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## Responding to the Financial and Economic Crisis, and the Next Steps for OECD's Work on Health Care and Water

*Discussion Paper for the Consultation with the OECD Liaison Committee*

*3 December 2008*

*BIAC is pleased to submit this discussion paper to the 2008 Liaison Committee Meeting with Representatives of the Business and Industry Advisory Committee to the OECD.*

*BIAC appreciates this opportunity to engage in discussion with OECD Ambassadors on this paper's three areas of focus:*

- *The Financial Crisis and the Role of the OECD;*
- *Next Steps for OECD Work on Health Care Policy; and*
- *Next Steps for the OECD Horizontal Water Programme.*

# Responding to the Financial and Economic Crisis, and the Next Steps for OECD's Work on Health Care and Water

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## Executive Summary

More than ever, the world stands to benefit from OECD leadership in developing solutions to serious economic policy challenges. The OECD needs to assist countries in developing adequate policy responses to the financial and economic crisis. OECD leadership is also critical in global issues of health care and water. BIAC is pleased to present its views on these issues as the focus areas for its 2008 Consultation with the OECD Liaison Committee.

### Responding to the Financial and Economic Crisis – The Role of the OECD

Beyond the management of the current financial and economic crisis, policy makers are seeking to find solutions to the following questions: What caused the financial crisis? How can we reduce its negative impact on the wider economy and bring about a swift return to economic growth and job creation? How can we enhance the sustainability of financial markets and reduce the potential scale of any future crisis?

The OECD has a natural role to play in developing policy responses. The crisis erupted in its member countries and has spread from there to the global economy. Finding solutions requires greater multinational co-operation including with OECD enhanced engagement and accession countries.

In order to make a significant positive contribution, the OECD should focus on its comparative advantages. The OECD Strategic Response on the Financial and Economic Crisis is a good step towards defining the Organisation's potential role and should continue to be refined further. BIAC suggests greater emphasis on a more limited number of priorities, which from a business point of view are the following: reforming financial markets, preventing trade and investment protectionism; and continued encouragement of structural reforms as well as macroeconomic policies for sustainable economic growth.

### Next Steps for OECD Work on Health Care Policy

At the same time, the world faces global health challenges, calling for new efforts to fight major infectious diseases. Fiscal and social costs of health care are rising and are expected to lead to excessive burdens on productivity and to weaken the economy. These problems are further exacerbated in the context of the financial and economic crisis, which is likely to have implications for resources devoted to both health and innovation. Finding solutions to

address these growing challenges should be an overarching priority of the OECD. In these areas, BIAC stresses the importance of:

- improving the efficiency of health care systems through concrete actions;
- fostering innovative solutions;
- urging governments to give due attention to health workforce issues;
- encouraging further work on measuring health systems' performances;
- addressing other key challenges that the health care sector is facing.

BIAC calls upon Ambassadors and the OECD to give the highest attention to truly horizontal work on health care and develop a long-term strategy to respond to the major challenges we are facing.

### **Next Steps for the OECD Horizontal Water Programme**

Water is fundamental for sustainable economic growth and social development, but ensuring the sustainability and growth of water services is proving to be a major challenge in which failure cannot be tolerated. BIAC's aim is to encourage OECD Ambassadors to take action towards urgently enlarging the scope of the OECD Horizontal Water Programme. This would encourage and enable national and local decision-makers to consider water as a priority issue in need of pressing and informed actions.

While not an exhaustive list, the main policy-focused considerations that BIAC proposes in this paper for the future scope of the OECD Horizontal Water Programme are:

- Work on governance should focus on the local levels and recommendations should aim to raise the political profile of water and initiate priority actions.
- Further work on water infrastructure should demonstrate the need for sustainable water sector economics that support long term viability of water services and investment.
- Research is needed on the critically important relationships that exist between water, climate change, energy and food.
- Further analysis of trade issues should include focus on understanding the role of "virtual water" and "water footprints".
- The OECD should work with other international institutions to find ways to urgently overcome the serious shortage of reliable data on water.

## Responding to the Financial and Economic Crisis – The Role of the OECD

### Introduction

1. Central banks and governments worldwide continue to respond decisively to the current financial and economic crisis to restore confidence and stability. Beyond crisis management, policy makers need to address the following questions: What caused the financial crisis? How can we reduce its negative impact on the wider economy and bring about an early return to economic growth and job creation? How can we enhance the sustainability of financial markets and reduce the potential scale of any future crisis?
2. The OECD is a natural forum for contributing to solutions. Contrary to previous financial upheavals in emerging countries or regions, this financial turmoil erupted in the OECD area and it has a significant and broad impact on the global economy. Policy responses cannot be limited to national actions but require greater multilateral co-operation which must involve OECD as well as major emerging non-OECD economies. In order to make a significant positive contribution, the OECD should effectively co-operate with other international fora such as the Bretton Woods institutions and the Financial Stability Forum. The OECD should also use the following comparative advantages:
  - expertise in a broad range of relevant policy areas including corporate governance, financial regulation, foreign trade and investment, structural reforms for economic growth, macroeconomic policy, regulatory quality, tax as well as competition and consumer policy;
  - reliance on empirical evidence as a basis for policy recommendations;
  - unique ability to take an interdisciplinary and holistic approach to addressing global economic issues; and
  - well established dialogue with its advisory bodies BIAC and TUAC which contribute business and labour union input. This dialogue contributes to the quality and credibility of the OECD's work.
3. We congratulate Secretary General Gurría for his leadership in the swift development of the OECD Strategic Response to the Financial and Economic Crisis. It is in our view a good and necessary step towards defining the OECD's potential role and activities and should continue to be refined further. We very much support the holistic approach taken by the OECD, but also emphasise the need for a focus on a limited number of priorities. We strongly recommend that decisions about substantive priorities be supported by adequate allocation of resources.

4. BIAC's key priorities for OECD action include:

- reforming financial markets;
- fighting protectionism; and
- encouraging structural reforms and macroeconomic policies which increase economic growth and job creation.

In the following sections we present our priorities in more detail.

## Business Priorities for OECD action

### Reforming financial markets

5. The debate about the lessons to be learned from the financial crisis must not be about the 'end of capitalism' or the 'failure of the market economy.' It is established beyond any doubt that the system of open market based economies is more effective in creating welfare for societies than any other system that we know.
6. We agree with the OECD Secretary General that the "*task ahead is to build a sound governance and regulatory framework that will align incentives, while maintaining a healthy balance between markets on the one hand, and policy interventions on the other.*"<sup>1</sup>
7. Maintaining the right balance between markets and policy intervention will have to include better regulatory frameworks for the sustainability of the financial sector. A general trend in the direction of a more interventionist and controlling role for the state in the market and a smaller and more restricted one for the private sector would reduce the potential for economic growth and employment and therefore needs to be opposed.
8. In BIAC's view, the deregulation and liberalisation of financial markets in the recent years was correct in principle. The elimination of excessive regulation and the fostering of competition have encouraged important financial innovation which has contributed to financing economic growth in industrialised, and increasingly in emerging and developing, economies.
9. However, the financial crisis clearly demonstrates that we need to review rigorously our regulatory systems and practices that have been guiding the behaviour of financial market participants. The objective is to create a more effective global financial system and to ensure that financial markets make a lasting positive contribution to economic development and growth.

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<sup>1</sup> C(2008)191/REV1 para.8

10. It is important that the policy debate about regulation be based on facts and not be driven by ideology or opportunism. Sober analysis of empirical evidence should guide the identification of policy action and the design and implementation of solutions.
11. For OECD business it is also critical that policy makers keep a sense of proportion. The crisis is to some extent the result of regulatory deficiencies. These must be clearly identified and addressed. This will mainly require better regulation as opposed to more regulation and more effective use, where appropriate, of regulatory alternatives including self-regulation. There must also be a focus on the effective co-ordination across relevant government agencies when it comes to regulatory oversight, in particular given the cross-sector impacts of the financial crisis. However, policy makers must bear in mind that, in a competitive market economy, a healthy dose of risk taking is essential for creating innovation and fostering growth. There needs to be a balance between effectiveness, competitiveness and the prevention of excessive risk taking. Where possible, solutions should be found on the international level.
12. Upcoming OECD work in the area of financial regulation as well as other areas of regulation, such as corporate governance and competition, which impact the behaviour of financial market participants, should be guided by these aforementioned considerations. Business priority issues to be addressed by the OECD are:
  - capital rules for banks;
  - effectiveness of risk management;
  - incentive structures which impact risk taking;
  - rating culture;
  - quality of financial products;
  - adequacy of accounting standards for financial instruments;
  - supervision of securitisation markets;
  - improved, appropriate and reasonable transparency for markets, standard setting and various types of funds; as well as
  - issues related to the concentration and competition in the financial sector.
13. BIAC is pleased to see that these issues are included in the OECD document “Strategic Response to the Financial and Economic Crisis”.
14. We strongly recommend that these topics be addressed as a genuinely horizontal project to ensure full policy coherence across all relevant policy groups and divisions. The results of this horizontal project should be issued in the form of a single comprehensive synthesis report which summarises the OECD’s view on regulatory frameworks for sustainable financial market stability. The development of such a report will have to involve rigorous analysis which will likely take some time.
15. While it is important to allow the necessary time for high quality research, it is equally important to help shape the rapidly moving international discussions as the debate unfolds. The OECD should therefore issue interim reports to effectively communicate

its preliminary findings and recommendations. The deadlines for the interim and the final reports should be set in advance to let policy makers and the markets know when they can expect to see the results of the OECD work.

### Preventing trade and investment protectionism

16. A key lesson from the Great Depression is that protectionism is a totally counterproductive reaction to financial and economic crises. Thus, the business community is concerned about the increase in protectionist sentiment that we have witnessed as the impact of the financial turmoil on the wider economy has become larger. If the protectionist sentiment leads to protectionist action, this will without any doubt prolong the current economic slowdown even further.
17. The WTO system of trade rules and commitments, bilateral trade and investment agreements, and the OECD Codes and Declarations in the area of investment provide some safeguards against the worst forms of beggar-thy-neighbour policy which the world did not have in place during the Great Depression. However, the safety net against investment protectionism is much less developed than in the trade area. Furthermore, despite the progress in establishing a multilateral trading system, trade is at a particular risk of falling victim of protectionism. Countries could slide back from applied import tariffs to the often much higher internationally binding tariff levels in order to shield domestic industries that have been hit by the crisis.
18. BIAC calls on the OECD and its member countries to lead by example in keeping our markets open. The most effective step to prevent trade protectionism would be to conclude the WTO Doha Development Round (DDA). Binding commitments under the DDA would limit recourse to higher barriers. This would send a powerful signal to markets and policy makers and help to restore confidence. BIAC urges the policy leaders to now provide the political impetus that is needed for going the last mile for a DDA breakthrough. It is essential to finalise the modalities for trade in agricultural and industrial products this year and to conclude the DDA in 2009.
19. Despite the critical importance that a successful DDA conclusion with real market access benefits for all WTO members has for the global economy, there is a real risk that the WTO negotiations will not be concluded soon. Even if there is a breakthrough on modalities, it might take up to a year to complete the negotiations. Therefore, BIAC believes that OECD members should join the G-20 and APEC leaders with a commitment to refrain from creating new trade barriers. The OECD took a similar action at the time of the 1973 oil shock with its "*Declaration Adopted by the Governments of the OECD Member Countries on 30<sup>th</sup> May 1974*". Governments committed to avoid unilateral trade barriers, measures to stimulate exports, and export restrictions. An OECD support of the G-20 commitment would help to restore confidence by affirming that the leading industrial nations are committed to keeping their markets open for trade even during these economically difficult times. Ideally other non-OECD trading partners should join in support of the G-20 commitment as well, but this should not be a pre-requisite for an OECD support.

20. In the area of investment, governments have already tightened procedures applied to foreign investment even before the financial and economic crisis. The crisis has led to further calls to establish safeguards against foreign investment triggered by concerns that domestic companies who see their stock market value diminished may become foreign takeover targets. Such initiatives may have serious repercussions. Protectionism invites retaliation and it may also convince foreign investors to avoid investing in certain countries or regions.
21. No matter how tempting it may be to protect “national champions”, increased state intervention in the economy – other than as impartial referee or regulator – should be treated with care. Foreign investment has always been and continues to be a key avenue for growth and should not be discouraged. Now more than ever we must welcome foreign capital that helps our companies to thrive and create jobs.
22. BIAC calls on the OECD countries to live up to their important commitment under the OECD Declaration on Sovereign Wealth Funds and Recipient Countries Policies not to create any protectionist barriers to foreign investment. We urge the OECD to finalise as soon as possible its detailed policy guidance on how countries should put this Declaration into practice. BIAC also calls on the OECD to review rigorously the implementation of the Declaration and the accompanying policy guidance. Sufficient resources have to be made available for rigorous country-specific peer review monitoring. Furthermore, we call on the OECD to reach out to the governments from all accession and enhanced engagement countries to encourage them to sign up to the OECD Declaration and through this, to affirm that important emerging economies also continue to be open to foreign investment and treat foreign investors fairly.

### **Structural reforms to enhance the potential for economic growth and job creation**

23. The economic slowdown must not weaken governments’ commitment to structural reforms across a broad range of areas. High quality reforms are needed to increase the potential for sustainable growth and job creation. The reforms will have to include better financial regulation as addressed above, but urgent reform needs are by no means limited to this area.
24. Most OECD economies have not fully reaped their growth potential because of lack of well designed and implemented structural reforms. Even though the very benign economic environment in recent years provided an ideal opportunity for structural reforms, BIAC members have observed that in most countries the reform progress has been rather slow. The OECD confirms this disappointing assessment in, for example, its draft Going for Growth Report.
25. More and better reforms during the economic upswing would have enhanced the capacity of our economies to cope with the challenges of the financial crisis and its implications for the real economy. It is now important to design and implement more structural reforms of high quality which enhance the momentum of the next economic recovery, and through these increase countries’ abilities to grow at a strong and sustainable pace.

26. In addition to financial regulation, reform areas that are critical to fully reap the potential of our economies include tax, social security, labour costs, innovation, education and skills development, infrastructure, energy security, as well as regulation in product, service and labour markets.
27. With its significant expertise and access to relevant data, the OECD is ideally placed to advise governments on the mentioned structural reform issues. For example, recommendations such as the OECD Jobs Strategy should be seen as having particular value for governments in the current environment. However, we note that the OECD's impact on the debates and policy actions remains often rather limited.
28. One way to enhance the potential impact in the area of structural reform is to broaden the scope of reform areas addressed in a systematic way by the Organisation. The development of a set of indicators reflecting the quality of financial market regulation and making it comparable across countries, as suggested in the OECD Strategic Response, represents an important step forward as it will provide the basis for more concrete and country-specific OECD policy recommendations in this area. We would also recommend to further enhance the analysis on financial regulation in the context of the country-specific economic surveys. Moreover, BIAC would welcome OECD analysis aimed at identifying the linkages between financial sector stability and innovation on the one hand, and economic growth on the other.
29. The OECD project "Making Reform Happen" is very timely as it aims at advising countries on how to generate the necessary public support for reforms and to overcome reform resistance by specific groups. If this initiative results in a conceptual framework that enables the Organisation to develop practical advice to governments on how to garner the necessary support to implement structural reforms which goes beyond stating the obvious, it would also be an important step towards increasing the OECD's value in this area. Effective consultation with stakeholders is a critical aspect of the process to ensure effective reform.

### **Macroeconomic policies for stability and a swift return to economic growth**

30. Macroeconomic policies also play a key role in supporting stabilisation of our economies and contributing to a swift return to economic growth. Major central banks have eased liquidity constraints and lowered market interest rates to support confidence. Additional interest rate cuts may become necessary in some countries in order to stimulate economic activity while maintaining price stability.
31. In the area of fiscal policy, governments now need to improve the quality of public expenditures and tax systems to support a supply-side economic recovery. Letting automatic stabilisers such as income tax and unemployment benefits work will help to attenuate the current downturn. Those countries which have room for budgetary manoeuvre should also provide targeted, time-limited and effective fiscal stimulus. However, any fiscal easing must not put the mid- and long-term sustainability of public budget policies at risk. The sustainability of public budget policies must also be a guiding principle for discussions about the possible subsidies for sectors that are

affected by the crisis. In this context, policy makers also need to bear in mind the importance of avoiding a subsidy race between countries as well avoiding any conflict with existing subsidy rules under the WTO.

32. Lasting financial and economic stability requires the gradual elimination of global payment imbalances. Addressing this problem will have to include a reduction in U.S. domestic aggregate demand to contain imports and encourage a shift to exports. Consumption in Asia and the Middle East needs to be increased, including through an adoption of a higher and flexible exchange rate in China. Moreover, European countries must enhance the growth potential of their economies.
33. BIAC calls on the OECD to advise member countries on macroeconomic policies along the lines outlined above. In particular in these times of financial and economic crisis, close co-ordination on macroeconomic issues with governments, monetary authorities and other international organisations such as the IMF is of critical importance to ensure policy coherence.

## Conclusion and suggestions for issues to be discussed

34. BIAC believes that the OECD should assist policy makers with high quality policy guidance on how to return swiftly to economic growth and enhance the sustainability of the financial system. We congratulate the Organisation for the swift development of a Strategic Response and believe that this plan should be further refined to increase the potential relevance and impact of OECD work. Key priorities for business are reforming financial markets, preventing trade and investment protectionism as well as encouraging structural reforms and macroeconomic policies which provide for an early return to economic growth and job creation. We also believe that any decision concerning priorities must be supported by a corresponding shift in resources as it hard to see how some of the necessary high quality analyses and recommendations can be developed without additional resources. BIAC stands ready to support upcoming OECD work related to the financial and economic crisis by contributing more business input as the initiatives develop.

## Questions for Ambassadors and OECD Leadership

- *Would the Ambassadors agree with BIAC that policy makers need to keep a sense of proportion in the discussion about financial regulation and that the main objective is better as opposed to more regulation?*
- *Would Ambassadors care to comment on BIAC's suggestions aimed at preventing trade and investment protectionism?*
- *Do Ambassadors agree with BIAC about the importance to continue with growth enhancing structural reforms across a wide range of areas and would they care to comment on BIAC's observation that the OECD needs to further enhance its positive impact on the structural reform debates?*

## Next Steps for OECD Work on Health Care Policy

### Introduction

35. BIAC appreciates the opportunity to present its comments and suggestions for OECD's current and future work on health care policy to OECD Ambassadors. In view of the national and global challenges that health care systems are facing, BIAC urges OECD Ambassadors to support a long-term strategy for health care issues drawing on the excellent expertise that exists in various parts of the Organisation and to focus on the areas where it has a clear added value as compared to other international organisations.
36. The world faces global health challenges, calling for new efforts to fight the world's major infectious diseases. At the same time, fiscal and social costs of health care are rising. Increased taxes and social security premiums are expected to lead to excessive burdens on productivity and to weaken the economy. These problems are further exacerbated in the context of the financial and economic crisis, which is likely to have implications for resources devoted to health and innovation, which are intrinsically linked. Finding innovative solutions to address these challenges should be an overarching priority of the Organisation.

### Business key considerations

37. BIAC's vision regarding the improvement of the health care system rests on three main pillars, which are further developed in this paper:
- Addressing the challenges of financial sustainability of health care systems, taking into account pressures due to demographic developments, general budget constraints and the effects of the financial crisis.
  - Promoting an innovation-friendly environment to improve the quality and efficiency of health care systems through sound macro-economic policies and pro-competitive policy frameworks.
  - Fostering good management methods of all actors to improve health systems' performance as well as monitoring capabilities to evaluate the implementation and effects of health care reforms.
38. BIAC strongly recommends a horizontal approach to addressing health care challenges. More than ever, it is essential to tackle financial sustainability challenges through a better allocation of resources; to foster innovation in products, services, financing and management; and to evaluate value for money as well as health outcomes for citizens, taking into account the overall cost of disease and productivity implications.

## Improving the efficiency of health care systems

39. A fundamental prerequisite for increased efficiency is that compliance by all parties is considered a top priority, which includes effectively tackling insurance fraud whenever it occurs. Furthermore, a key challenge for OECD countries is to introduce increased entrepreneurial behaviour into health care systems without neglecting welfare principles. It is essential to enhance productivity and improve the quality of health care based on more efficient management to allow results to be obtained with lower costs through better use of resources. Opportunities for productivity increases go hand in hand with improvements in management, reducing waste, competition between public and private providers, enhanced innovation, a more effective collaboration between private and public insurers, and increased patients' involvement in taking responsibility for their health. Among others, the OECD should concentrate its efforts on the following areas:
40. **Fostering competition:** BIAC stresses the importance of competition among all actors in the health sector to improve systems performance and meet citizens' expectations. Guided by appropriate regulatory frameworks, competition is just as necessary in the health care sector as it is in other sectors to encourage choice and enhance responsiveness. Business recommends that free choice among insurers and providers of health care services, including hospitals, should be enhanced. Increased competition will promote choice and availability of information while encouraging insurers, doctors and hospitals to deliver more optimal levels of care.
41. **Using the potential of information and communication technologies (ICT):** The effective implementation of ICT in health care has the potential to transform the current delivery and financing of health care services and products. There are a range of ICT applications in health care, which can lead to more efficient delivery systems, including remote monitoring technologies and personalised care. BIAC supports OECD work in this area and recommends that the OECD focus its efforts on the following issues: Encourage standards of interoperability, recognising private sector initiatives; develop financial incentives to reward health outcomes; share national experiences in the design and the management of ICT projects; involve end users for developing ICT solutions and provide information to those involved in decision-making procedures as well as patients; foster engagement of stakeholders and establish an international forum to help find consensus on privacy and confidentiality policies.
42. **Taking a broad-based view on prevention:** With rising costs due to increasing life expectancy, it is important to give due attention to the economics of prevention and to consider what type of prevention is or is not cost-effective and in which setting. Business encourages the OECD to consider prevention broadly, including education programmes, (preventive) treatments and medicines and incentives through health insurance premiums. BIAC believes that the economic analysis of preventive measures should be considered as a broad challenge for both public and private actors. BIAC recommends a broad-based analysis of the economic effects of prevention, including the effects on the economy of the additional healthy years

gained by preventive measures. OECD work on prevention should also highlight the beneficial effects of physical activity and give due consideration to issues, such as safe drinking water or smoking cessation, which are important factors in the context of prevention. The analysis should give due attention to the growing threat of diabetes and other chronic diseases.

43. **Foster informed decision-making:** Health literacy is key to driving down health care costs and improving the quality of care for all health care consumers. Health literacy can and should be promoted in several ways, including education of patients both in terms of prevention and treatment, and through the use of personal health data, which provide an important basis on which informed decisions on treatment and the available options can be taken.

## The importance of innovation in the health care sector

44. Innovation fuels economic growth through enhancements in productivity, a fact which has been well demonstrated by several OECD studies. Innovation has been identified as a horizontal OECD priority, and a cross-Directorate Innovation Strategy has been launched. BIAC supports this initiative and calls upon the OECD to consider innovation in health as a high priority in this context. In BIAC's view, innovation is essential for the improvement of the effectiveness and quality of care and services and should encompass innovation in the provision of innovative health services, funding schemes, drug and devices medicines as well as innovation in the organisation of medical facilities.
45. The changing nature and increasingly global dimension of innovation, which will have implications for human capital, markets and governments, as well as the need for new metrics should be given due attention in the context of the Innovation Strategy. BIAC encourages the OECD to help countries create a favourable policy framework and incentives for innovation, foster public-private partnerships, improve the conditions for the implementation of innovation and encourage wider consumer access to innovative health care technologies and products.
46. It is commonly admitted that innovative products and services are needed for addressing the existing and coming challenges. However, many barriers remain when it comes to the implementation of an innovative medical service or product. The question of how to improve innovation while fulfilling necessary safety requirements needs to be urgently addressed. The rapid pace of scientific and technological advancement in the life sciences brings with it increasing complexity and heterogeneity of knowledge relevant to health innovation across multiple fields. The OECD can play a major role in analysing these complexities and in promoting innovative solutions in health care. BIAC therefore calls upon OECD Ambassadors to support a high profile of health in OECD's high quality work on innovation and in its horizontal Innovation Strategy.

## The importance of human capital

47. As underlined by the recent OECD publication, OECD countries will face a challenge in responding to the growing demand for health workers over the next 20 years. Business considers the health workforce issue a key challenge, which must be urgently addressed. BIAC encourages the OECD to consider health workforce issues in the context of other reforms affecting the availability and movement of skilled professionals. Factors such as education of health care professionals and the attractiveness of the profession will have a major effect on the availability of health professionals. Productivity increases thanks to better trained and organised health professionals should be given due attention. BIAC encourages the OECD to analyse the origins of the challenges we are facing, the extent of these challenges as well as possible solutions.

## Measuring health systems' performance

48. BIAC welcomes OECD's work on monitoring and assessing member countries' health care policy reforms. The work undertaken to establish consistent indicators and databases has proven useful to both governments and business in helping to identify key trends. Through high-quality databases, the OECD has developed an excellent set of indicators describing the health sector. BIAC calls upon the OECD to complete and use these databases for enhancing decision making processes and improving monitoring capabilities and enable governments to use these data for action.

49. Furthermore, BIAC recommends intensifying work on monitoring and the governance of the health care system. It is becoming increasingly urgent to address the validity of organisational schemes of the health system and to question the way patients, citizens and health providers are involved. Health care reforms should be reviewed, and information on how effective they have been should be shared among countries to benefit from each other's experience. BIAC also encourages OECD member countries to continue measuring and assessing the performance of their health care systems and policy reforms.

## Other challenges for the health care sector

50. **Counterfeiting:** The 2007 OECD report on the economic implications of counterfeiting and piracy underlines the extent of global counterfeiting, including in the area of pharmaceuticals. Counterfeit medicines, which range from random mixtures of harmful toxic substances to inactive, useless preparations, deceive consumers and can be very dangerous to patients' health or ineffective for the treatment of diseases. Pharmaceutical counterfeiting, which occurs both with branded and generic products, and is produced and distributed mainly by sophisticated and well-organised criminal networks, has wide negative economic and social impacts. BIAC encourages OECD governments to actively tackle this problem.

51. **Intellectual property (IP) issues:** High-quality and effective intellectual property rights systems are a fundamental prerequisite for innovation in the health care sector as well as other sectors. In the context of the OECD accession negotiations, BIAC has prepared a paper which highlights the specific challenges OECD-based business faces in the five accession countries.

## Concluding remarks

52. BIAC calls upon the OECD to give the highest attention to truly horizontal work on health care. The OECD should maintain its focus as a multi-disciplinary organisation with economic focus on its added value as compared to other international organisations and respond to a coherent and long-term strategy in the area of health. The long-term strategy should address the above-mentioned key challenges, include health-related work across the Organisation and reflect the horizontal nature of health care. BIAC looks forward to playing an active role in these discussions.

## Questions for Ambassadors and OECD Leadership

- *In the opinion of OECD Ambassadors, what added value does the OECD have in work on health care policy as compared to other international organisations? What should be the main parts of a strategic vision?*
- *In view of the financial and economic crisis, which will undoubtedly have implications for health care, what do Ambassadors see as priorities for OECD work on health?*
- *Do Ambassadors agree with BIAC's suggestions for improving efficiency in the health care system? What role do Ambassadors see for the private sector in this context?*
- *How can an innovation-friendly environment and good management methods in the health sector best be promoted?*

## Next Steps for the OECD Horizontal Water Programme

### Water and Business

53. Business recognises that water is vital for economic growth and social development. However, as economic growth occurs and populations increase, more demand is placed on water resources. Crucially, policy-makers must understand the interconnectivity of water issues in order for there to be sustainable provision and consumption of water.
54. BIAC thus welcomes the OECD Horizontal Water Programme, launched last year, in which the focus has largely been on sustainable financing, pricing, and infrastructure management. It is clear that the Programme has enabled the OECD to take the international lead in raising considerations and developing evidence-based recommendations in order for policy-makers to address these critical aspects of the global water challenge.
55. However, the need to expand the scope of the Programme is now more urgent than ever in the context of the current financial crisis and economic slowdown, which is expected to heavily impact on water infrastructure, agricultural and industrial water consumption patterns, investment in R&D for innovative water technologies, and so on. This is of particular significance to the many OECD Member, Accession, and Enhanced Engagement countries that already face severe and continued water problems. The aim of this paper is thus to encourage Ambassadors to take actions to expand the scope of the OECD Horizontal Water Programme. To do so would help fill critical gaps in current knowledge about water issues, enabling the OECD to establish itself as a leading light in providing solid facts and best-practice recommendations towards effective political action on all levels for meeting the global water challenge.

### BIAC Considerations for the OECD Horizontal Water Programme

56. BIAC endorses the future work priorities outlined in the September 2008 OECD Council document (“OECD Horizontal Water Programme”), which include: policy guidance for the integrated management of water resources; examination of water governance; capacity-building tools for the implementation of policy recommendations on national and local levels; and special focus on enhanced engagement countries.
57. However, in order to understand the dynamics of these identified priority areas more fully, additional related policy issues need to be examined. As the Council document states, there is a need to better understand “policy coherence with sectors lying

'outside the water box'.<sup>2</sup> Water issues therefore cannot be examined in isolation. Effective solutions for water challenges thus require a whole-of-government approach with strong political commitment if they are to be successfully implemented and have positive impact.

## Water Politics and Governance

58. Business appreciates the next steps identified in the Council document relating to water governance across different levels of government. Political leadership, policy formation, regulation and governance require strengthening and adaptation in many countries where political neglect is apparent. Particular attention should be paid to local levels of governance, where the political, economic, social, and environmental impacts of water are most salient and where sufficient capacity and effective reforms need to be implemented. The OECD should focus on why the political profile for water in many cases is lacking, and which approaches policy-makers should employ to successfully implement reforms.

## Water Infrastructure

59. The OECD is in a prime position to build upon the excellent work that it has carried out on shortfalls in the financing and maintenance of water infrastructure, as demonstrated in the OECD (2006): "Infrastructure to 2030" publication. BIAC encourages the OECD to examine key issues that impair the performance of municipal water distribution and wastewater collection and treatment services. Furthermore, the OECD should review its predicted trends for the public and private investment in infrastructure to mitigate the impacts of the current financial crisis.

## Water and Energy

60. Water and energy are intimately linked. Firstly, water is a source of energy: hydropower is one of the cheapest and most sustainable forms of energy. Water is also an enabler for other sources of energy: it is essential for cooling traditional and nuclear power plants, biofuels production and for many industrial processes. In addition, water provision is a consumer of energy, as treatment and transport require substantial amounts of energy.

61. As energy demand is likely to continue to increase faster than population growth, it is therefore necessary to secure the allocation of increasing quantities of water for energy purposes. However, while the priorities included in the Council document rightly mention the importance of climate change considerations, there is no focus on the water and energy relationship and the broader implications for economic sustainability. BIAC encourages the OECD Horizontal Water Programme to include analysis of the important links between energy and water issues in its future work.

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<sup>2</sup> C(2008)159 para.12

## Water and Food

62. Similarly, the issues identified in the Council document do not include the relevance of water for food supply. Agriculture demands the lion's share of water supply in many countries, particularly in developing countries, but also in some OECD countries. With growing populations, water usage for agriculture is going to face more intense pressure as demand for food increases. When water shortages occur in major agricultural producing areas, either due to water services problems or periodic droughts (the latter of which was recently the case in Australia), they can significantly contribute to rising prices of agricultural commodities. This has knock-on effects on global economic growth as basic living costs become higher. Moreover, it is important to note that significant volumes of water are wasted in over-irrigation, leading to negative impacts on plant yields and increases in energy costs.

BIAC encourages the OECD Horizontal Water Programme to provide information about the above-mentioned links between water and agriculture. One particular track of OECD research that could form part of this work could focus on the potential impact of liberalisation of trade in agriculture for efficiency benefits in water use for farming.

## Water and Trade

63. The role of "virtual water"<sup>3</sup> in international trading patterns is likely to increase the political awareness of water issues. Thus considerable work has already been done on measuring and describing national water consumption (i.e. national water "footprints"<sup>4</sup>). However, unlike carbon footprints, the value of water withdrawals is particularly sensitive to timing and can impact most heavily on local areas. A number of BIAC members are thus currently engaged in developing the extension of the water footprint concept so that it can be applied at a more local level to describe "activity" footprints (municipalities, businesses and supply chains), product footprints and individual footprints.

This business-led work could be complimentary to the examination of the value and economics of water that BIAC calls on the OECD to further analyse. Moreover, BIAC encourages the OECD to consider the ways in which greater understanding of virtual water and water footprints in international trade is impacting water consumption and provision patterns in countries.

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<sup>3</sup> "Virtual water" refers to the water used in the production of a good or service. Thus, when goods and services are exchanged, so is virtual water. For example, when a country imports a quantity of wheat instead of producing it domestically, it may save a large volume of real indigenous water. If the exporting country is water-scarce, however, it has exported a large volume of virtual water since the real water used to grow the wheat will no longer be available for other purposes.

<sup>4</sup> Water "footprints" include the direct consumption of water and the indirect consumption of virtual water.

## Water Data

64. There is a shortage of reliable data on many aspects of water. For example, real time online monitoring technologies are not widely used and yet these can shed great insight into water quality and thus the determination of the appropriate treatment techniques and related costs. Reliable data would also help drive future regulations and help address emerging concerns and issues related to water quality and security. The OECD should co-operate with other international organisations towards generating reliable water data and measurement techniques.

## Additional Considerations: Co-operation and Communication

65. The broadening of the OECD Horizontal Water Programme will require effective communication. This will be critical, both on an internal OECD level (i.e. co-ordination between a larger number of OECD committees), and on an external level (i.e. co-ordinating with other international organisations, such as the World Water Council, UNESCO, the FAO, and so on).

66. On an internal working level, BIAC feels that the OECD Horizontal Water Programme and the OECD Horizontal Innovation Strategy should seek to work more closely together towards research on innovative technologies for water. On the external level, BIAC is aware that the OECD Horizontal Water Programme is already collaborating with the UN World Water Assessment Programme, particularly on the issues of finance and pricing. This is important and the OECD should look for specific niches following the publication of the UN World Water Development Report No. 3 to continue to make its contribution towards this programme. BIAC itself is similarly co-ordinating with other business organisations, such as the International Chamber of Commerce and the World Business Council for Sustainable Development, to harmonise business messages towards policy-makers.

67. As an additional issue, the work priorities of the OECD Horizontal Water Programme should be communicated to the general public, and an easy-to-navigate website section dedicated to water providing a concise overview of the Programme and work-to-date would be a useful communication tool.

## Proposed Actions

68. In 2006, the OECD indicated that it would consider the water issue as one of its top long-term priorities. Despite the successful work of the OECD Horizontal Water Programme to date, the OECD business community believes that much still remains to be done. BIAC therefore asks Ambassadors to take the necessary actions to expand the scope of the Programme, as described above, and to transform it into a real flagship initiative for the OECD. In doing so, this will help ensure that the outcomes of the OECD Horizontal Water Programme are used effectively by policy-makers to fully inform their decisions and to turn them into practice on national and local levels.

69. Business and industry play key roles in data provision, developing innovative technologies, and in ensuring the sustainability of financial strategies for water (notably in the form of public-private partnerships). BIAC thus stands fully ready to provide continued business input and support towards the OECD Horizontal Water Programme going forward.

### Questions for Ambassadors and OECD Leadership

- *How can the OECD build on its expertise in economics and governance to strengthen the incentives for political action in the field of water policy and its implementation?*
- *What ethical principles will OECD use to drive policy (such as safeguards, common goals, flexibility for implementation)?*
- *As the understanding of virtual water and water use in value chains becomes understood, will there be a need for a more global vision of the price of water as a tool for conservation? Will mitigation and adaptation offset mechanisms become part of future trading agreements?*
- *How can innovation be incentivised in demand-side management and behaviour change by consumers of goods and services, as well as in supply-side efficiency?*