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**OECD COUNCIL MEETING AT MINISTERIAL LEVEL**

**Paris, 26-27 May 1999**

**COMMUNIQUE**

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## Introduction

1. The OECD Council at Ministerial level met on 26-27 May 1999, under the chairmanship of Mr Angel Gurría, Minister of Finance of Mexico, assisted by the vice-chairs, Mr Giuliano Amato, Minister of the Treasury, Budget and Economic Planning of Italy, and Mr Leszek Balcerowicz, Vice Prime Minister and Minister of Finance of Poland. Also on 26 May, in advance of the Council, OECD Ministers held a Special Dialogue with Ministers from seven non-member countries: Argentina, Brazil, China, India, Indonesia, Russia, and the Slovak Republic. Consultations were held with the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC) to the OECD.

## Economic perspectives and policy requirements

2. Ministers welcomed the policy steps taken by both OECD and non-OECD countries that have improved confidence and contributed to greater stability in world financial markets. But serious challenges remain and governments must not be complacent. Ministers stressed the need for both sound macro-economic policies oriented toward non-inflationary growth and structural policies that promote competitive, flexible markets. Such policies are mutually reinforcing and foster strong economic performance which creates jobs and combats social problems. Ministers agreed that stronger and more balanced growth among the main OECD regions and vigorous structural reforms are needed to reduce current account imbalances, lower unemployment, and support recovery in crisis-affected emerging economies. Momentum to strengthen the international financial architecture must be maintained to complement efforts at the national and regional levels to ensure a stable environment for growth and recovery.

3. Performance both within the OECD area and elsewhere has been mixed. Strong non-inflationary growth has continued in the United States and several other countries. While the individual country outlooks in Europe differ somewhat, overall economic expansion has slowed but is forecast to pick up later this year. In Japan, important policy steps have been taken, including the recapitalisation of major banks. The Japanese economy now shows some signs of improvement, but the short-term outlook remains uncertain. Some Asian crisis countries, notably Korea, have started to recover more rapidly than expected, thanks to supportive macro-economic policies, more open and better-supervised banking and financial markets, and other structural reforms which must be carried through. Most countries in central Europe have managed recent market turbulence well and avoided lasting damage to their economies from the Russian crisis. In a number of other non-OECD emerging and transition economies, however, the situation continues to require attention. Overall, growth in both the OECD area and the world economy remains unsatisfactory.

4. Ministers agreed that the markedly different cyclical situations in major OECD economies call for different economic policy settings:

- In the *United States*, where temporary and structural factors have facilitated the combination of rapid growth and job creation with good inflation performance, the authorities must continue to maintain sound policies and remain vigilant for signs of overheating.
- In *Europe*, where the euro has been successfully launched, the recent reduction of interest rates served as a stimulus for growth. An appropriate mix of macro-

economic policies and vigorous structural measures aimed at strengthening prospects for improved growth and higher employment must be pursued.

- In *Japan*, it is essential that policies be supportive until deflationary pressures ease and a revival of domestic demand-led growth is firmly under way. The Japanese authorities are committed to resolving the problems of the financial sector, including by encouraging banks to dispose more actively of non-performing assets, and to implementing further wide-ranging structural reforms essential to recovery and long-term growth.

5. *Growth performance* varies considerably across and within OECD countries. Ministers asked the OECD to study the causes of growth disparities, and identify factors and policies (such as rapid technological innovations and the growing impact of the knowledge society and its demand on human capital, the arrival of new service industries, the best framework conditions for fostering the start-up and growth of new enterprises including SMEs ... ) which could strengthen long-term growth performance.

6. Ministers expressed their concern at the continuing high levels of *unemployment* in some of their countries. Experience shows that unemployment can be durably reduced through a comprehensive and sustained package of reforms consistent with the *OECD Jobs Strategy*. Ministers underlined their determination to further implement the Strategy. High and persistent joblessness, especially among young people, women, older workers, and unskilled immigrants, remains a major policy challenge for most OECD governments. The best way to foster employment of these groups is through a combination of macro-economic and structural policies aimed at increasing overall employment. Policy must promote flexible labour markets in tandem with effective social safety nets that deliver assistance to the most vulnerable members of society. Attention should also be given to policies to improve the employment prospects of groups at the margin of the labour market, to address regional disparities in employment performance, to reforms of the tax and benefit systems to make work pay, and to making life-long learning a reality for all. Fostering a climate conducive to “active ageing” also remains a priority. Progress across the board is needed to improve social cohesion. Ministers asked OECD to continue its work of monitoring and evaluation of the Jobs Strategy.

7. The pursuit of *sustainable development*, including global challenges such as climate change, the sustainable management of natural resources, and the conservation of biodiversity, is a key objective for OECD countries. Achieving this objective requires the integration of economic, environmental and social considerations into policy-making, in particular by the internalisation of costs, and the development and diffusion of environmentally sound technologies worldwide. OECD will continue to promote discussions between economic and environment officials on how best to meet Kyoto commitments. Developing a set of key indicators is essential to assess progress towards sustainable development. OECD countries will continue to co-operate with non-OECD countries to improve policy and institutional frameworks. OECD will report to Ministers, with policy recommendations, in 2001.

### **The multilateral system and a new WTO round**

8. Trade and investment are the motor of global economic growth, prosperity and integration, and are fundamental to the reduction in global poverty. The *multilateral trading system* is a keystone of the world economy. An open, transparent and rules-based trading system remains essential. Countries must resist protectionist pressures and develop the

momentum for further liberalisation by building on current levels of market access. Early conclusion of a second Information Technology Agreement (ITA-2) would contribute to this momentum. Considering the importance, for both developed and developing countries, of the ongoing Geneva negotiations on transparency in government procurement, Ministers aim for a substantive agreement by the Seattle Conference. Early accession of applicants to the WTO on the basis of mutually acceptable and commercially viable market access commitments and adherence to WTO rules would strengthen the system.

9. Ministers recognised the need to continue to settle *trade disputes* in accordance with WTO rules and the responsibility resting on governments in this regard. A better-functioning and more transparent WTO Dispute Settlement Understanding is vital. Ministers will aim with their WTO partners at a successful and timely conclusion of the review of the Understanding in the WTO as scheduled. The dispute settlement system must remain responsive to the needs of developing countries, and Ministers confirmed the importance of exploring the most effective means of providing assistance to developing countries to use more effectively the dispute settlement system.

10. Ministers endorsed the need for a *new WTO round of multilateral trade negotiations*, and will work constructively with all WTO members toward its successful launch in Seattle at the end of this year. They will work for an ambitious, broad-based and balanced agenda for the negotiations that responds to the needs and aspirations of all. Ministers agreed to aim to achieve timely results, preferably in three years, and to work with WTO members to reach agreement on options and modalities for negotiations, including the principle of a “single undertaking” and the possibility of achieving results in the course of negotiations. Increasing integration and participation of developing and transition countries in the multilateral trading system remain a priority for OECD governments. The new round must be responsive to the needs of all developing countries, through capacity building, to ensure their economic growth and that they fully reap the gains of liberalisation; in this respect, particular emphasis must be given to the special needs of least developed countries, including improved market access.

11. Ministers stressed the importance of both effective implementation of existing WTO agreements and, as an integral part of the new round, the negotiations mandated in the “built-in agenda”, which includes agriculture and services. In addition, further liberalisation of non-agricultural tariffs, removal of non-tariff barriers, trade facilitation and expansion of government procurement opportunities would enhance market access on a broader front, and produce substantial benefits for all participants. The WTO must also remain fully responsive to the changing needs of the global economy and society. Ministers consider it essential that the WTO contribute to sustainable development as agreed in Marrakech, including through appropriate account being taken of environmental issues in the future trade negotiations. The current WTO Work programmes on Trade & Investment and Trade & Competition as established in Singapore have been constructive. In the preparations for the Seattle Ministerial, their results should provide the WTO General Council with a basis for building consensus on appropriate recommendations to the third WTO Ministerial Conference that may be desirable to enhance the rules-based multilateral trading system.

12. Ministers renewed their support for the observance of *internationally recognised core labour standards*. They reaffirmed their rejection of the use of labour standards for protectionist purposes. They welcomed the work of the ILO to promote the new Declaration on Fundamental Principles and Rights at Work. Ministers supported continued co-operation between the ILO, WTO and OECD Secretariats and stressed the importance of facilitating a broader understanding on the issues concerned, in and among Member countries. They recognised that promoting

respect for labour rights and trade and investment liberalisation, together with good governance, each contribute to better overall living conditions.

13. Ministers stressed the importance of ensuring enhanced transparency and clarity in the functioning of the WTO system. Active and constructive communication and consultation with civil society are essential for public understanding of the benefits and challenges of liberalisation. Ministers supported the important analytical work of the OECD in support of the multilateral system, and future WTO negotiations in particular. They encouraged OECD to make the results of its work available to a wider audience in order to help inform public debate.

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14. Ministers urged the early ratification of the *OECD Shipbuilding Agreement* by all participants to establish normal competitive conditions within the international shipbuilding market and to encourage other countries to become parties to the Agreement. OECD should continue its work on improving transparency of the shipbuilding market.

15. Ministers\* welcome the establishment of the Forum on Harmful Tax Practices, the progress made in implementing the mandate of the Forum and look forward to receiving a report on the identification of tax havens at their next meeting.

16. Ministers also welcome the dialogue initiated between the OECD and the Financial Action Task Force to explore how anti-money laundering systems could contribute effectively to deal with tax-related crimes, without undermining the effectiveness of these systems.

17. *Electronic commerce* presents great opportunities for growth and jobs in the global economy. OECD's Action Plan on electronic commerce endorsed at the Ministerial Conference held in Ottawa in October 1998 provides a basis for further policy discussion and technical analysis, in consumer protection, privacy and security, communication infrastructures, authentication and taxation, together with deepened understanding of the economic and social impacts of electronic commerce. Ministers stressed the importance of maintaining a collaborative approach with civil society, including the private sector, and other international organisations and welcomed the follow-up conference to be held in October 1999 to report progress and assess priorities.

18. Ministers regretted that the Participants to the Export Credit Arrangement had not yet reached agreement on an Understanding covering agriculture as mandated in the Uruguay Round. They urged, once more, the Participants to intensify their efforts to conclude this Understanding promptly, if possible by the Seattle Conference, and to report back at the next Ministerial Council Meeting. They welcomed the progress towards the OECD Agreement on Environmental Information Exchange for Larger Projects in relation to officially supported export credits and urged that the work continue with a view to strengthening common approaches and to report on progress made at the next Ministerial Council Meeting.

19. *Agriculture* remains of central importance. While progress has been made in agricultural policy reform, more needs to be done: overall levels of support and protection remain high; trade disputes and tensions persist; and the sector is of key interest to developing countries. Ministers agreed to continue their efforts to implement the broad-set of shared goals and policy principles for agricultural policy reform, and recognised: the multifunctional characteristics of the

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\* See the report 'Harmful Tax Competition - An Emerging Global Issue'.

sector; the need to ensure that agro-food policies are targeted, transparent, cost-effective and avoid distortion of production and trade; and the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform, as agreed by OECD Agriculture Ministers in March 1998 and as noted by the OECD Ministerial Council in April 1998.

20. *Effective and sustainable management of fishery resources* and the relationship between resource management and trade require timely international agreement and action. Ministers welcomed the FAO's International Plan of Action for the Management of Fishing Capacity, and endorsed OECD's ongoing examination of the impacts of government financial transfers and other relevant factors on fishery resources sustainability, including over-fishing.

21. *Biotechnology* offers great opportunities but also presents significant challenges and has given rise to public debate on its implications. Ministers stressed the importance of safeguarding human health and the environment while enabling people to enjoy the benefits that flow from advances in biotechnology. Scientific research is essential to the process. The OECD should continue to examine the various dimensions of this issue, including in the discussion at the forthcoming CSTP Ministerial and in other fora.

22. The OECD recognised at an early stage the serious impact *Y2K disruptions* could have on the global economy. Ministers welcomed OECD efforts to draw the attention of governments and the private sector, particularly SMEs, to this issue. They urged all governments, international organisations and the private sector to continue to share information on Y2K readiness, to give priority to remediation activities and to engage in contingency planning at all levels. Special attention should be given to the needs of developing countries.

## **Governance**

23. *Good governance* is an essential element in strengthening pluralistic democracy and promoting sustainable development. Ministers welcomed OECD efforts to encourage more effective, efficient and transparent governance structures in Member and non-member countries, *inter alia* through its work on public sector management, anti-bribery, regulatory reform, corporate governance, ethical principles in public life, local and regional administrations, and ongoing work on indicators of global progress on governance. Ministers requested the OECD to elaborate a proposal for a "good governance" initiative to better share the results of the Organisation's existing work in this field with interested non-member countries, where appropriate in co-operation with other international organisations. Ministers also requested a progress report on this initiative for their next meeting.

24. Ministers welcomed and endorsed the *OECD Principles of Corporate Governance*. These Principles are a major achievement of the OECD. The Principles will assist governments in their efforts to evaluate and improve their countries' frameworks, and will provide guidance for private parties. They will make an important contribution to strengthening the international financial system. Ministers encouraged the implementation and use of the Principles within Member countries, and the exchange of experience among them. Ministers called on the OECD, in co-operation with the World Bank, the IMF and other international organisations, to promote the implementation and use of the Principles in non-member countries. They agreed that the OECD will assess the Principles in light of national experiences and changes in circumstance in due course, possibly in two years.

25. Ministers welcomed the completion of *OECD's reviews of regulatory reform* in Japan, Mexico, the Netherlands and the United States. Balanced and comprehensive regulatory reforms can make a major contribution to sustained growth and future prosperity, while promoting high levels of cost-effective protection for consumers and citizens. Ministers consider that the findings of these reviews will provide guidance for further reform, both in Member and non-member countries. They look forward to the successful completion of the second round of reviews, of Denmark, Hungary, Korea and Spain, in 2000, and to the extension of the review process to more Member countries.

26. The entry into force of the *Convention on Combating Bribery of Foreign Public Officials* on 15 February is a significant milestone in the international fight against corruption. Ministers, through OECD, will actively monitor the effective implementation of the Convention. They urge all signatory governments which have not yet done so to ratify the Convention and fully implement it, together with the OECD Recommendation on the tax deductibility of bribes, as soon as possible. OECD will promote the objectives of the Convention worldwide and continue to work together with non-Members, in co-operation with other international organisations, in the fight against bribery and corruption. Ministers requested the OECD to continue its work to strengthen the fight against corruption, including the examination of the issues of: bribery acts in relation with foreign political parties; advantages promised or given to any person in anticipation of that person becoming a foreign public official; bribery of foreign public officials as a predicate offence for money laundering legislation; the role of foreign subsidiaries and of offshore centres in bribery transactions. Ministers recognised the contributory role of the international trade rules to the fight against corruption and encouraged further analytical work in this regard.

### **Relations with non-Members**

27. OECD and non-OECD economies increasingly face interdependent challenges and opportunities in the rapidly integrating world. Ministers underlined the need for deepened policy dialogue, and encouraged the discussion underway on the enhancement of OECD's co-operation with non-Members.

28. Ministers welcomed the participation of a number of non-member countries in a *Special Ministerial Dialogue*, which builds on many years of mutually beneficial co-operation with a wide range of non-Members. This *Special Dialogue* fostered shared understanding of global policy challenges -- the promotion of growth, sustainable development and social cohesion, and how to reap and share the full benefits of trade and investment liberalisation.

29. The OECD remains open to new Members sharing the same values, while being selective and preserving its high standards for membership. Ministers looked forward to the conclusion of the process of accession of the Slovak Republic to the Organisation.

### **South Eastern Europe**

30. Ministers discussed the serious situation in *South Eastern Europe*, focusing in particular on its economic consequences for countries in the region. A successful coherent long-term development strategy will require commitment by the full range of actors involved. They therefore welcomed the international initiative to establish a Stability Pact for the region with the aim of building a democrat, peaceful and economically prosperous South Eastern Europe. In this

connection, they noted the mechanism for operational co-ordination set up by the World Bank and the European Commission.

31. Ministers pledged the OECD's active participation in the efforts of the international community and support to this process, drawing on the Organisation's comparative advantages and substantial experience in assisting transition economies. The OECD can make an important contribution in advising the affected states in the region on the development of macro-economic, structural and social policies, in helping to build the necessary legal and institutional frameworks and in promoting integration into the regional and global economy. The OECD's existing co-operation programmes with countries in the region should be strengthened, and the Organisation should launch, when practicable, programmes with other affected countries.

## **Development**

32. Ministers reiterated the importance of the OECD's development partnership strategy and recognised the need to make greater progress in gearing their development co-operation policies to partnership principles and practices. They welcomed the strengthened dialogue with multilateral institutions to improve aid co-ordination and the joint work with the UN and the World Bank on the international development targets. Greater policy coherence is essential to achieve these targets. Ministers noted the report on trade and investment and development and agreed to continue to work together at the OECD to take greater account of the impact of their own policy frameworks on developing countries. The OECD will undertake further analytical work in this area, and report.

33. Responding to the downward trend of official development assistance levels over recent years, Ministers stressed the importance of maintaining substantial volumes of aid, in particular for the poorest countries, and to improve the quality of such aid. Ministers regretted that the conditions were not yet fulfilled to conclude an agreement on untying aid to least developed countries. However, they noted the progress accomplished in the OECD since 1998 regarding principles and modalities for untying aid and encouraged further efforts to conclude a Recommendation in response to the agreed mandate.

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34. OECD plays an important role in the search for shared growth and prosperity in the global economy. Ministers recognised OECD's reform efforts in recent years and looked to the Organisation to consolidate and build on them. Substantial budgetary reductions have been completed, and Ministers endorsed the goal of financial stability for the Organisation's activities in the coming years. They agreed that a comprehensive solution to the pensions funding issue was also essential if this stability was to be achieved.

35. The political, economic and social challenges of the next century require informed and actively participating citizens. Ministers recognise their heightened responsibility to ensure transparency and clarity in policy-making, and looked to the Organisation to assist governments in the important task of improving communication and consultation with civil society.

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