



The Voice of OECD Business

Building a Stronger, Cleaner and Fairer World Economy

BIAC and TUAC Consultation with the Bureau of the OECD Council Meeting at Ministerial Level

23 June 2009, Paris

Introduction

1. The current financial and economic crisis has its origin in OECD countries. Because of this and the substantial expertise of the Organisation in relevant policy areas, the OECD has an important role in contributing to policies that help to attenuate the impact of the crisis, provide for sustainable economic recovery and help to reduce the potential scale of any future crisis.
2. In the following paragraphs, BIAC provides the business priorities for OECD work that will contribute to a stronger, cleaner and fairer world economy. We focus on the following key areas for the attention by governments:
 - Macroeconomic policies and structural reforms to restore economic growth and job creation;
 - Open markets for trade and investment;
 - Corporate governance;
 - Innovation-led sustainable growth; and
 - Clean growth.
3. BIAC calls on OECD Ministers to provide the Organisation with a strong mandate for future work which adequately reflects the business priorities.
4. BIAC finds it particularly important that the Ministers commit themselves on behalf of their countries to policies that will foster swift and sustainable economic recovery. Business is concerned that protectionism and economic nationalism threaten to prolong the crisis. We urge Ministers to commit unambiguously to open markets for international trade and investment, which are key drivers for sustainable economic growth and employment.

Macroeconomic policies and structural reforms to restore economic growth and job creation

5. The negative impact of the financial and economic crisis on the welfare of our societies has been significant. While financial markets in many countries have shown some signs of recovery in recent months, the collapse of these markets last fall has severely hit the real economy. More and more companies are facing a liquidity crunch. Global production is contracting and world trade has collapsed. As a result, unemployment is projected to rise substantially across all OECD economies and to even double in the G7 countries within the next 18 months.

BIAC policy priorities

6. Restore confidence in the financial sector: Restoration of confidence in the financial sector continues to be a top priority. Financial market stabilisation is a prerequisite for the recovery of the real economy. A sustainable financial system requires financial market reform, which ensures that financial institutions make a lasting positive contribution to economic development and growth. A healthy balance needs to be found in the financial sector between innovation, competitiveness and the prevention of excessive risk taking. Government involvement in financial sector institutions has been a necessary step to restoring confidence. However, this can only be a temporary emergency solution. Once confidence in the financial sector is sufficiently restored, the private sector has to be put in the driving seat again. Governments need to develop appropriate exit strategies.
7. Ensure sufficient credit and liquidity: Major central banks have substantially reduced nominal interest rates. Nevertheless, the real financing costs for companies have increased and are in many countries too high to stimulate economic activity. Furthermore, companies who are seen to be prone to risk are facing particularly difficult access to finance. It has become more difficult and costly to finance exports because of the reduced coverage and increasing price of credit insurance.
8. To enhance the impact that central bank rates can have on the expansion of credit supply and liquidity, other measures to alleviate the corporate financing situation should also be considered. They may include the outright purchase of corporate bonds by central banks, temporary government backed guarantees for the issuance of corporate bonds, as well as expansion of government schemes for co-insurance and re-insurance for business-to-business credit. Accelerated tax refunds and the reduction of government payment delays would help to reduce financing pressure for companies.
9. Fiscal policy: Those countries that still have room for budgetary manoeuvre should consider additional discretionary spending which is targeted and time-limited. However, the mid- and long-term sustainability of public finance must not be put at risk and governments should adopt credible plans to reduce spending once economic growth resumes.

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10. Support for specific sectors: The sustainability of public budget policies must also be a guiding principle for discussions about government support for sectors that are affected by the crisis. In addition, policy makers need to avoid a subsidy race between countries. The WTO rules on subsidies need to be fully respected. Subsidies and any other support measures should not distort international trade and investment.
 11. Structural reforms: The economic slowdown must not weaken governments' commitment to structural reforms which in the mid- and long-term remain essential to enhance sustainable growth and job creation. It is important to design now and implement high quality structural reforms which enhance the momentum of the next economic recovery. In addition to financial regulation, reform areas that are critical for fully reaping the potential of our economies include tax, innovation, education and skills development, infrastructure, energy security, as well as regulation in product, service and labour markets. The OECD is ideally placed to advise governments on the above-mentioned structural reform issues.
 12. Labour market and social security reforms: Structural reform areas of particular importance are also labour markets and social security systems. In order to support economic recovery, sustainable job creation and also the financial sustainability of social protection systems, governments should reduce labour market rigidities, implement the flexicurity approach, reduce non-wage labour costs, ensure adequate social safety nets, promote employability and incentives to work, invest in skills, education and training, ensure labour mobility, invest in developing and improving public services, and reduce administrative as well as compliance costs for SMEs.

The role of the OECD

13. With its multi-disciplinary approach as well as its capacity to provide evidence and compare developments across countries, the OECD is uniquely placed to support policy considerations and actions by governments in the areas of financial markets, macroeconomic policy and structural reforms.
14. Major OECD reference points include the Economic Outlook, Going for Growth Report, Jobs Strategy and the country specific economic surveys. BIAC calls on the OECD to continue to proactively provide policy guidance that is credible and helps governments to build stronger and more sustainable economies.
15. The OECD also has a particularly important role to play in ensuring sufficient trade finance. Business congratulates the Organisation for its roles as the forum for discussing and monitoring the implementation of the G20 pledge to support trade finance through export credit and investment agencies. We hope this will contribute to the effective use of the US\$ 250 billion pledged by the G20 countries and through this help to stabilise trade flows.

Open markets for trade and investment

Why open markets matter

16. International trade and investment are key drivers of global growth as well as integration and through this contribute substantially to alleviate poverty. Shipments abroad and cross-border investment have been falling considerably as a result of weakening global demand. Business is concerned that re-emerging protectionism and economic nationalism will deal an additional blow to cross-border activity.
17. Beggar-thy-neighbour policies aggravated the Great Depression. In the current crisis, we have not yet seen the blunt forms of protectionism applied eight decades ago. However, governments, including those from OECD countries, have applied discriminatory policies which give their domestic companies a competitive edge to the disadvantage of foreign investors and exporters. Actions taken include higher applied import tariffs, “buy national” requirements, state aid for specific industry sectors and increased government scrutiny applied to incoming foreign investment.
18. The trend towards economic nationalism and protectionism must be stopped and reversed, because it implies high costs for our economies, companies, consumers and employees, and will only prolong or amplify the negative impacts of the crisis. Markets must be kept open for trade and investment, which are vital for sustainable economic recovery. Governments must therefore avoid any discrimination between domestic and foreign companies. They should also further eliminate barriers to support a swifter return to economic growth and a growth potential in the medium and longer term.

The role of the OECD

19. The OECD has been the leading international organisation in the promotion of open markets for investment. Last year, OECD Ministers pledged to avoid protectionism against foreign sovereign wealth funds (SWFs).¹ The Organisation finalised its Guidelines for Recipient Country Investment Policies Relating to National Security and it began to monitor through peer reviews the implementation of good investment policies. Importantly, the OECD will also contribute to the monitoring of the implementation of the G20 pledge not to introduce any barriers to international investment until the end of 2010. The OECD has also a key role to play in building confidence in and support for rules-based international trade. OECD analysis provides valuable support for the defence of open market policies against increasing pressures from protectionists. Furthermore, the OECD is an important forum that helps to build policy consensus about priorities for further trade liberalisation. BIAC proposes the following priorities for OECD action in the areas of trade and investment:
20. Ministerial declaration on trade and investment: International business expects that the OECD Ministers will extend their pledge from June 2008 to refrain from protectionist barriers against foreign investment from SWFs to cover also foreign investment by

¹ OECD Declaration on Sovereign Wealth Funds and Recipient Country Policies, June 2008

private companies. Furthermore, this new commitment in the area of investment policy should involve future OECD peer review monitoring to ensure full implementation. In addition, the Ministers should make a commitment to refrain from any new or increased trade barriers. This pledge should explicitly include the commitment to design and implement any measures to support production and employment in sectors hit by the financial and economic crisis in ways that avoid unfair discrimination between companies on the basis of their nationality. Discriminatory measures that have already been implemented should be taken back or designed differently in order to avoid that they impact negatively on cross-border trade and investment. Such clear unambiguous commitments by the OECD Ministers in the area of investment and trade would complement and support the relevant G20 pledges and also help to rebuild confidence by markets in countries' policy approaches towards international business activity.

21. Credible monitoring of OECD members' practices in the area of investment: The OECD needs to continue its peer review monitoring among its member countries and the other adhering countries to the OECD Declaration on International Investment. The objective should be to rigorously monitor the full implementation of countries' commitments under the instruments and the implementation of the OECD investment policy guidance.
22. Monitoring of the investment related commitments of G20 members: BIAC expects the OECD to play a leading role and to coordinate effectively with the other relevant international organisations on the monitoring of G20 countries' policies and practices applied to foreign investment. We also believe that the OECD Investment Committee should use the results of this monitoring exercise to form and communicate an opinion on whether G20 countries that are not adherents to the OECD investment instruments are keeping their markets open for investment. The respective countries should be invited to participate actively in this discussion.
23. Economic assessments of barriers: BIAC would find it useful if the OECD would assess the economic relevance of discriminatory investment and trade measures that countries have introduced (or plan to introduce) in reaction to the economic crisis. The WTO has already listed a large number of measures which potentially affect trade. However, countries that have taken measures usually downplay their economic significance, and without credible analysis it is difficult for business as well as policy makers to gauge how harmful these measures really are.
24. Opening markets further: OECD governments must provide the political will and take leadership to achieve consensus among themselves and other leading WTO members on the details for trade in agricultural and industrial products to pave the way for a rapid conclusion of the WTO Doha Development Round with meaningful results across all the major areas, i.e. services, industrial goods and agricultural products.

Corporate governance

Need for better corporate governance

25. Corporate governance failures have not been the root cause of the financial crisis. However, better governance in the financial sector would have helped to avoid excessive risk taking and through this limit the magnitude of the crisis. Corporate governance improvements are needed to contribute to the sustainable functioning of financial markets. Key issues to be addressed are the governance of risk management systems, role and responsibilities of boards of directors, the question of how executive remuneration can be better aligned with the long-term objectives of the companies as well as the question of how shareholders can contribute to better corporate governance.

The role of the OECD

26. The OECD has a key role in drawing the corporate governance lessons from this crisis. Its Principles of Corporate Governance represent a widely recognised framework for good practice and a valuable reference point. The well established dialogue with its advisory bodies, BIAC and TUAC, further enhances the credibility and potential impact of the OECD's activities. BIAC appreciates the good quality of OECD analysis provided so far on the corporate governance lessons from the financial crisis. BIAC outlines the following guiding principles with respect to OECD work on corporate governance:

27. Avoid over-regulation: Excessive faith in corporate governance regulation would be inappropriate and harmful if regulation increases compliance costs without really improving corporate governance. The OECD should put increased emphasis on promoting regulatory impact assessments in the area of corporate governance to enhance the understanding of the potential impact of policy measures and to reduce the risk of ill-conceived regulation. Ways to improve the effectiveness of self-regulation and voluntary approaches must be seriously explored as well.

28. No revision of the OECD Principles: BIAC does not see any need for revising the OECD Principles. We fully share the OECD view that the Principles continue to provide adequate general guidance including on the issues that have emerged in the context of the financial crisis.

29. Foster implementation: Corporate governance shortcomings reflect a lack of implementation of the Principles. This implementation gap must be addressed. BIAC supports the OECD approach to develop commentaries on key issues. The objective must be to provide further analysis which is fully consistent with the existing Principles and which can help to promote better understanding about how these challenges can be addressed. BIAC is pleased that the OECD accepted our suggestion to make better use of the Organisation's unique capacity to conduct peer reviews and encourage peer learning. We hope this will facilitate the sharing of experiences and "best practices" among countries. It will be important that the peer reviews take into account the fact that internationally shared corporate governance objectives can be achieved by different approaches, which reflect the specificities of corporate governance cultures in the OECD area.

30. Government ownership must be temporary and not distort fair competition: Government involvement in financial institutions raises potential issues. We welcome that the OECD has started to request detailed information from governments about their strategies. It is critical that government involvement in the financial sector does not create unfair competition between institutions that are supported by the government and those that are not. Equally important is that government involvement be only temporary. Governments need to develop exit strategies to prepare for the re-privatisation of financial institutions as soon as government involvement is no longer necessary to ensure the stability of the financial system.

Innovation-led growth

Need for a broad-based innovation strategy

31. As mentioned above, a comprehensive strategy is needed to put the global economy back on a growth path. At the same time, it must be ensured that the recovery is durable and integrates long-term concerns about global challenges. Sustaining growth in the longer term, while at the same time addressing environmental and other sustainability challenges, requires strong political leadership to have a comprehensive policy framework in place that fosters innovation as a key objective. While it cannot be expected that such a strategy would have immediate effects, it will be indispensable to make the recovery more sustainable and durable.

32. More than ever, governments need to ensure that investing in innovation remains a top priority in both public and private sectors, despite the crisis. BIAC has therefore been supportive of the OECD's Innovation Strategy, underlining the importance of establishing effective framework conditions that reflect the understanding of the broad-based requirements of innovation. Issues that need to be addressed include: supporting entrepreneurship and risk-taking, good governance, making reforms in the education system and achieving productive links between academia and business, fostering open markets, designing a sound regulatory framework for innovation, ensuring that major public sector investments foster innovation, and encouraging international cooperation. Furthermore, it is important to identify the incentives which will encourage companies to continue investing in research and development despite the difficult economic situation. At the same time, it needs to be ensured that society remains open and receptive to new technologies.

The role of the OECD

33. In times of an economic crisis, international dialogue on keeping innovation high on the agenda, sharing best practice and proposing a whole-of-government approach towards fostering innovation are of key priority. We encourage the OECD to use the Innovation Strategy to contribute to responses to the crisis, propose possible remedies and set priorities with a view to building on the momentum of action taken so far. Now more than ever, the OECD as a multi-disciplinary organisation has an important role to play in facilitating the exchange of best practice, in proposing coherent and integrated policy

packages to support innovation for growth and in documenting that innovation is a tool that will ultimately make a contribution to helping countries climb out of the crisis.

Ensuring clean growth

Support for a successful outcome of the Copenhagen conference

34. The financial and economic crisis has already had severe impacts in OECD and non-OECD countries, which need to be urgently addressed. However, despite the crisis, business remains committed to addressing climate change as a top priority and supports a successful outcome of the UN climate change conference in Copenhagen at the end of this year. An effective global climate change framework including all countries and taking into account business realities should help avoid distorting impacts from uncoordinated efforts to reduce carbon emissions and provide business with clarity and predictability for future business investments. Among others, we encourage policy makers to give due attention to the following issues:
35. There is a need for breakthrough technologies, which require global cooperation and support for research and development. The future framework should offer strong support for long-term innovation and investment in clean technologies. The potential of all energy options to achieve emissions savings should be considered. At the same time, and as illustrated by a number of IEA studies, energy efficiency holds a major potential and should remain a top priority for policy makers.
36. Both mitigation and adaptation will need to be considered. Particular attention must also be paid to the interactions between climate change, energy and water, which are linked in many ways.
37. Market-based approaches: We encourage policy makers to recognise the important role of market-based approaches in conjunction with other policy instruments. Approaches that maximise the dynamism of the private sector will be essential for making lasting progress.
38. Trade and climate objectives should not be seen as opposing each other. Open trade enables the dissemination of environmentally friendly technologies not only within OECD countries, but also to emerging and developing economies. If trade and climate policies are set against each other, this would fuel protectionism and complicate the task of reaching a global agreement.

A key role for the OECD

39. In BIAC's view, the OECD and its sister organisations, including the International Energy Agency (IEA), have a key role to play in the climate change debate. Rigorous economic analysis will be necessary to provide the foundation for formulating and implementing future climate policies for the wider goal of sustainable development. We encourage Ministers to support further work, including on the economics of climate change, innovation and energy efficiency.