have achieved over 20% growth over the past few years, and the mid-term expectations for further growth are intact. As the structured products market has developed, there has been continued innovation, with growing demand for certificates on commodities, bonus certificates and capital-protected certificates.

Very recent market surveys such as the Swiss Financial Centre Watch 2007, show that the Swiss financial market has experienced a veritable boom, not so much due to banking and insurance but mainly due to new financial service providers such as hedge funds, private equity firms, venture-capital firms, independent asset managers or trust companies. There has been no private equity crisis at all in Switzerland.

Switzerland seems attractive to foreign companies and high-net-worth individuals and employees for various reasons, such as free capital flows, open markets, including the labour market, legal, political and economical stability with an independent and secure currency, high legal certainty, effective protection of social and economic privacy, efficient data protection, pragmatic regulation of the financial services industry, excellent educational systems, availability of skilled employees, top infrastructure and personal quality of life. For example, the Society for Worldwide Interbank Financial Telecommunication (SWIFT), members of which include 2,500 of the largest global banks, has announced it will establish a new operating centre in Switzerland by the end of 2009 for processing all European wire transfers.

A more sophisticated capital market infrastructure

There has been a resurgence in IPO activity in Switzerland over the last few years, an area that had remained rather quiet since the start of the decade, as a consequence of the dot com crash in the late nineties. Switzerland's stable economic climate, and sizable potential for IPO's, due to its large pool of medium-sized enterprises in the areas of finance, biotechnology, pharmacy and high tech, means that Swiss and foreign bankers have an increasingly optimistic outlook. Demonstrating this trend was the November 2007 IPO of Gottex, the alternative investment manager, which had a market capitalisation of CHF 2.196 billion, a figure significantly larger than the initial transaction. The presence of a number of biotech and industrial companies as well as financial service providers in Switzerland offers ample opportunities to go forward.

The main Swiss infrastructure providers have recently merged. At the beginning of 2008, SWX Swiss Exchange (SWX), the principal securities settlement organisation, SIS SegaInterSettle (SIS), the main securities settlement organisation, and Telekurs, the principal Swiss payment systems and international financial information provider were merged under the roof of a strategic holding entity, Swiss Financial Market Services Ltd. The three infrastructure providers have already worked together for a long time. A

while ago, they achieved the complete integration of the three stages of a securities transaction: trading (SWX), handling and safekeeping (SIS), and payment (Telekurs), all of which occur online on a real-time basis. This is unique in the world.

There are two joint-venture exchanges for derivatives between SWX and Deutsche Borse, namely (i) Eurex (European Exchange) and (ii) Scoach (Scoach Switzerland Ltd). Eurex provides a fully automated trading platform for standardised derivative instruments, such as traded options and financial futures, and is one of the world's leading derivatives exchanges. Since 2007 Scoach has operated trading facilities in Zurich (for Switzerland) and Frankfurt (for Germany and EU countries) for structured products that are listed on the SWX and elsewhere.

Derivative instruments have shown robust growth over the last few years in Switzerland, with structured products achieving a trading volume of CHF 71 billion in 2007 in listed products, which is a growth of 63% against the previous year. The emergence of Scoach has more than doubled the size of structured products issuances and 20,000 securities were listed on SWX in 2007. This indicates the attractiveness of the market to both Swiss and foreign investors. The market for unlisted products is estimated to be five to eight times bigger than the market for listed products.

The rapid growth of the structured products market caused leading derivatives issuers to form the Swiss Structured Products Association (SSPA) in April 2006. The SSPA provides information on structured products, establishes industry standards and communicates shared interests within the industry. All major derivative houses active in Switzerland have joined the SSPA. In 2007, the first public fair on structured products took place in Zurich.

Increased availability of structured products drives innovation

While structured products were initially restricted to a limited circle of qualified investors, they have become considerably more accessible for, and accepted by, retail investors. According to the SSPA, investments in structured products are split between commercial clients (10%), institutional investors (48%) and private investors (42%), whereby more than 50% of the latter are effectively placed via asset managers. As structured products continue to evolve, it is assumed that retail investors will play an even greater role in the future.

There is ongoing development and rapid innovation within structured products, which have become more complex. Seven years ago, the most innovative products were certificates on hedge fund indices, today it is on commodities. Also more and more structured products with actively managed underlying have been issued and listed. Today, there is a high demand for bonus certificates and capital-protected certificates. The SSPA expects that the trend of growth is going to continue for the next couple of years.

The rapid growth of the structured products market and the high pace of innovation and increasing complexity raised not only the issue of investor protection but also regulatory questions. The debate was whether, and under what circumstances, structured products, which often satisfy similar investment needs as investment funds, should be subject to investment-fund-type legislation. The general consensus was to keep the liberal regulatory regime for structured products but to improve investor protection by requiring more transparency.

The new Collective Investment Schemes Act (CISA), in force since 2007, focuses on the regulation of collective investment schemes but partially extends to structured products. The CISA governs only public offerings of structured products – as opposed to private placements. A public offer, according to CISA, is any marketing undertaken that is directed towards the public. A public offer of structured products in or from Switzerland requires that:

(i) a simplified prospectus meeting certain content requirements be prepared; and
(ii) the structured product is issued, guaranteed or distributed by a regulated entity, i.e., bank, securities dealer, insurance company or foreign entity that is subject to equivalent prudential supervision and maintains a physical presence in Switzerland (however, physical presence requirements do not apply if the structured product is listed on the SWX).

The Swiss Bankers Association (SBA) has issued guidelines on the information for investors of structured products, and the regulator, the FBC, has issued a Q&A catalogue providing further interpretation. The SBA guidelines define structured products as investment instruments for which the redemption value is linked to the performance of one or more underlying assets. Structured products may have fixed or unlimited maturities. Further, the SBA guidelines detail the content requirement for a prospectus. This is a typical Swiss solution: General statutory legislation and detailed self-regulation; of course, self-regulation needs prior approval of the FBC.

The Swiss prospectus for structured products is a relatively lean, term-sheet-like prospectus where all necessary information is covered and unnecessary padding is kept out. Swiss legislators think that a short prospectus has a higher likelihood to be read and understood. Also, the vast majority of structured products are placed with institutional investors (48%) or via asset managers to retailers (half of 42%). These financial advisers are expected to be sophisticated enough to understand a prospectus containing the central points such as the key characteristics of the given product, profit and loss prospects and significant risks for the investor and to be able to advise their retail customers accordingly.

A record year for Swiss M&A

The overall number of M&A deals of the first half of 2007 even surpassed the figures of the year before, with record levels especially in the financial and energy sector. In Switzerland, the acquisition of the supermarket chain Denner by market leader Migros stands out as the most talked-about domestic M&A transaction in 2007. Noteworthy are also Nestlé's multi-billion acquisitions of the medical nutrition division and of the baby nutrition company Gerber both from Novartis in 2007 and Novartis' acquisition of eye care company Alcon from Nestlé for USD 39 billion in early 2008. Key cross-border transactions include the takeover of SIG Holding AG by Rank Group Ltd, New Zealand, and French SCOR SA's acquisition of Converium Holding AG or the public takeover bid for German AWD by Swiss Life in early 2008.

Although there were a record number of M&A deals in the first half of 2007, the turbulence in the international financial markets had a certain negative impact on the total volume of M&A transactions last year, as transactions have tended to become more expensive due to higher credit costs. However, the SNB has stated that the domestic credit market has not really been affected by the US subprime crisis so far, but banks could in the future tighten their credit conditions and so domestic financing could become less accessible also for mid-cap sized companies. ●

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Legal notes: Article 717 of the Federal Code of Obligations states that a member of the board of directors is required to exercise due care (and to be loyal to the company). The guidelines given in Article 99 of the Federal Code of Obligations deal with liability resulting from the violation of legal obligations. In addition, two regulations have recently been enacted which attempt to define standards of corporate governance for listed companies. The SWX Guidelines regarding Information on Corporate Governance were enacted based on Articles 8(2) and (3) of the Stock Exchange Act and contain rules for transactions with related parties, in particular with officers and directors. The second document is the Swiss Code of Best Practice for Corporate Governance, published by economiesuisse, an important private association of Swiss industry. As economiesuisse has no legislative powers, the code only contains recommendations. However, with time, these recommendations can be used to define the standard in the industry. The standard of care required from a member of the board of directors is measured in an objective manner. Every member of the board must act in the manner that may reasonably be expected of an 'ordinary person' in the same situation. According to the established jurisprudence of the Federal Supreme Court, the law requires that we should accept a position on a board of directors only if we are capable of assuming the duties of that position and of spending the time necessary to comply with them. Therefore, a member of a board of directors cannot excuse himself by claiming a subjective lack of knowledge or lack of time. Basically, the law provides for liability even for slight negligence, the real test being whether the person in question acted in a manner that could objectively be expected from a person in his position. According to Swiss law, it is not permitted to limit this investigation solely to formal aspects. At the very least, a procedurally correct decision must also be reached based on a reasonable analysis of adequate information. Also, the decision of the directors must be lawful. An unlawful decision, even if it reached through a formally correct procedure, remains a violation of the duty of due care. According to Article 717, the members of the board of directors have a duty of loyalty and must act in the interests of the company to the best of their ability. The Federal Supreme Court has, in a long series of decisions, defined some principal duties that must be observed in this respect: The directors and officers of a company are required to keep any business secrets of the company strictly confidential and not to use personally or divulge any insider information; the members of the board of directors and the officers of a company are not allowed to compete with the company; the members of the board of directors must always put the interests of the company first. Although it is not illegal for a member of the board to enter into a contractual relationship with the company, the transaction is required to be at arm's length in all respects. The members of the board of directors must also put the interests of the company before the interests of its shareholders. This can be a problem in the – quite frequent – case that the director is a nominee. Such members of the board of directors can easily find themselves with a conflict of interest. Although it has been argued that different rules should apply for members of the board of directors in groups of companies (appointed by the parent company to serve as member of the board of a subsidiary company), the Swiss courts have not accepted a different standard thus far. Individual members of the board of such companies remain personally liable if they put the interests of the parent company before the interests of the company itself. The duty of equal treatment of shareholders is also considered to be part of the directors' duty of loyalty. Unequal treatment is not prohibited per se, but must always be motivated by objective reasons and be in the interest of the company. Finally, in the event of a conflict of interest, a member of the board of directors should resign in order to avoid liability, and if this is not possible, must not involve himself in any manner whatsoever in the process by which a decision is reached. As mentioned above, the primary duty of a director is always owed to the company. Nevertheless, the Federal Supreme Court has distinguished between rules that were established – at least in part – for the protection of creditors and rules that are significant only to the relationship between the company and its directors. This distinction is significant in the context of the right of creditors to bring claims. The most notable rules intended for the protection of creditors are as follows: The board of directors must immediately notify the bankruptcy judge if the companyis over-indebted. If the members of the board delay notification, they can become liable for any increase in damages suffered by the creditors from the point of time the judge should have been notified. The board must act if assets no longer cover less than half of the share capital and legal reserves of the company. In this event, the board is required immediately to convene a general shareholders' meeting and propose financial restructuring measures. The law restricts the possibility of the company legally acquiring its own shares. Various other provisions of the law are designed to preserve the share capital and legal reserves of the company as potential security for the claims of the creditors. Any violation of these provisions by the board of directors would constitute a serious breach of duty. An important provision is also addressed to the auditors of the company. In accordance with Article 729b of the Federal Code of Obligations, the auditors are legally required to notify the bankruptcy judge if the company is over-indebted and the board of directors does not itself notify the judge. Failure to comply with the duty can lead to the liability of the auditors of the company. Other duties are owed to the shareholders. Most notable among these is the duty, already mentioned above, to treat shareholders equally. The shareholder also has a right of information and supervision. Article 696 of the Federal Code of Obligations provides that the board of directors has a duty to provide the shareholders with the information necessary to exercise shareholders' rights in the general shareholders' meeting. Article 697 further provides for a right of the shareholder to direct enquiries to the board of directors and the auditors of the company. The board and the auditors must provide information to the extent that this is necessary for the shareholder to exercise shareholders' rights. However, business secrets do not have to be disclosed. According to Article 752 of the Federal Code of Obligations, subscribers of securities issued by a company have a cause of action against anyone, including the directors of the company, who was involved in the subscription procedure and made or disseminated incorrect, misleading or incomplete statements. No specific separate duties are owed to employees. However, they frequently form an important group of (preferred) creditors in an insolvency scenario. The payment of social security contributions often becomes an issue if a company is declared bankrupt. The members of the board of directors can be made personally liable if these contributions were not fully paid up to the date of bankruptcy. As with most claims for liability, the cause of action for directors' liability requires four elements: a breach of duty; specific quantifiable damages; an adequate causal link between the breach of duty and the damages incurred; and negligence. A breach of duty is assumed if the director acts in violation of a duty stated by the law or by the articles of incorporation. As mentioned above, the principal duties are the duty of due care and the duty of loyalty. An objective test is applied in order to determine exactly what duty has been violated. 'Damages' are defined as the difference between the actual current financial situation of the company and the situation the company would be in if no violation of duty had taken place. A distinction is made between direct and indirect damages. This distinction is extremely important with respect to the right of shareholders and creditors to bring claims. If damages are suffered directly by shareholders or creditors, they are entitled to proceed directly against the responsible directors. If not, the company has a cause of action and creditors and shareholders may have derivative actions. A violation of a duty complies with the test of 'adequate causal link' if, according to the normal course of events and the general experience of life, it is likely to result in the damages effectively incurred. The Federal Supreme Court has consistently applied this formula. Negligence is rarely a difficult element to prove if a breach of duty has objectively been determined. As mentioned above, even slight negligence is sufficient. The board of directors has a number of duties it cannot delegate and for which it is always directly responsible. If a violation of such a duty results (in an adequate causal manner) in damages, there is very little the director can use as a defence apart from purely formal objections (eg, statute of limitations, formal discharge). Outside of the scope of these core duties, however, a director can defend himself by showing that the duty in question was delegated to the management of the company in a formally correct manner and that he complied with his duties of carefully choosing, instructing and supervising management. The law provides for the possibility that the annual general shareholders' meeting gives discharge to the members of the board of directors. The effects of such a discharge are described in Article 758 of the Federal Code of Obligations. With respect to any facts disclosed to the shareholders, the discharge has the effect that both the company and the shareholders that voted in favour of the discharge or that acquired shares subsequently with relevant knowledge of the resolution are barred from bringing an action against the board of directors. The right of all other shareholders to bring an action against the members of the board of directors expires six months after the discharge was granted. The discharge of the board of directors is therefore regularly on the agenda of the annual general shareholders' meetings of Swiss companies limited by shares. Frequently, however, it does not serve to protect the directors, as the facts that later lead to a claim for liability are regularly not disclosed to the shareholders. The company itself is the principal party authorised to bring a claim for damages against the directors and officers for losses due to their negligent acts. As indicated above, the company is able to make its directors liable only to the extent that they have not been given a valid discharge by the general shareholders' meeting. In theory, the board of directors of a company would be the appropriate corporate body to resolve formally to bring an action against a member of the board of directors or an officer. If the board does not act on its own initiative, Article 693 of the Federal Code of Obligations gives the shareholders the right to pass a resolution to bring the action, by a majority of the share capital represented at the general shareholders' meeting (and not, as is normally the case, by a majority of votes). Where a company has become insolvent and a receiver has been appointed, the right to bring an action for damages incurred by the company passes to the receiver. In Switzerland, these matters are generally dealt with by the official receiver of the community or canton IN question. However, in large and complicated bankruptcies, the creditors regularly appoint an extraordinary receiver. This is also the case in the event of a forced reorganisation or liquidation process. The decision on whether to bring an action normally lies with the second creditors' meeting that takes place at a rather late stage of the bankruptcy procedure. If a creditors' committee was elected at the first creditors' meeting, the approval of this committee is required. Court approval is not necessary. The law does not distinguish between majority and minority shareholders in this respect. All shareholders enjoy the same rights. Where the company is still solvent, the company enjoys the primary right to bring an action against its officers and/or directors. As mentioned above, shareholders that discharge the board at the annual general shareholders' meeting are not authorised to sue if the basis of the claim was disclosed to the shareholders. The other shareholders are authorised to bring an action in place of the company where the company itself has decided not to bring a claim for damages against its directors. Damages obtained as a result of this type of action are paid directly to the company. The shareholder is entitled only to demand the direct payment of damages he himself incurred as a direct result of the negligent act. For this reason, derivate actions of shareholders outside of bankruptcy are extremely rare. Derivate actions of shareholders remain the exception even after the company has been declared bankrupt. In principle, the same rules apply as for the derivate claims of creditors. Derivate actions of shareholders remain rare, as the participating creditors have a primary right to compensation and must be fully satisfied before any participating shareholders receive anything at all. The law does not distinguish between minority and majority shareholders in this respect. Any shareholder is entitled to bring a claim if he has directly suffered damages as a result of a negligent breach of duty by an officer or director. In a recent leading case, the Federal Supreme Court specified that the distinction between direct and indirect damages is to be made based on ownership of the affected assets. If the shareholder owns the assets, the shareholder suffers direct damages. If the company owns them, the shareholder suffers only indirect damages (if any). The reduced value of the shareholder's shares falls into the second category of indirect damages, so shareholders can only bring a derivative action (on behalf of the solvent company and under the further restrictions applying to such actions) to obtain a remedy against such a loss in value. Third parties entitled to bring claims are primarily the creditors of the company (including preferred creditors such as employees and social security institutions) and the subscribers of securities issued by the company. The same distinction between direct and indirect damages applies to the creditors of a company. A creditor that has suffered direct damages due to a negligent breach of duty by an officer or director has a direct cause of action against this officer or director. A creditor of the company can also suffer indirect damages if the company becomes insolvent. In this case, the competent bankruptcy court will appoint a receiver and the receiver will have the primary right to bring an action against the officers, directors and auditors of the company, claiming compensation for the damages suffered by the company. To the extent that the receiver decides not to enforce itself the claims against the directors, Article 260 of the Federal Code on Debt Collection and Bankruptcy provides the creditors with the right to request an assignment of these claims and then to proceed against the directors in their own name. In the event of such an assignment, the proceeds of the legal action against the directors serve to satisfy the claims of those creditors which initiated the action and took the associated financial risk. Any surplus is then used to satisfy the shareholders that did participate in the action, then the remaining creditors and finally the remaining shareholders. As mentioned above, it is extremely rare for shareholders to participate in such actions. Creditors that do assume the risk of the legal procedure are usually inclined to settle for an amount that is equivalent to their own claims. Therefore, in practice, a surplus is rarely achieved. Creditors (or shareholders) that sue the directors can claim for the entire loss suffered by the company, irrespective of the amount of their own losses. Sometimes, creditors will sue for more than their own claim to have room for settlement negotiations. However, this can be expensive due to the rules concerning costs. Any defences available to the directors in the context of their relationship with the company or with individual creditors cannot be used as a defence against a derivate action initiated by the creditors. Finally, direct actions based on direct claims can be brought irrespective of either direct actions filed by the receiver or derivate actions filed by the creditors based on an assignment. A certain increase in claims over the past decade may be observed. The major contributing factor is an increasing awareness amongst creditors and shareholders of their rights under the law. Also, recent bankruptcies have resulted in increased awareness of the principles of corporate governance and the duty of the officers and directors of a company to implement correct procedures. These two developments also seem to have had a fine effect on the courts, which appear to be applying stricter standards today than they did [illegible]

claims brought against officers and directors are either direct claims brought by the receiver of an insolvent company or derivate claims b
against the directors of a solvent company. The tendency here is clearly to sue directors and officers only for serious breaches of their duti
and a feeling of loyalty between employer and employee (respectively, company and director) will, except in the most grievous circumstanc
or shareholders of a solvent company are almost unheard of, as in most cases the creditors will also have a claim against the company itself
make derivate claims only for payment of damages to the company and the associated risks (costs) are in generally disproportionate to the
individual shareholder. As a general rule, the claims most likely to succeed are either direct claims of the receiver of an insolvent company c
creditors of such a company for damages resulting from the negligent violation of duties of directors. Except for very specific claims based o
inform the bankruptcy judge in print of the fact that the company is over-indebted or that the company is insolvent. In general, it is impossible
of a solvent company. This will depend on the circumstances of the specific case. The claimant must prove all four elements mentioned in se
– the difficulty lies in proving the actual damage that resulted from this breach of duty. Creditors contemplating a claim must therefore be
of the company. If this is done seriously and it can be shown that the over-indebtedness of the company increased due to the director's failu
ful, as it is then usually not difficult to prove the adequate causal connection and negligence. Swiss law does not provide for the possibility
suffered damages are entitled to initiate a joint action. With respect to derivate claims, the creditors are not only entitled, but also required
Federal Supreme Court held, some 15 years ago, that all persons that have obtained an assignment of a claim from the receiver may bring an
directors are often creditors of the company and may also have good relationships with other creditors or shareholders. The position of the F
legal proceedings by – indirectly – participating on both sides. In the same decision, the court also held that the right to sue based on a claim

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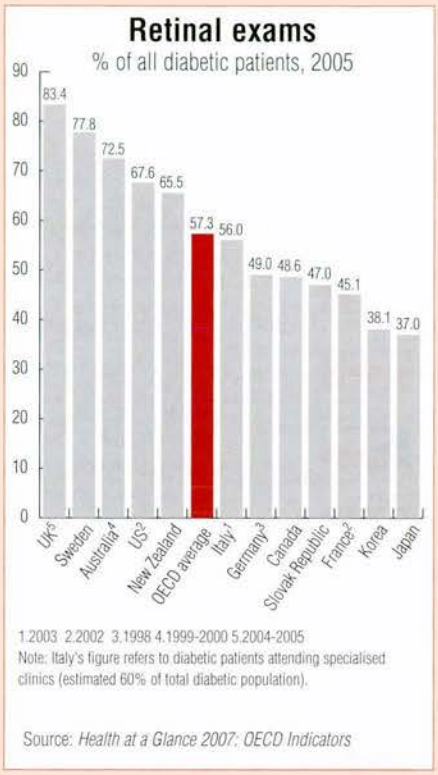
Getting the measure of diabetes

Diabetes has become one of the most serious public health challenges of the 21st century. Over 150 million adults are affected worldwide, with the number expected to double in the next 25 years.

In 2002, the cost of diabetes in the United States was an estimated $92 billion in medical expenditures and $40 billion in lost productivity, according to the American Diabetes Federation. According to projections by the International Diabetes Federation, countries will be spending 7-13% of their healthcare budgets on diabetes care by the year 2025. A report in Ireland already puts it at 10% of health costs.

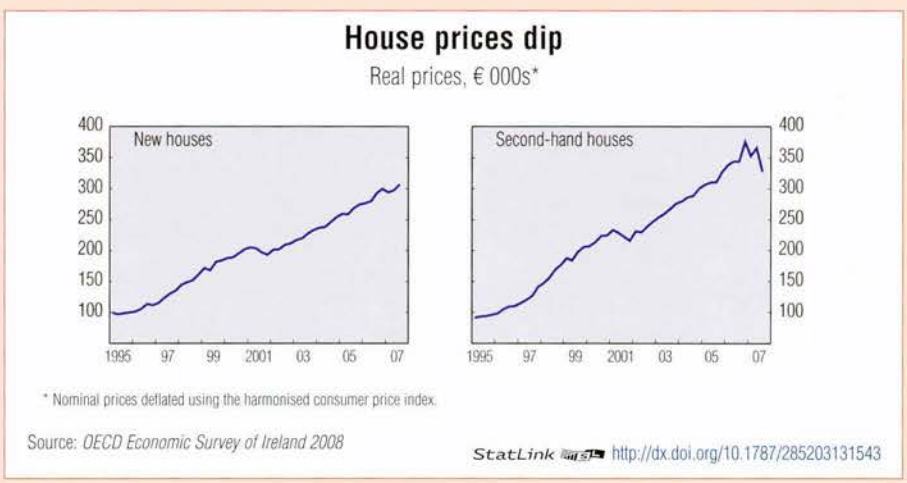
Diabetes attacks the organs and nervous system. It is not curable, but much of the burden could be reduced with better prevention, both of onset and later complications. There is convincing evidence that lifestyle changes, such as weight loss, through diet and increased physical activity, can prevent diabetes in individuals considered to be at risk. As diabetes is driven largely by weight and obesity, this covers a large number of people. It is well established that better glycaemia control also reduces organ damage and vascular complications.

The evidence suggests that these measures can reduce costs within a year or two, yet they are massively underutilised. Take annual eye exams. These are one of the most simple and universally accepted care practices for diabetics to prevent complications and blindness. Yet on average only slightly more than half of diabetic patients receive annual eye exams in those OECD countries that report such data. Even in the UK, the best-performing country, almost a sixth of people with diabetes do not undergo this simple and beneficial test. Another way to improve performance is via public information, since unlike, say, cardiovascular problems or cancer, many patients report they were unaware of the seriousness of diabetes until they developed it. ■



Irish house price nerves

Ireland has been the OECD's fastest growing economy for several years, driven by strong consumer demand, fixed investment and a buoyant global demand in areas like IT, pharmaceuticals and financial services. But now that boom seems to be over, and one of the main symptoms of this is a decline in the housing market. Irish property, particularly in Dublin, is among the world's most expensive. One US prime retail investor ranked Dublin's Grafton Street sixth in the world in 2006. According to the OECD's *Economic Survey of Ireland*, house prices turned in 2006 and fell in 2007, particularly for second-hand houses, though with a sharp fall in house building too. The report warns that a more severe slowdown would put growth, employment and the financial system at risk.



As a euro zone country, Ireland cannot use monetary policy to control lending, but ironing out tax distortions could help to dampen housing cycles and maintain competitiveness, the report says. Ireland's house tax system is among the most favourable in the OECD and tax breaks fuel house prices. It is the only OECD country that allows households tax deductions for mortgage interest payments while not taxing property values or capital gains. Ireland's real GDP will slip below 3% in 2008 from 5.2% in 2007, before rising above 4% in 2009; growth averaged 9.3% in 1995-2001, the report notes. ■

OECD Economic Survey of Ireland 2008 is available at www.oecdbookshop.org, ISBN 978-92-64-04311-4.

Indicators

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Australia	Gross domestic product	Q4 07	0.6	3.9	Current balance	Q4 07	-17.19	-11.60
	Leading indicator	Mar. 08	-0.5	-1.9	Unemployment rate	Mar. 08	4.10	4.50
	Consumer price index	Q1 08	1.3	4.2	Interest rate	Mar. 08	7.90	6.43
Austria	Gross domestic product	Q4 07	0.6	3.0	Current balance	Q4 07	4.52	3.02
	Leading indicator	Mar. 08	-0.1	-3.3	Unemployment rate	Mar. 08	4.10	4.50
	Consumer price index	Mar. 08	0.8	3.5	Interest rate		*	*
Belgium	Gross domestic product	Q1 08	0.4	2.1	Current balance	Q4 07	-2.89	3.58
	Leading indicator	Mar. 08	-0.8	-1.9	Unemployment rate	Mar. 08	6.90	7.70
	Consumer price index	Mar. 08	0.7	4.4	Interest rate		*	*
Canada	Gross domestic product	Q4 07	0.2	2.9	Current balance	Q4 07	-0.52	4.06
	Leading indicator	Mar. 08	0.3	-1.1	Unemployment rate	Apr. 08	6.10	6.20
	Consumer price index	Mar. 08	0.4	1.4	Interest rate	Apr. 08	3.46	4.35
Czech Republic	Gross domestic product	Q4 07	1.7	6.6	Current balance	Q4 07	-0.62	-0.94
	Leading indicator	Mar. 08	-1.1	-1.9	Unemployment rate	Mar. 08	4.50	5.60
	Consumer price index	Mar. 08	-0.1	7.1	Interest rate	Apr. 08	4.11	2.60
Denmark	Gross domestic product	Q4 07	0.3	1.9	Current balance	Q4 07	1.05	1.32
	Leading indicator	Mar. 08	-0.7	-3.0	Unemployment rate	Feb. 08	3.10	4.10
	Consumer price index	Mar. 08	0.4	3.1	Interest rate	Apr. 08	4.78	4.12
Finland	Gross domestic product	Q4 07	0.9	3.8	Current balance	Feb. 08	1.41	0.74
	Leading indicator	Mar. 08	-0.1	-2.7	Unemployment rate	Mar. 08	6.30	7.00
	Consumer price index	Mar. 08	0.9	3.9	Interest rate		*	*
France	Gross domestic product	Q4 07	0.4	2.1	Current balance	Feb. 08	-0.84	-1.74
	Leading indicator	Mar. 08	-0.5	-2.3	Unemployment rate	Mar. 08	7.80	8.60
	Consumer price index	Mar. 08	0.8	3.2	Interest rate		*	*
Germany	Gross domestic product	Q4 07	0.3	1.8	Current balance	Q4 07	71.99	61.53
	Leading indicator	Mar. 08	-0.5	-3.1	Unemployment rate	Mar. 08	7.30	8.60
	Consumer price index	Mar. 08	0.5	3.1	Interest rate		*	*
Greece	Gross domestic product	Q4 07	0.7	3.6	Current balance	Feb. 08	-2.06	-3.61
	Leading indicator	Mar. 08	-0.3	-1.9	Unemployment rate	Dec. 07	7.90	8.60
	Consumer price index	Mar. 08	2.3	4.4	Interest rate		*	*
Hungary	Gross domestic product	Q4 07	0.1	0.4	Current balance	Q4 07	-1.71	-1.66
	Leading indicator	Mar. 08	-0.3	-4.0	Unemployment rate	Mar. 08	7.60	7.30
	Consumer price index	Mar. 08	0.6	6.8	Interest rate	Apr. 08	8.41	7.63
Iceland	Gross domestic product	Q4 07	0.3	4.6	Current balance	Q4 07	-1.29	-1.13
	Leading indicator		..	..	Unemployment rate	Mar. 08	0.90	1.10
	Consumer price index	Apr. 08	3.4	11.7	Interest rate	Feb. 08	19.00	16.52
Ireland	Gross domestic product	Q4 07	-0.8	3.8	Current balance	Q4 07	-4.28	-2.70
	Leading indicator	Mar. 08	-1.7	-11.3	Unemployment rate	Mar. 08	5.60	4.60
	Consumer price index	Mar. 08	0.9	5.0	Interest rate		*	*
Italy	Gross domestic product	Q3 07	0.4	1.9	Current balance	Nov. 07	-3.81	-2.83
	Leading indicator	Mar. 08	-0.8	-4.6	Unemployment rate	Dec. 07	6.10	6.40
	Consumer price index	Mar. 08	0.5	3.3	Interest rate		*	*
Japan	Gross domestic product	Q4 07	0.9	1.7	Current balance	Feb. 08	13.64	13.65
	Leading indicator	Mar. 08	0.4	-4.3	Unemployment rate	Mar. 08	3.80	4.00
	Consumer price index	Mar. 08	0.5	1.2	Interest rate	Mar. 08	0.75	0.62
Korea	Gross domestic product	Q1 08	0.7	5.6	Current balance	Mar. 08	0.13	-0.14
	Leading indicator	Mar. 08	1.0	0.5	Unemployment rate	Mar. 08	3.10	3.20
	Consumer price index	Apr. 08	0.6	4.1	Interest rate	Apr. 08	5.38	4.95
Luxembourg	Gross domestic product	Q3 07	0.7	5.6	Current balance	Q4 07	1.87	0.80
	Leading indicator	Mar. 08	-1.3	-4.9	Unemployment rate	Mar. 08	4.50	4.90
	Consumer price index	Apr. 08	0.2	3.5	Interest rate		*	*
Mexico	Gross domestic product	Q4 07	0.7	3.8	Current balance	Q4 07	-0.41	-0.57
	Leading indicator	Mar. 08	1.4	4.9	Unemployment rate	Feb. 08	3.70	3.90
	Consumer price index	Mar. 08	0.7	4.2	Interest rate	Apr. 08	7.54	7.15
Netherlands	Gross domestic product	Q4 07	1.2	4.3	Current balance	Q4 07	16.66	16.92
	Leading indicator	Mar. 08	-0.5	-1.6	Unemployment rate	Mar. 08	2.60	3.40
	Consumer price index	Mar. 08	1.0	2.2	Interest rate		*	*
New Zealand	Gross domestic product	Q4 07	0.8	2.8	Current balance	Q4 07	-2.36	-2.40
	Leading indicator	Mar. 08	-1.1	-5.1	Unemployment rate	Q4 07	3.40	3.80
	Consumer price index	Q1 08	0.7	3.4	Interest rate	Apr. 08	8.87	7.98

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Norway	Gross domestic product	Q4 07	1.3	4.6	Current balance	Q4 07	18.55	13.63
	Leading indicator	Mar. 08	-0.8	-3.6	Unemployment rate	Jan. 08	2.30	2.70
	Consumer price index	Mar. 08	0.1	3.2	Interest rate	Apr. 08	6.30	4.54
Poland	Gross domestic product	Q4 07	2.0	6.9	Current balance	Feb. 08	-1.86	-0.85
	Leading indicator	Mar. 08	-1.1	-10.5	Unemployment rate	Mar. 08	7.70	10.30
	Consumer price index	Mar. 08	0.4	4.1	Interest rate	Apr. 08	6.34	4.40
Portugal	Gross domestic product	Q4 07	0.7	2.0	Current balance	Feb. 08	-2.11	-1.79
	Leading indicator	Mar. 08	-0.7	-3.7	Unemployment rate	Mar. 08	7.40	8.20
	Consumer price index	Mar. 08	1.5	3.1	Interest rate		*	*
Slovak Republic	Gross domestic product	Q4 07	3.3	12.2	Current balance	Q4 07	-1.71	-0.59
	Leading indicator	Mar. 08	1.2	6.0	Unemployment rate	Mar. 08	9.80	11.30
	Consumer price index	Mar. 08	0.3	4.2	Interest rate	Sept. 07	8.35	8.89
Spain	Gross domestic product	Q4 07	0.8	3.5	Current balance	Jan. 08	-17.72	-11.08
	Leading indicator	Mar. 08	-1.2	-4.1	Unemployment rate	Mar. 08	9.30	8.10
	Consumer price index	Mar. 08	0.9	4.5	Interest rate		*	*
Sweden	Gross domestic product	Q4 07	0.8	2.6	Current balance	Q4 07	12.63	9.37
	Leading indicator	Mar. 08	0.0	-4.7	Unemployment rate	Mar. 08	5.60	6.60
	Consumer price index	Mar. 08	0.9	3.4	Interest rate	Apr. 08	4.14	3.34
Switzerland	Gross domestic product	Q4 07	1.0	3.6	Current balance	Q4 07	13.49	15.69
	Leading indicator	Mar. 08	-1.1	-7.2	Unemployment rate	Q4 07	3.50	3.80
	Consumer price index	Mar. 08	0.3	2.6	Interest rate	Mar. 08	2.89	2.30
Turkey	Gross domestic product	Q4 07	1.3	3.3	Current balance	Q4 07	-11.90	-7.41
	Leading indicator	Mar. 08	-0.5	-4.0	Unemployment rate	Jan. 08	11.30	11.00
	Consumer price index	Mar. 08	1.0	9.2	Interest rate	Apr. 08	16.65	17.86
United Kingdom	Gross domestic product	Q1 08	0.4	2.6	Current balance	Q4 07	-17.29	-28.24
	Leading indicator	Mar. 08	-0.7	-2.6	Unemployment rate	Jan. 08	5.10	5.50
	Consumer price index	Mar. 08	0.4	2.4	Interest rate	Apr. 08	5.89	5.61
United States	Gross domestic product	Q1 08	0.1	2.5	Current balance	Q4 07	-172.94	-187.94
	Leading indicator	Mar. 08	-0.9	-3.6	Unemployment rate	Apr. 08	5.00	4.50
	Consumer price index	Mar. 08	0.9	4.0	Interest rate	Apr. 08	2.85	5.31
Euro area	Gross domestic product	Q4 07	0.4	2.2	Current balance	Jan. 08	-15.64	3.76
	Leading indicator	Mar. 08	-0.7	-3.3	Unemployment rate	Mar. 08	7.10	7.50
	Consumer price index	Mar. 08	1.0	3.6	Interest rate	Apr. 08	4.78	3.98
Russia[1]	Gross domestic product	Q4 07	3.8	9.4	Current balance	Q4 07	26.44	17.15
	Leading indicator	Mar. 08	0.1	3.2	Unemployment rate		..	..
	Consumer price index	Mar. 08	1.2	13.3	Interest rate	Feb. 08	8.08	6.51
Brazil[2]	Gross domestic product	Q4 07	1.6	6.1	Current balance	Q3 07	-1.20	5.28
	Leading indicator	Mar. 08	-1.9	-1.4	Unemployment rate		..	..
	Consumer price index	Mar. 08	0.5	4.7	Interest rate		..	..
China[2]	Gross domestic product		..	..	Current balance		..	..
	Leading indicator	Mar. 08	0.1	-1.6	Unemployment rate		..	..
	Consumer price index		..	..	Interest rate	Mar. 08	4.39	2.63
India[2]	Gross domestic product	Q4 07	1.5	8.5	Current balance	Q4 07	-3.71	-2.04
	Leading indicator	Feb. 08	-1.3	-1.6	Unemployment rate		..	..
	Consumer price index	Mar. 08	1.5	7.9	Interest rate		..	..
Indonesia[2]	Gross domestic product	Q4 07	1.1	6.2	Current balance	Q4 07	3.85	2.60
	Leading indicator	Mar. 08	-0.9	7.1	Unemployment rate		..	..
	Consumer price index	Apr. 08	0.6	9.0	Interest rate	Mar. 08	7.26	8.52
South Africa[2]	Gross domestic product	Q4 07	1.3	4.9	Current balance	Q4 07	-5.75	-4.92
	Leading indicator	Mar. 08	-1.2	-10.4	Unemployment rate		..	..
	Consumer price index	Mar. 08	1.6	10.6	Interest rate	Apr. 08	10.26	8.28

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted. **Leading Indicators:** A composite indicator based on other indicators of economic activity, which signals cyclical movements in industrial production from six to nine months in advance. **Consumer Price Index:** Measures changes in average retail prices of a fixed basket of goods and services. **Current Balance:** Billion US$; seasonally adjusted. **Unemployment Rate:** % of civilian labour force, standardised unemployment rate; national definitions for Iceland, Mexico and Turkey; seasonally adjusted apart from Turkey. **Interest Rate:** Three months; *refer to Euro area.

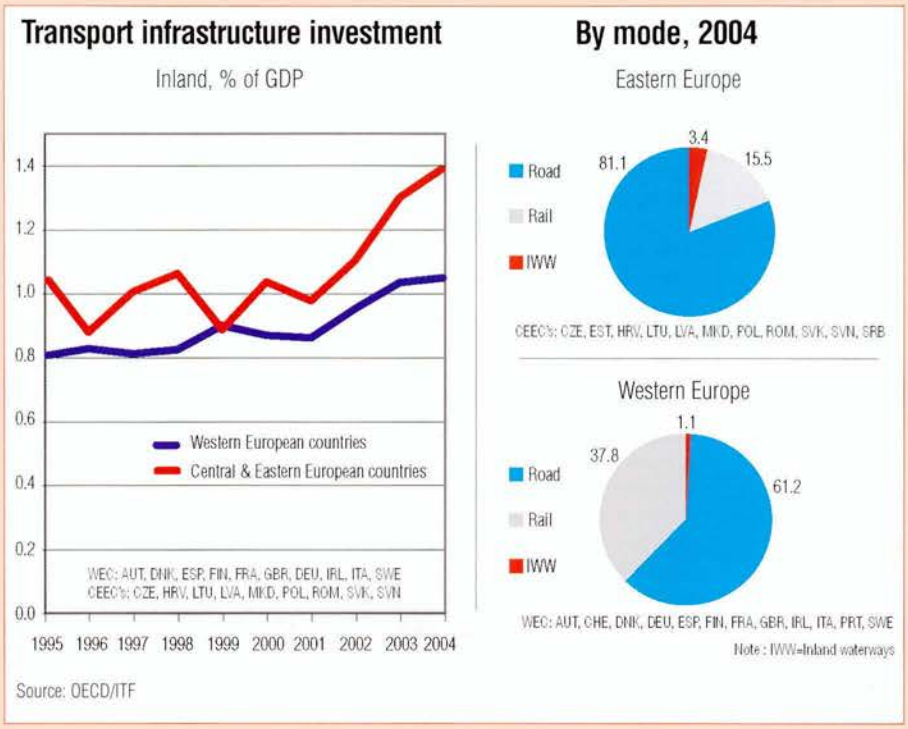
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[1]Accession candidate to OECD

[2]Enhanced engagement programme

Source: Main Economic Indicators, May 2008

Western rail



Investment in Europe's roads, railways and inland waterways has taken an upswing in recent years, particularly in eastern countries, says the International Transport Forum. Its recently published statistics of transport trends for 43 European countries reveal that in some central and eastern European countries, including the Czech Republic, Croatia, Poland, Romania, Slovakia and Slovenia, growth in investment has accelerated strongly since 2002, rising by almost 60% in three years. Investment in inland transport infrastructure, which until 2001 had stagnated at around 1% of GDP, rose to 1.4% in 2004, the highest figure reported by these countries since 1990. Aid from the EU as part of the accession process for most of these countries has played a major role in these figures.

Investment in western Europe has been increasingly emphasised in rail, with its investment share rising to some 38% of the total in 2004, compared with 31% in 2000. The share of road investment amounted to 61% of total investment in inland transport infrastructure in 2004 compared to 68% in 1995. This contrasts with central and eastern European countries which are now investing heavily in roads, while their investment in rail infrastructure fell to less than 16% of total investment in inland transport infrastructure in 2004 compared to 23% in 1995. Investment in roads accounted for 81% of the total in 2004 compared to 66% in 1995. ■

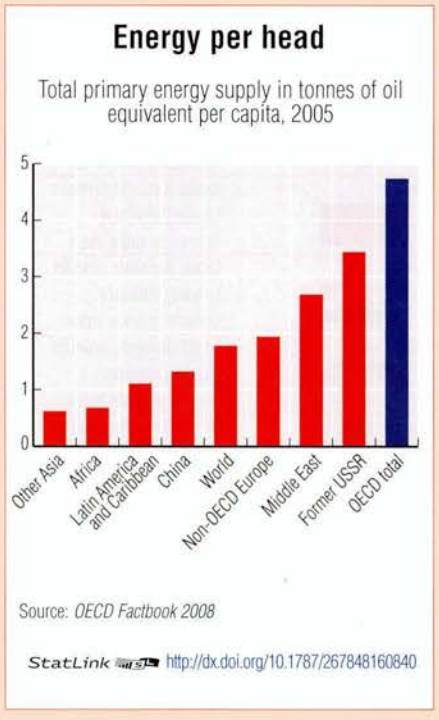
Growing by the gallon

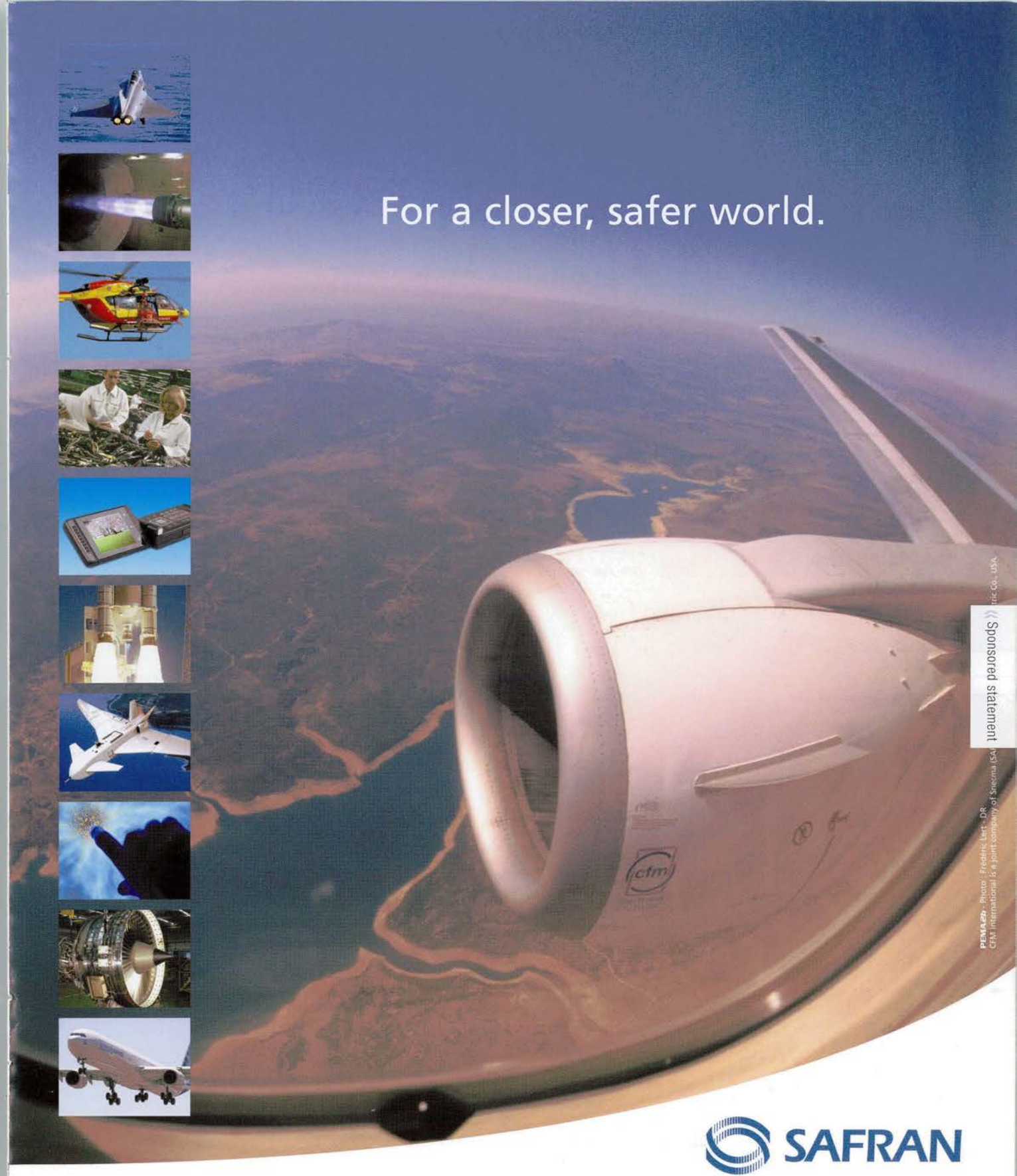
Every country strives for energy efficiency, but assessing it is not an easy task. Since 1971, the OECD's energy supply per unit of GDP has fallen sharply due to changes in manufacturing output, consumer behaviour, shifts to electricity, technological progress, efficiency drives and so on.

But when comparing total primary energy supply (TPES) to GDP, Latin America and the Caribbean, as well as the OECD countries, appear the most energy efficient. Care should be taken when comparing these energy intensities. A decrease in the TPES/GDP ratio may reflect a restructuring of the economy by transferring energy-intensive industries like iron and steel out of the country and purchasing energy-intensive products from abroad. Indeed, offshoring may worsen damage to the environment if the contractors abroad are less energy efficient. But a low intensity can also reflect the lower development of highly populated emerging markets, rather than any real marshalling of energy inputs.

China has one of the lowest amounts of total primary energy supply per capita, alongside Asia, Africa and Latin America. According to the World Energy Council, primary energy demand in developing countries is expected to triple and form up to two-thirds of global energy demand by 2050. Until then, despite its high efficiency, the OECD still has easily the highest energy supply per head, with an oil equivalent of just under five tonnes, followed closely by much less efficient Russia's 4.5 tonnes of oil equivalent per capita. ■

OECD Factbook 2008 is available at www.oecdbookshop.org, ISBN 9789264040540.




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