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PART A



Part A

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SENIOR APPOINTMENTS IN CONFIDENCE

Begins: 17/2/84
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PART A

Chancellor's (Lawson) Papers:

ORGANISATION FOR
ECONOMIC COOPERATION AND
DEVELOPMENT MINISTERTAI.
COUNCIL. PARIS MAY 1984

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PART A

Disposal Directions 25 Years

[Signature]

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(pup)

FROM: A R H BOTTRILL
DATE: 17 FEBRUARY 1984

MR BYATT

*See Wilson! see
(x), was re
written 5/20/84*

- cc Mr Kerr
- Mr Gieve
- Mr Littler
- Mr Unwin
- Mr Bailey
- Mr Mountfield
- Mr Hart
- Mr Beastall
- Mr Graham

CONFERENCE ON LONGER-TERM PERFORMANCE OF OECD ECONOMIES

I attach a record of this week's OECD Ministers' seminar on longer-term issues. You will see that it covered a very wide range of issues but produced few novel ideas. We shall circulate the record to posts as a Savingram.

for *Mavis Halverson*
A BOTTRILL

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BY BAG

SAVINGRAM - RESTRICTED

TO UKDEL OECD PARIS
 AND SAVING TO BERNE, BONN, BRUSSELS, CANBERRA, COPENHAGEN,
 THE HAGUE, HELSINKI, OSLO, OTTAWA, PARIS, RIYADH, ROME STOCKHOLM,
 WASHINGTON, WELLINGTON, UKDEL IMF/IBRD AND UKREP BRUSSELS

CONFERENCE ON THE LONGER-TERM PERFORMANCE OF OECD ECONOMIES,
 PARIS, 13-14 FEBRUARY

Summary

OECD Ministers discussed pressures on the public sector, structural changes in the private sector and debt and trade problems in a 1½-day seminar on longer-term economic issues. Mr Rees, Chief Secretary to the Treasury, represented the UK.

2. No attempt was made to agree a consensus. There was common concern about the growth of public spending in the 1970s but Ministers differed both on the extent and the ways in which this should be checked. There was also shared concern about the problems caused by structural change but differences about the appropriate response. There was perhaps wider agreement on the need for a medium-term approach to the problems of debtor countries and the importance of reversing protectionist measures. A discussion of short-term issues over lunch covered familiar ground on the US budget deficit.

3. The Secretary-General suggested that OECD Ministers at their May meeting should return in particular to the issues of investment flows to developing countries and trade in both services and high technology products. He urged the need to agree action on the rollback of protectionism and more medium-term work on non-tariff barriers such as subsidies. He accepted the need for urgent OECD action on mixed credits - although not necessarily at the May meeting. Lambsdorff (Germany), however, argued for putting it on the May agenda on the grounds that a political decision was needed.

Pressures on the public sector

4. The Chief Secretary, opening the discussion, argued the case for a medium-term approach to monetary policy and budetary control to create a stable financial framework for the private

sector. He drew attention to the broad nature of the PSBR in the UK which included many measures treated as off-budget in other countries. Within overall public borrowing, firm control of public spending was essential if taxation was not to be excessive. He drew attention to the time needed to change public spending plans, urged governments to take early action where possible and said that the UK would be publishing a document on public sector pressures over ten years ahead. He called for constant review of spending programmes to reflect changing needs giving the UK examples of savings on housing subsidies, education, civil service numbers and support for the nationalised industries. These had helped to offset in part increases in defence, law and order, social security and local authority spending. He also mentioned the Government's programme of asset sales which should help to reduce off-budget activities. The UK's experience of the past five years demonstrated that it was possible to establish a credible medium-term framework to control both public borrowing and spending.

5. In the discussion that followed most Ministers described how they were seeking to achieve savings on public borrowing and spending. Okita (Japan) described how public expenditure had risen from 19 per cent to 33 per cent of GDP over the past ten years or so and how the government was trying to check this by firm limits on programmes and administrative reform. He did not accept that Japan's large savings justified large budget deficits. The rise in interest costs was particularly serious. He returned to this theme several times, arguing that if Japan's excess savings were to be made available to the rest of the world, particularly developing countries, the world would have to accept Japanese current account surpluses.

6. Ruding (Netherlands) argued the case for reducing transfer payments, cutting civil service numbers and salaries, controlling health spending and limiting off-budget guarantees. These last both posed a risk to future budgetary control and put pressure on financial markets. Sprinkel (US) said the US shared the objective of reducing public spending and borrowing but was not

ready to reduce the budget deficit by increased taxes because this would reduce incentives and encourage Congress to seek higher spending. He described the Administration's plans to reduce the Federal deficit to about 2½ per cent of GDP by 1989. He suggested the US had no difficulty at present in selling debt.

7. Tietmeyer (Germany) claimed rising public expenditure had reduced growth and investment. Public sector pay had led up wage levels. Budget deficit had raised interest rates. Social transfers had reduced labour mobility. Subsidies had worsened industry's flexibility. Christophersen (Denmark), Boyer (Spain) and Furgler (Switzerland) all supported the need for firm budgetary and expenditure control.

8. Delors (France) argued that there was no clear link between rising social spending and changes in economic growth rates, but shared the general consensus that public expenditure as a proportion of GDP was too high in many countries. It was important to strike the correct balance between the public and market sectors of OECD economies. He suggested, however, that there was a continuing need for public spending on schools, roads and the environment. Feldt (Sweden) acknowledged that the public expenditure share of GDP in his country was the highest in the OECD area but suggested that economies had functioned well in the past with very different levels of public expenditure. He recognised, however, that high levels of public expenditure posed financing problems. Arsenis (Greece) argued against indiscriminate reductions in public services, but agreed that greater efficiency was needed. Salcher (Austria) said that fiscal policies which took account of the need to maintain employment could be successful if accompanied by incomes policy but Austria would still be seeking to make economies in public spending this year.

9. Dawkins (Australia) chairman of this session summed up by saying that although there had been differences of emphasis between countries and no agreement on the relationship between the relative size of public sectors and economic performance,

there had been wide agreement that public expenditure should fall as a share of GDP. This reflected the fact that large public sectors put a burden on the private sector both through the cost of debt service and rising tax levels. Greater discipline needed to be applied to both the level and efficiency of public sectors. Governments needed to ensure that savings were big enough to meet both public and private investment needs as well as capital flows to developing countries. The present recovery offered an opportunity to tackle structural public expenditure problems. A selective approach was needed. Off-budget activities needed greater attention. Social security programmes should be tailored to needs. Indexation should also be scrutinised.

Flexibility and efficiency in the private sector

10. Okita, introducing this session, stressed reliance on market mechanisms, avoidance of protectionism, private sector responsiveness to technical invasion and a long-term management policy to deal with structural change. Japan had sharp internal competition. Government policy was to complement this by helping the reduction of declining industries and supporting R&D in new areas. It also took a view on the future industrial structure. Co-operation between labour and management was helped by policies for redeploying workers between companies.

11. Ortoli (EC Commission) stressed the differences between the US and Japan on the one hand and Europe on the other in employment flexibility. Greater flexibility in attitudes towards pay and profits were needed in Europe with more diversity in wage rates depending on skills. Delors echoed the concern about lagging European structural adjustment, but said that the success of structural policies depended on growth. Christophersen added lack of internal competition, insufficient labour mobility and capital market shortcomings to the reasons for Europe's problems.

12. Dawkins reporting on the OECD employment conference accepted that wage restraint was necessary but questioned whether this provided the answer to the employment problem. Macroeconomic

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policy remained important. Sir Douglas Wass, rapporteur from the employment conference, said that high levels of unemployment were provoking heavy resistance to structural change. Growth was needed, and those governments which were able, should make good demand efficiencies. Temporary help should be given to those who bore the main burden of adjustment. Labour mobility was better exploited in occupational rather than geographical change.

13. Feldstein (US) blamed Europe's stagnant employment on rising real wages during the 1970s. This contrasted with the US where real hourly earnings in 1983 were lower than in 1970 and employment had risen strongly. Ruding argued for a reduction in minimum wages to help employment. Tietmeyer argued for a widespread dismantling of subsidies even if this resulted temporarily in more unemployment.

14. Feldt, summing up this session, stressed the apparent paradox that structural adjustment was needed for growth but growth was needed to make structural adjustment easier. It was important to emphasise both demand and supply. As demand grew structural adjustment should accompany it.

National policies and the international framework

15. De Clercq (Belgium) said that the medium-term solution of developing countries' debt problems depended upon growth in industrial countries, adjustment by debtors, appropriate provision of finance and a reduction of protectionism. If world recovery ended prematurely, a safety net would be needed for debtors. Conditional SDRs might be issued, or an SDR allocation might be provisionally agreed to be triggered only if liquidity conditions made it necessary. He suggested that developing countries' debts should be restructured and their currency mix changed away from the dollar. It was important that capital flows to LDCs should go into investment determined by markets rather than governments. LDCs should be more open to direct investment. The GATT and IMF should co-operate to resist protectionism. Multilateral action was needed to reduce subsidies.

✓ 16. Delors blamed the US for diverting foreign savings away from developing countries. Okita repeated his complaint that OECD rich countries were absorbing too much of Japan's surplus savings. Sprinkel tried to divert criticism by some disingenuous figuring suggesting that foreigners financed only \$16 billion of the US deficit in 1983. Feldstein quickly corrected him by saying that the US expected a net capital inflow of around \$80 billion in 1984 equivalent to 40 per cent of the US budget deficit. This reduced crowding out in the US but spread it to the rest of the world.

✓ 17. Both Sprinkel and Feldstein blamed developing countries for not being ready to accept more equity investment and give guarantees against expropriation, allow for remittance of dividends and agree on a way to settle differences. Sprinkel also suggested that industrial countries needed to keep open their capital markets if resources were to flow to developing countries. Capital outflows from the US would be allowed to lower the dollar.

18. The Chief Secretary made the point that lower budget deficits were needed in the medium-term to allow OECD countries to return to their traditional position of current surplus which was essential if resources were to flow to LDCs. He also stressed the need for industrial countries to remove exchange controls and for a more integrated European capital market. Then we could negotiate investment protection agreements with developing countries.

19. Johnston (Canada) introducing a discussion of trade issues, stressed the need for the efficient working of international markets but countries prevented this by defending both declining and new industries and by using offensive subsidies. Non-tariff barriers were also growing including quotas, national purchasing policies, professional finance and tax allowances. Adjustment measures needed to be acceptable to trading partners. These might include temporary transparent quotas as long as they were consistent with GATT safeguard rules. Acceptable policies might also include measures to improve economic infrastructure, education, training and tax concessions as long as they were open to both foreign and domestic investors.

20. Dunkel (GATT) complained about the increase in protectionism by industrial countries but said that this had had the effect of driving developing countries to produce more sophisticated goods eg textiles. He sympathised with suggestions for greater involvement by developing countries in the GATT but even if they joined many of them would still be able to cite balance of payments safeguard clauses. He stressed the need for further progress on the rollback of protectionist measures in industrial countries.

21. The Chief Secretary suggested that a major new international effort was needed to reduce mixed credits. This could contribute to the second phase of the Secretary-General's rollback exercise. Lambsdorff, Feldt and the Secretary-General all shared his concern at the rising cost of mixed credits.

22. Ruding argued the general need for increased overseas aid to the poorest countries. He was concerned that the supply of Japanese concessional finance was too low. Okita replied that the Japanese budget for 1984 protected the aid programme and Japan had also supported a \$12 billion increase in IDA VII.

23. Muldoon (New Zealand) made his routine plea for a meeting of a 'representative but workable collection of countries' to discuss a durable international framework for governments' domestic and trading policies. Stray (Norway) added the thought that this should have a North-South dimension similar to the co-operation between the US and Europe in the post-war period.

Concluding session

24. The final session was marked by contributions from two academics. Assar Lindbeck said that three-quarters of OECD output was produced by the market sector. Flexibility therefore was needed both in goods and factor markets. The main obstacles to flexible prices in product markets were subsidies. The next trade conference should concentrate on non-tariff barriers. Flexibility in labour markets required changes in both real and relative wage rates. In capital markets it was important to avoid differential taxation of assets.

*4th Series
Proposed*

25. In the public sector, cash limits and firm long-term control was not enough. It was important to bring together demand and supply sides. This required careful costing. Pensions should be made more akin to insurance. It might be worth considering decision-taking rules to control public expenditure. Increases in spending might only be decided along with parallel agreements on financing.

26. Income distribution objectives posed a conflict between the desire for stable tax rates and stable disposable incomes. Stable tax rates for example would not imply stable outcomes. Stable rules needed flexible markets and compensation for losers.

27. Helliwell (Canada) stressed the similarity of problems among OECD countries and the broad consensus on the approach to this - particularly the need to adapt both public and private sectors to changing trade and technology. He warned that measures to cushion the effects of change should not actually make adjustment more difficult. They should be directed towards encouraging adjustment.

28. It was important to build a political constituency so that long term gains for the majority were not swamped by the considerations of short-term losses of a minority. It was often necessary to challenge existing interests. It was easier if this was being done internationally. His main recommendation was that politicians should start now.

HOWE
MONETARY
ERD

BOTTRILL
HM TREASURY

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COUNCIL
AT MINISTERIAL LEVEL

REPORT ON TRADE POLICY

(Report by the Trade Committee)

Introduction

1. The following review of the main developments and issues in the trade and trade policy fields is the fourth such report prepared by the Trade Committee since 1981, and covers the period from May 1983 to April 1984. The main conclusions reached by the Trade Committee are set out at the very beginning of the report and are followed by a review of the major trade developments and an assessment. A short annex is also attached setting out the general economic background against which these developments must be seen.

2. In its report last year [C/MIN(83)3(Final)], the Committee noted that during the preceding year, 1982-83, there had been a "continuation and extension of protectionist measures, in particular through unilateral action and various bilateral arrangements, which contribute to the erosion of the open and multilateral trading system ... The Trade Committee therefore considers that Member countries should strengthen their efforts in the framework of their overall economic co-operation, and use the greater room of manoeuvre brought about by economic recovery as it proceeds, to bring these developments to a halt and to reverse the protectionist trends." This theme was subsequently endorsed by Ministers in their Communiqué when they stated that "the economic recovery, as it proceeds, provides favourable conditions which Member countries should use, individually and collectively, to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade-distorting domestic measures".

Conclusions

3. The review of trade developments since the last Ministerial meeting has shown that while the results are mixed, the improvement in the trading system which had been hoped for last year has not yet been realised. While there has been no major acceleration in protectionism, nonetheless there has been a further continuation and extension of protectionist measures with an attendant further erosion of the international trading system and its rules. This result is all the more regrettable in light of the conclusions of last year's Ministerial to use the greater room of manoeuvre brought about by economic recovery to reverse these trends.
4. The upturn in economic activity has not yet been translated into a reduction in protectionist pressures. Indeed, even where recovery has taken hold, the pressures appear more virulent than ever and the risk of a new outbreak of protectionist measures cannot be ignored. Having emerged out of the recession with the trading system essentially preserved, it would be an incalculable loss to witness a major deterioration at this time.
5. While it would be an overdramatisation to say that the trading system is at a crossroads, nonetheless this perception cannot be totally dismissed. The difficulties confronting Member countries today transcend the specificities of the individual issues involved. In the absence of convincing action to restore confidence in the commitment of governments to the trading system which has been built up since the mid-1940s, there is a risk that the current path of continuing erosion could at some point conclude in an irreparable break, to the detriment of the world economy.
6. The Committee therefore wishes to underline the importance for governments to maintain and strengthen their resolve in the face of current pressures. Individual and collective action towards an improvement of the trading system should be situated within the context of a medium term economic strategy to bring about economic progress through increased economic flexibility, improved structural adjustments, reduction of uncertainties.
7. It is of major importance to relate closely trade, finance and investment policies. Expansion of trade in an open international system and improved international financial stability are the keys to sustained growth. There is in particular in this perspective a need to devise an approach that deals with both their financial and trade problems and with the requirement to provide market opportunities for the developing countries. It is necessary, as has been widely agreed, to start without delay to orient international co-operation and to take a decision on policies to be implemented, in order to achieve medium term objectives.
8. In the trade policy field, there are three interrelated and mutually reinforcing components on which initiatives have to be pressed. First, the process under Phase 2 of the rollback decided by Ministers in 1983 has to be initiated in a pragmatic and realistic way. Second, the OECD programme on a number of systemic issues identified as trade problems of the 1980s as well as the GATT work programme stemming from the Ministerial meeting in November 1982 must be actively pursued. Thirdly, consideration should now be given to the careful preparation of a new round of multilateral trade negotiations which, at the appropriate moment, could consolidate or complement other efforts to improve the trading system.

9. The Trade Committee considers that initiatives in these three areas can and should be pursued in a way which does not delay necessary policy decisions or actions to restore confidence and allow renewed expansion of trade.

Major trade developments

10. The performance of world trade between 1980-1982 was the poorest in thirty-five years (based on a two-year average). By the end of 1983, however, world trade was recovering, sustained principally by United States imports. This growth in the latter part of the year allowed the estimated average annual rate of growth in the volume of world trade to reach around 2 per cent in 1983 although in absolute terms, the average level of trade for 1983 was still less than that of 1981. OECD export volumes grew at an average rate of 2.5 per cent over 1983 while OECD import volumes increased on average by 4.5 per cent over the year. Intra-OECD trade is estimated to have increased by 5.8 per cent over 1983. Meanwhile, OECD exports to non-OECD countries fell by 2.5 per cent because of the latter's reduced capacity to finance imports; OECD imports from non-member countries increased by 0.6 per cent. During the second half of 1983, OECD export volumes were growing by as much as 8 per cent at annual rates and OECD import volumes had accelerated rapidly to nearly 12 per cent per annum. For the future, the December issue of the Economic Outlook projected both OECD exports and imports to grow by just over 5 per cent by mid-1985. OECD estimates suggest volume growth in world trade between 5 and 6 per cent in 1984. These numbers are being reexamined but not much change is expected at this stage.

11. The total OECD trade balance improved from a deficit of \$21b to \$15b over 1983. This deficit is expected to widen next year, before improving again in 1985. For the non-oil developing countries, the overall trade deficit dropped by \$19b to \$28.5b, with the NICs, now in slight surplus, accounting for around one-half of the improvement.

12. Within the OECD, however, there has been considerable diversity in recent economic performance so that the configuration of individual Member countries' trade positions are changing significantly. The most striking development in 1983 was the \$27b deterioration in the U.S. trade deficit which now amounts to \$63b. This is largely the result of a strong recovery in domestic demand, but is also partly accounted for by a marked loss in international price competitiveness in manufactures trade stemming from the high dollar exchange rate. The total EEC trade surplus increased by nearly \$9b in 1983 to \$10.4b. Again there have been significant differences among Member states. The \$8b drop in the French trade deficit to \$7.5b mainly reflects a reduction in domestic demand due to the tightening of macro-economic policy. With import volumes declining in line with domestic demand, the Italian deficit also improved by nearly \$5b to reach just over \$3b. With stagnant exports and rising domestic demand, the merchandise trade surplus fell by around \$5b to \$22b in the FRG and to a deficit of nearly \$1b in the U.K. Canada's trade surplus remained steady at \$15b while for the seventeen smaller OECD countries as a group, the trade deficit narrowed by nearly \$16b to around \$9b. There has been a continued rapid acceleration in the Japanese trade surplus which accumulated over 1983 to about \$32b. In addition to weak import demand, there has been a sustained expansion of exports, largely due to the recovery in export markets, notably the United States, as well as strong external competitiveness.

13. From a trade policy perspective, the record of the last twelve months is, as in previous years, a mixed one. Some progress towards further trade liberalisation has been made. The fifth stage of the MTN scheduled tariff reductions has been implemented. In addition, Japan will implement the scheduled 1985 reduction for manufactured and mineral products on 1 April, 1984 and Switzerland will advance its scheduled 1985 reductions for all products to 1 July 1984. Remaining tariffs on manufactured products between the EEC and EFTA were eliminated on 1 January, 1984. Negotiations are proceeding with respect to the accession of Spain and Portugal to the European Economic Community. Canada and the United States are exploring the possibilities of sectoral free trade agreements. A number of other bilateral accords to liberalise trade were reached or were under active consideration. While such bilateral developments can contribute to liberalising trade, attention is required to ensure that such developments do not substitute for or impede broader multilateral efforts. Signatories to the GATT Aircraft Agreement reached agreement on a proposal to extend its tariff-free coverage to additional products, while negotiations have started with a view to improving and broadening the GATT Code on Government Procurement. Some Member countries have taken unilateral action (either for specific products or more generally) to lower barriers into their domestic markets. Included in this latter group are Japan which announced in October a number of market-opening measures and, in particular some of the smaller countries, notably Turkey, Portugal and New Zealand.

14. At the same time, there was a continuation of and an increase in restrictive measures, often by the major trading countries. The countries and products concerned are set out in the factual documentation examined by the Trade Committee during the course of the year(1), and will not all be repeated here. However, it is to be noted that the most important and widespread measures continued to affect those sectors identified in earlier reports:

Steel: In July, 1983 the U.S. introduced for four years additional degressive tariffs on stainless steel flat-rolled products and global quotas on stainless steel bar, rod and alloy tool steel. Following failure to reach agreement on adequate compensation, both the EEC and Canada subsequently suspended equivalent concessions. This was the first occasion in some time that such action, which is consistent with GATT provisions, was taken because of failure to agree on compensation. The United States is also discussing the possibility of a voluntary export restraint agreement with Brazil. In August 1983 Australia announced trade related measures involving bounty payments, replacing previous tariff quotas, to maintain domestic steel production as part of a broader five-year plan. The EEC is negotiating the renewal in 1984 of its bilateral arrangements concerning steel imports from various third countries, including to some countries not previously covered, while imposing compulsory cutbacks on domestic production. Finally, a number of anti-dumping and countervailing duties were applied by a number of countries to various steel products from several sources.

(1) c.f. TC/WP(83)52(1st Rev.) and Corrigendum; TC/WP(83)72(1st Rev.) and Corrigendum; TC/WP(84)16(1st Rev.) and Corrigendum; AGR(83)25/TC(83)16 and Corrigendum.

Motor Vehicles: During the period under review, there continued to be a variety of arrangements concerning Japanese automobile exports. In May 1983 and again in February, 1984 producers' representatives from the U.K. and Japan confirmed their understanding that Japanese producers would continue a prudent exporting policy, taking account of forecasts for vehicle markets. In June, Japan announced its forecast that the export of Japanese passenger cars shipped to Canada for the fifteen-month period from January 1983 to March 1984 would be about 202,000. In November, it was announced that the Japanese government would implement voluntary export restraints on passenger cars to the United States market as a transitional measure in fiscal 1984, with an increase of 10.12 per cent in the quota to 1.85m units. The U.S. also introduced import relief measures for heavyweight motorcycles. Austria has introduced more stringent requirements with respect to local purchase affecting Japanese imports. The original reciprocity system had been introduced earlier as a counterpart for tariff reductions. In the EEC, the a posteriori import surveillance of cars, forklift trucks, motorcycles and light commercial vehicles from Japan has been extended for 1984. A number of other countries maintain long-standing restrictions on imports of automobiles. (Another development of a different character was the understanding reached in February, 1984 between the U.K. government and Nissan on the basis for a car plant in the U.K.)

Textiles and Clothing: Measures to stem the flow of clothing imports were undertaken by a number of countries. During the past year, the United States temporarily froze shipments of textiles from South East Asia in fifty-six separate categories. The U.S. negotiated a new five year restraint agreement with China and in December revised its procedures for monitoring textile imports. Canada negotiated six new textile arrangements and in July announced revised administrative procedures regarding clothing imports. Norway is negotiating a series of bilateral restraint agreements following the satisfactory conclusion of which it intends to adhere to the MFA and to abolish its global quota system. The EEC commenced negotiations with a number of textile suppliers, including China and in certain cases imposed restrictions pending conclusion of bilateral agreements.

Miscellaneous Industrial Products: A number of measures affecting a wide range of goods were taken or continued by several Member countries. Among the more important actions were: following talks between the EEC and Japan in November, the latter announced export forecasts for ten products (including video tape recorders, colour television tubes and sets, numerically-controlled lathes and machining centres) for 1984. The Japanese government also extended for one year the floor prices applying to numerically-controlled machine tool exports to North America and a number of countries in Europe. Five countries had recourse to GATT Article XXVIII to raise tariffs on various products. In the United States more stringent 'Buy-America' regulations were issued in November under the renewed U.S. Surface Transportation Act.

15. In agriculture, although no significant new protectionist measures have been implemented by Member countries during the period under review, the persisting imbalances between supply and demand in agricultural markets had

adverse effects on international trading relations. The increase in demand in the OECD countries and in the commercial import requirements of non-member countries has been limited, while continuation of current policies has led to persistent increases in production. Moreover, although reconsideration of policies to limit surplus production is under way in a number of countries, competition among the main exporting countries has become more acute as they have tried to boost exports and to maintain or increase market shares. Several countries adopted more aggressive marketing practices, offered generous export incentives, export promotion funds and more attractive credit terms. In this context, medium term bilateral agreements continued to play an important role for several commodities, especially cereals.

16. Turning to the area of export financing and incentives, in June the Member countries of the DAC were able to agree on Guidelines for Associated Financing. In the fall, the Participants in the Arrangement on Guidelines for Officially Supported Export Credits reached agreement on a number of new provisions, including an automatic adjustment mechanism for minimum rates of interest, principally directed towards reducing the subsidy element in officially supported credits. The importance of this agreement is all the greater because it constituted the major multilateral step to reduce trade distortions that was successfully concluded during the period under review. However, problems remain in this area. As mentioned in the preceding paragraph, there has been a serious escalation of credit competition in the agricultural area. In addition, new resources in a number of countries have been allocated to the provision of mixed credits thereby giving rise to concerns of increased competition and distortion through this means.

17. According to the most recent GATT report on anti-dumping measures, the number of new actions initiated during the latest six-month period has shown a slight decrease. A variety of miscellaneous products were involved, although steel and other metal products figure fairly prominently. This was also the case with respect to countervailing duties that were applied. Apart from the measures taken in the steel sector, which have also affected intra-OECD trade, there has been an increasing recourse to the use of anti-dumping and countervailing duties for imports originating from the developing countries, especially the Asian and South American NICs. Various price undertakings have been accepted by a number of Eastern European countries, including during the first half of 1983.

18. Various sources of information indicate that countertrade practices have developed in very recent years outside the context of East-West trade. There have been reports that developing countries are increasingly exercising pressure on Member country exporters to take local products as compensation. It is impossible to quantify rigorously the amount of countertrade carried out and therefore estimates must be considered with caution. A recent estimate, within the OECD, put the figure at approximately 5 per cent of world trade. It has been thought that the recent increase in countertrade has been due principally to the economic recession and that these practices would diminish of their own accord as the external financial situation of the countries concerned improved, but this is by no means certain and there may be a reinforcement of a tendency away from multilateralism in international trade, which may subsequently be difficult to retrieve.

Assessment

19. This brief examination of the major trends and actions brought out in the factual review shows that such improvement as there has been has not offset the further continuation and extension of protectionist measures during the last year. While no new significant voluntary export restraints appear to have been put in place, those which existed have been continued. A number of new trade-restricting measures, consistent with GATT rules, have as well been introduced. It is important to note that governments have also continued to take a number of unilateral measures through administrative and technical means which constrained trade.
20. If it were possible to quantify the effects of these measures, the results would be unlikely to show any dramatic increase in protection. Most of the measures continue to be taken in those sectors which have been most subject to restrictive action over the last years. With the exception of textiles and clothing, most measures also continue to be focused on intra-OECD trade. There has however been a tendency for some of these actions to increasingly touch developing country exporters, e.g. steel. The principal sectors affected continue to be the older established industries where insufficient adjustment has occurred, although actions have also affected some of the newly emerging industries.
21. It should also be noted that the possibility of adopting new enabling legislation or rules to regulate imports is currently under consideration within the United States, Canada and the FEC. Some of the reasons advanced for such action include the need to counter more directly trading practices by other countries which are considered to be unfair and/or to provide these countries with the full range of protective devices currently available to certain other trading partners. The risk is however that new instruments, once in place, may be used in a way which could exacerbate rather than solve problems between trading partners, thus leading to pressures on other countries to provide for similar possibilities.
22. Even if a serious degradation of the situation has been avoided, there are nonetheless a number of prospective developments which continue to be preoccupying. Pressures for domestic content legislation in the automotive sector have not abated in the United States and Canada. A large number of trade restrictive bills, which have raised concern abroad, have been introduced into the United States Congress. The U.S. Administration is strongly opposed to these bills. Concern has been expressed over the number of U.S. industries which have recently filed for import relief with decisions due during the final period of the upcoming elections. A great deal of international interest has been created by the consideration of a series of measures by the EEC including in the agricultural sector which could lead to important changes in the Common Agriculture Policy. Finally, proposals and actions to increase protection for high-technology industries which have surfaced in a number of countries are regarded by some as disquieting. There has been considerable concern about trade restrictive proposals which would try to force other countries to share the burden of adjustment.
23. In contrast to these potentially negative developments, there are also developments in the opposite direction. Proposals have been advanced for a new round of multilateral trade negotiations. While the content and timing of any such negotiation will have to be carefully prepared, many consider that

such a new round could play an important role in reversing the recent protectionist tendencies and promoting further liberalisation. It has however been stressed that consideration of this possibility must not be allowed to retard progress in the current work of the OECD and GATT in the trade area, and in particular concerning rollback.

24. Efforts with respect to rollback have been underway within the Trade Committee in follow-up to last year's conclusions on trade where Ministers stated that "the economic recovery, as it proceeds, provides favourable conditions which Member countries should use, individually and collectively, to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade distorting domestic measures". In this context it is important to recall that the first crucial element in this decision was the need to reverse protectionist trends. Various developments referred to in this report remain preoccupying and therefore the Committee considers it important to recall the Declaration on Trade Policy adopted by OECD Ministers in 1980, whereby governments agreed, inter alia: "to avoid restrictive measures in the trade field and on other current account transactions which might create snowballing effects; have an adverse impact on inflation, productivity and growth potential; or inhibit the dynamic development of world trade and its financing, in particular as regards trade of developing countries". The Committee considers that a sustained commitment and effort to reversing protectionist trends is an essential component of an OECD strategy.

25. In order to start a confidence building process, Member countries have agreed on a first phase of rollback. All Member countries are determined, subject in some cases to domestic approval procedures, to advance implementation by one year to January 1, 1985(1) of all scheduled 1986 MTN tariff cuts. This follows the advance implementation by one Member of its 1985 tariff cuts. One other country envisages the implementation of the 1985 tariff cut on 1st July 1984. It is the hope of the Committee that through such a process all the scheduled MTN tariff reductions will be achieved not later than 1st January 1986 - one year ahead of schedule. Japan is not yet able to agree to include agriculture but an examination is still going on. Given the importance which the Committee attaches to tariff acceleration being undertaken without product exclusions, the Committee urges Japan to reach a decision which will allow it to participate on the same basis as the others. Spain will participate in this action through its implementation of the results of its negotiations of accession to the EEC. Secondly, those Member countries which do not already provide overall duty and quota free access for LLDCs, have agreed to consider improving their GSP schemes as far as possible in this direction. Finally, some steps have been taken or are being considered to remove import restrictions and to further bilateral co-operation.

26. These steps are intended to signify our governments' collective determination to follow through on the commitments undertaken earlier and to work together to strengthen the open multilateral trading system. At the same time it is obvious that this is but a first step and that the most difficult challenge remains ahead. With this in mind, the Committee has as well reflected on the manner in which it would intend to carry out its mandate under phase two of rollback. In the first instance, the Secretariat has been

(1) Japanese implementation will occur April 1, 1985.

requested to provide the Committee with some analytical sectoral notes. These notes, which are to be brief and draw upon existing material, should provide an overview of trade and trade-distorting measures as well as a short description of the general economic context of the relevant sector. Such analyses should be presented in such a way as to allow the Trade Committee to come to some reasoned judgement as to the scope for relaxation and dismantlement taking into account the adjustment that has occurred. At the same time, the Committee envisages that other more general studies should be undertaken which would contribute to the objective of dismantlement. Based on this preparatory work which has been started, the Committee intends to report to next year's meeting of Council at Ministerial level on the possibilities of concerted action towards dismantlement.

AnnexGeneral Economic Background

Since the Trade Committee's last report to Ministers, there has been a considerable improvement in the general prospects for world growth and international trade. Economic activity is now increasing in nearly all Member countries, although within the OECD economy there is likely to be continuing diversity. Several economic indicators showing the changes over 1982 and 1983 are set out, for all Member countries, in Table 1 below. During 1983, OECD GNP growth averaged about three and a half per cent, though the year on year growth was 2.3 per cent. The recovery is especially marked in North America and to a lesser extent in Japan. In Europe, however, recovery has been more modest and this appears likely to continue. Inflation in the OECD area came down sharply in 1983 and has continued to slow in some of the major countries in recent months. The unemployment rate in the OECD area as a whole is now expected to remain at around 9 per cent through to mid-1985. However, in most of Europe unemployment is expected to edge upward from 10 per cent at the start of 1983 to 12 per cent by mid-1985. With the exception of the U.S., private investment continued to be rather depressed in 1983. More recently however, private investment appears to have been growing even more strongly in the U.S. and while the picture is mixed in other countries, actual data and investment surveys suggest that a moderate revival may be underway.

The OECD current account deficit was estimated at \$23b for 1983, less than for previous years. However, with OECD import volumes rising more rapidly than those of non-OECD countries, the current deficit may widen to over \$40b in 1984 before improving slightly. Within the OECD, there was a particularly marked deterioration in the U.S. current deficit to \$40b in 1983, which is expected to more than double in 1984 -- and a further rapid increase in the Japanese surplus to \$21b in 1983 possibly widening to \$30b in 1984. There was also a significant shift for the EEC, with the current account turning from a deficit of nearly \$10b to a surplus over \$3b in 1983, which is, according to recent OECD estimates, expected to accumulate in 1984 to around \$8b. The combined current account of smaller OECD countries also swung significantly towards surplus.

The further expansion of non-oil developing country debt in 1983 was less than had been expected, reflecting a sharp decline by \$21b in their current deficit to total \$43b. Furthermore, the expected deterioration in the OECD current deficit will continue to be reflected in an improved balance for the non-oil developing countries, whose adjustment task should be somewhat eased by the more buoyant trading environment. However, still constrained by adjustment needs, it remains unlikely that the non-oil developing countries' imports will be able to rise by much more than their export earnings in 1984. If net borrowing from banks remains around present levels and capital flight does not accelerate, it is expected that enough private and official funds should be available through 1984 to allow resumed growth of import volumes perhaps as high as 6 per cent. Some recovery has already been evident in the early months of this year.

Continued significant movements in exchange rates have put pressures on the trading system which have been reflected in the various trade problems

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Annex

outlined in the Trade Committee's report. Developments in exchange rates in 1983 roughly continued to follow the trend set in 1981-82. The United States dollar again appreciated strongly against all other currencies with the exception of the Canadian dollar -- by four and a half per cent in trade-weighted terms. The relative positions of other currencies also changed somewhat during the last half of 1983, with a general strengthening of the yen. Early in 1984 however, the deutschmark regained some of its relative loss against the yen. In the most recent period, there have also been signs of a general weakening of the U.S. dollar. The dollar has now depreciated sharply against all the major currencies (except the Canadian dollar), particularly against the deutschmark (a depreciation of over 9 per cent from the peak reached in January this year) and more recently against the yen (a depreciation of over 3 per cent from its peak in mid-January).

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Table 1

Economic Indicators 1982, 1983
(Seasonally adjusted, expressed at annual rates)

Country	(Percentage changes from previous period)						(% of labour force)		(\$U.S. billion)		Effective Exchange Rates (Indices 1982=100)
	Real GDP at OECD market prices		Real Total Domestic Demand		Consumer Prices		Unemployment (national definitions)		Current Account Balances		
	1982	1983(1)	1982	1983(1)	1982	1983	1982	1983	1982	1983	
United States	-2.4	3.4*	-1.0	4.5*	6.1	3.2	9.7	9.6	-11.2	-39.6	104.41
Canada	-4.2	3	-6.7	3.5	10.8	5.9	11.0	11.9	2.4	1.3	102.05
Japan	3.2	3	2.9	1.5	2.7	1.9	2.4	2.6	6.9	21.0	109.55
France	1.6	.5	3.9	-.5	11.8	9.6	8.0	8.3	-12.1	-3.8	91.85
Germany	-1.0	1.3*	-2.2	1.9*	5.3	3.0	6.9	8.3	3.5	3.3	102.62
Italy	-0.3	-1.5	-0.5	-2.5	16.3	15.0	9.1	10.1	-5.5	0.6	95.06
United Kingdom	2.3	3	2.8	4	8.6	4.6	11.0	11.6	9.4	3.1	92.07
Belgium)	1.1	.5	-0.1	-2	8.7	7.7	13.1	14.3	(-2.7	(-1.0	(95.79
Luxembourg)	-1.1	-2.5	-2.0	-2.75	9.3	8.6	1.2	1.4	(((
Netherlands	-1.6	1	-0.6	.25	6.0	2.7	10.0	13.7	3.2	4.5	100.98
Ireland	1.2	-.25	-3.5	-3.75	17.2	10.4	10.7	14.1	-1.3	-0.4	95.93
Greece	0	.50	2.1	0	21.0	21.0	5.8	7.4	-1.9	-1.9	80.38
Denmark	3.1	1.75	3.8	1	9.9	7.1	9.9	10.6	-2.2	-1.3	99.33
Norway	-0.6	2.75	3.0	-.25	11.4	7.9	2.5	3.7	0.8	1.8	96.30
Sweden	0.4	2	0.5	-1.50	8.9	9.0	3.1	3.6	-3.5	-0.8	87.94
Finland	2.5	3.25	4.5	3.50	8.9	9.0	5.9	6.1	-1.0	-1.0	94.41
Iceland	-1.3	-5	1.2	-10.50	48.7	86.7	0.7	1.1	-0.3	-0.1	51.67
Austria	1.1	1.75	-1.2	2.75	5.4	3.3	3.5	4.3	0.7	-0.1	101.35
Switzerland	-1.2	-.50	-1.0	1.25	5.6	3.0	0.4	0.9	3.6	3.0	103.44
Spain	1.2	2	0.6	.50	14.4	12.1	16.3	17.9	-4.2	-2.4	81.41
Portugal	3.5	.75	3.9	-5.50	22.3	25.5	7.6	9.3	-3.2	-1.7	77.71
Turkey	5.6	2.75	2.7	4	32.6	28.4	14.5	15.4	-1.2	-1.5	76.33
Australia	-0.8	.25	-0.2	-1.50	11.1	10.2	7.1	9.8	-8.5	-5.3	90.52
New Zealand	0.4	.50	-0.2	-1.50	16.1	7.4	5.3	6.0	-1.6	-0.8	94.08
Total OECD average	-0.3	2.25	0.1	2.50	7.8	5.2	8.4	9.0	-29.8	-23.0	

(1) OECD estimates

* actual data where available

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9/4/84

Date: 17th April 1984

C/MIN(84)1

COUNCIL
AT MINISTERIAL LEVEL

Meeting to be held at the Château de la Muette, Paris,
on 17th and 18th May, 1984 beginning at 9.30 a.m.

DP4F1 AGENDA

1. ADOPTION OF THE AGENDA

2. FINANCE, TRADE AND DEVELOPMENT:
A GLOBAL AND MEDIUM-TERM PERSPECTIVE WITH
SPECIAL REFERENCE TO DEVELOPING COUNTRIES

Note by the Secretary General

C/MIN(84)2(Final)

3. INTERNATIONAL TRADE: PRESENT AND
FUTURE CHALLENGES

- Dismantling Barriers to Trade
- Strengthening the Multilateral System

Report by the Trade Committee

C/MIN(84)3(Final)

Note by the Secretary-General

C/MIN(84)4(Final)

4. THE 1984 REVIEW OF THE OECD 1976
DECLARATION ON INTERNATIONAL INVESTMENT
AND MULTINATIONAL ENTERPRISES

Report by the Committee for
International Investment and
Multinational Enterprises

C/MIN(84)5(Final)

Note by the Secretary-General

C/MIN(84)6(Final)

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5. ACHIEVING DURABLE ECONOMIC GROWTH:
FLEXIBLE ADJUSTMENT IN A CHANGING
WORLD

Note by the Secretary-General

C/MIN(84)7(Final)

6. COMMUNIQUE

C/MIN(84)8

7. OTHER BUSINESS

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ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

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Paris, drafted: 9th April 1984

dist: 11th April 1984

C/MIN(84)5(Final)

Or. Engl.

COUNCIL
AT MINISTERIAL LEVEL

THE 1984 REVIEW OF THE OECD 1976 DECLARATION
ON INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES

(Report by the Committee for International Investment
and Multinational Enterprises)

C/MIN
(84)5

Attached hereto is the Report of the Committee on International Investment and Multinational Enterprises on the 1984 Review of the OECD 1976 Declaration and Decisions on International Investment and Multinational Enterprises. The proposals for action by Ministers on behalf of OECD Governments and by the Council meeting at Ministerial level, relating to this Report, are included in the note by the Secretary-General dealing with this topic [C/MIN(84)6(Final)]

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Annex I

FOREWORD

1. In June 1976, at the meeting of the OECD Council at Ministerial level, the Ministers adopted a Declaration on International Investment and Multinational Enterprises (1). In this Declaration, the governments of OECD Member countries stated, inter alia, "that international investment has assumed increased importance in the world economy and has considerably contributed to the development of their countries"; "that multinational enterprises play an important role in this investment process", and "that co-operation by Member countries can improve the foreign investment climate, encourage the positive contribution which multinational enterprises can make to economic and social progress, and minimise and resolve difficulties which may arise from their various operations" (2).
2. The aim of the Declaration was thus to promote the strengthening of co-operation among Member countries with respect to international investment and multinational enterprises through interrelated instruments (dealing respectively with Guidelines for Multinational Enterprises, National Treatment for firms under foreign control and International Investment Incentives and Disincentives) which together were seen as providing a balanced framework within which the OECD countries would organise their co-operation and consultation on issues relating to international investment and multinational enterprises.
3. The Committee on International Investment and Multinational Enterprises (CIME) was given the responsibility for carrying out, inter alia, the tasks assigned to it in the Declaration and Decisions (3), with the objectives of supervising the application, and making the appropriate proposals for improving the effectiveness of international co-operation among Member countries in regard to international investment and multinational enterprises.
4. The CIME submitted to Ministers a first Review Report on the three instruments in 1979 (4) and published a Mid-Term Report on the Decisions and Declaration in 1982 (5). It was agreed that there should be another review in 1984, which is the subject of this report. It is based on the experience of the CIME and Member governments with the instruments and upon periodic exchanges of views it has held with the business community and labour organisations advisory bodies to the OECD represented by the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC) respectively. The report contains five chapters. The first provides an introduction and general assessment of experience with the instruments,

including a discussion of issues relating to the 1976 Declaration and Decisions as a whole. The following three chapters discuss in turn the Guidelines for Multinational Enterprises, the application of National Treatment to Enterprises under Foreign Control and the use of Investment Incentives and Disincentives. The fifth chapter notes the activities of the CIME under various aspects of its mandate relevant to the purposes of this Review, giving special emphasis to issues relating to international investment in countries outside the OECD area. Each chapter summarises the experience of Member countries and of the Committee in the areas concerned, and relevant conclusions and recommendations are drawn as well as directions for future work.

5. It is not the intention to present here an exhaustive account of events, activities and results relevant to the instruments in the 1976 Declaration and Decisions since 1979. The Committee will issue subsequently self-contained reports on the Guidelines and on National Treatment which will give fuller background material. The present report is being published as a contribution to improved understanding of current issues of international importance in the field of international investment and multinational enterprises and of the common policy approach to them being followed by OECD Member countries. The Committee also hopes that this report will promote further support for the OECD instruments on international investment and multinational enterprises and strengthen co-operation on matters covered by these instruments.

6. The present Review Report should not be considered as superceding the 1976 Review nor the Mid-Term Report; rather, it is a further step in the process of maintaining the relevance of and reinforcing the OECD's instruments on international investment and multinational enterprises. The Committee proposes that the next review of the Declaration and Decisions on International Investment and Multinational Enterprises be carried out by 1990. The efforts of the Committee in the meantime will be aimed at the same general objectives as previously, and will be conducted along the lines already referred to above or those indicated in the subsequent chapters. Were such efforts or other circumstances to lead the Committee to the view that amendments to the instruments would be desirable, recommendations to decide on such amendments would be made to the OECD Council if and when the need for them is established by the CIME.

Chapter I

INTRODUCTION AND GENERAL ASPECTS OF THE REVIEW

7. During most of the period since the 1976 Declaration was reviewed, difficult economic conditions have prevailed in the OECD area and in the world as a whole: slow growth, high rates of inflation, growing unemployment, important payment deficits, exchange rate swings and instabilities of various kinds. The consequent uncertainties and increase in risks have affected unfavourably the climate of business confidence and hence investment activity. It is nevertheless a fact that international investment has continued to grow more rapidly than domestic investment, even if at a reduced rate, and according to new geographical and sectoral patterns. By and large multinational enterprises have met the challenge of reacting quickly and in a flexible manner to rapid changes in technologies, market conditions and the business environment.

8. OECD Member governments have been subject to increased protectionist pressures stemming from the difficult economic conditions described in the previous paragraph as well as from the emergence of new, highly competitive producers in some countries. By and large, such trade protectionist measures have been kept within bounds. Also, certain investment policies may be of a long-term nature, taken for vital economic, cultural or national security reasons which are not likely to change over time while, in addition, investment flows across boundaries have been even further liberalised. Member countries have subscribed in the OECD to a set of principles for bringing about positive adjustments to changed economic conditions (6). The CIME has examined carefully the adjustment process as it has been carried out by multinational enterprises and a special section of this report is devoted to this subject (7). Questions related to international investment and trade have also gained importance in non-OECD countries, highlighting the positive role direct investment can play in furthering economic development and the adaptations required in host and home country policies.

9. As the period relevant to this Review has by and large been a period of economic difficulty and instability, the CIME has found that achieving the general objective set to its activities, i.e. increasing international co-operation in the field of international investment and multinational enterprises, has become a more complex task, but also a more urgent task to which all Member countries are committed.

10. The CIME has devoted considerable effort to analysing the impact of economic difficulties and instabilities on international investment and multinational enterprises (8). In drawing the implications of such analyses for the Review of the instruments in the 1976 Declaration the continued relevance of the texts of the instruments was confirmed and, with the exception of the Decision on the Guidelines for Multinational Enterprises (9), only a few amendments are made, to be presented in the relevant chapters below. In fact, the flexibility of the instruments has been found adequate to allow them to deal with the new situations that have been experienced, in particular through clarifications and comments that the Committee has provided and will continue to provide when appropriate.

11. In a period of economic instability, the stability of the instruments is seen itself as of value, as is also the fact that these instruments continue to be seen as a balanced framework within which OECD Member countries can organise their co-operation on the widely varied set of issues relating to international investment and multinational enterprises. Most of the Committee's efforts, particularly since 1982, have thus been devoted to improving the promotion and application of the instruments including, increasing the transparency of government policies and enterprises' behaviour, providing for the required clarifications on the scope of the instruments, and proposing a number of modifications of the related procedures with the aim of strengthening their application. Such efforts, and their results, are summarised in the paragraphs below and will be described in detail in the chapters below which discuss each of the three instruments.

12. It should be stressed that OECD governments consider that more can, and should, be done to promote knowledge, understanding and application of the principles underlying the 1976 Declaration, including the Guidelines for Multinational Enterprises, and also concerning continued improvement of the transparency of government policies with respect to multinational enterprises. For their part, OECD governments intend to devote fresh efforts, building upon the present Review, to further promote the Guidelines. The effectiveness and promotion of the Declaration including the Guidelines would be increased in future if governments, when reviewing or revising national policies, were to take into account the general principles set out in the Declaration.

13. As indicated in paragraphs 10 and 11 above, the Review exercise has emphasised the need to strengthen the application of the Guidelines and to ensure their continued relevance in the face of recent developments. With respect to the latter point, the Committee has undertaken a study of multinational enterprises and the structural adjustment process and a special section in chapter II of this Review reports on this study and the comments on the Guidelines resulting from this work. The conclusions of this study have confirmed the Committee's view that, by and large, the instrument, complemented where appropriate by comments or clarifications, is sufficiently adequate and flexible to deal with changing conditions, at least until present. In fact, since 1982, the Committee has amended paragraph 2 of the General Policies chapter to include a specific reference to consumer

interests (10) and has issued an important clarification on paragraph 6 of the Employment and Industrial Relations Guidelines (11), both of which are reflected in chapter II below.

14. Concerning the application of the Guidelines, a major innovation which has taken place in recent years has been the establishment, since 1979, of a National Contact Point in each Member country under the government's responsibility. These National Contact Points have been charged with the promotion and dissemination of the Guidelines (12) and with providing a forum for discussion of problems which may arise in matters relating to the Guidelines and they have been encouraged to undertake direct contacts with other National Contact Points when necessary to ascertain facts or resolve particular problems relating to this function. The Committee has reviewed the experience of these National Contact Points and found that they do play a positive and constructive role. The Committee proposes that the Decision of the Council on the Guidelines be modified so as to reflect the role of National Contact Points in the application of the Guidelines.

15. In the area of National Treatment, the Committee, based on its work on the clarification of the scope of the instrument (13), has devoted a major effort to develop a comprehensive view of government measures and policies related to National Treatment. The new and extensive survey of relevant country measures which has resulted from this effort has permitted a significant improvement in the transparency and understanding of the measures in effect (14) and has paved the way for the proposals concerning the strengthening of the instrument, to be found below.

16. These proposals concern holding, in the CIME, periodic examinations of categories of exceptions to National Treatment. Such examinations would be aimed at extending the application of the instrument, and would no doubt require focusing on the countries which apply measures in the category under examination. The Committee, if it so wished, would reach conclusions, possibly concerning specific measures of countries, during these reviews (15).

17. In the area of investment incentives and disincentives, the Committee published in 1983 a major survey and assessment of the effects of these measures on the international investment process. Since then, and in conformity with a Ministerial mandate, the Committee has focused, in cooperation with the Trade Committee, on a number of measures of more specific interest, i.e. trade-related investment measures, also taking into account certain trade measures which could have similar effects. The results of the survey (which also, to some extent, cover measures in developing countries) and analysis of the Committee's work in response to this mandate are reported in chapter IV (16).

18. The Decision on International Investment Incentives and Disincentives provides for the Committee acting as a forum for discussions between Member countries on issues arising relating to such measures. In considering how to improve the procedures relating to this instrument, the Committee has found desirable to increase the flexibility and use of the consultation procedures to make them more operational and, accordingly, proposes an amendment to this Decision for this purpose (17).

19. As indicated in paragraph 9 above, the period covered by this Review has been one where the task of increasing international cooperation in the field of international investment and multinational enterprises has been one which has become both more complex and more urgent. The Committee believes that its efforts, as reported in this Review, represent a significant step to improving the application of the basic principles in each of the areas covered by the instruments and to improving international co-operation on matters they cover. The Committee is also considering ways and means to extend these principles in a geographic context wider than the OECD area (18).

20. There are two further aspects of the Committee's recent work that are related to the Declaration as a whole and are thus addressed in the present chapter. These concern, first, the general mandate given by the OECD Ministers in 1982 to the CIME and the Committee on Capital Movements and Invisible Transactions (CMIT) "to review the various OECD instruments for international co-operation on investment matters (the OECD Code of Liberalisation of Capital Movements and the 1976 Declaration on International Investment and Multinational Enterprises), to determine what gaps exist if any in this range of instruments and to consider how they could be filled, and how co-operation in this area generally could be strengthened"; and, second, the issues relating to conflicting requirements imposed by Member governments on multinational enterprises.

1. STRENGTHENING THE OECD INSTRUMENTS ON INTERNATIONAL INVESTMENT

21. The CIME has seen the 1982 Ministerial Mandate as requiring a particular effort aimed at improving international co-operation in the areas covered by the OECD instruments on international investment (the Codes, the principle of National Treatment and Investment Incentives and Disincentives) in a period where the necessity for such instruments for effective international co-operation is greater than ever. In this respect, the CIME has been associated with the efforts of the CMIT aimed at improving the coverage of the Code of Liberalisation of Capital Movements in the area of inward direct investment by non-residents. This was seen by the CMIT as requiring, first, an extension of the Code's obligations to cover those aspects of establishment laws, regulations and practices most closely related to international investment where these bear in a discriminatory manner on non-resident investors as compared with domestic enterprises in like situations. Second, further commitments were entered into by governments which, because of the fact that some restrictive measures are taken in their countries by authorities other than the central or federal government, were not able to fully engage the responsibility of all of the relevant authorities in their country. In its report on this subject, the CMIT also further clarified the scope of the Code in two important areas: the role of Article 3 of the Code on the maintenance of public order and the protection of each country's essential security interests; and invocation of Remark ii) on Item I of List A to the Code in cases where investment is liable to be exceptionally detrimental to the interests of the Member country concerned. These steps which have been adopted by the OECD Council will close an important gap which existed previously in the commitment of OECD governments to respect certain principles of liberalisation and non-discriminatory

treatment of foreign direct investment and will contribute to greater transparency with regard to foreign investment policies under the Code and the 1976 commitment with respect to granting National Treatment to enterprises under foreign control.

22. In parallel, the CIME has pursued its work on the National Treatment instrument, an area different from but related to that of the CMIT work referred to above (19). In a separate publication, to be issued shortly (20), the CIME has amplified and up-dated its earlier survey of exceptions to National Treatment so that a much greater degree of transparency has now been achieved with respect to such exceptions. This work has been facilitated by the various clarifications the CIME has issued in recent years as to the precise scope and nature of the commitment regarding National Treatment, in particular in the area of investment by foreign-controlled resident enterprises. Particular efforts were made in both the CIME and CMIT to ensure the consistency and completeness of the approaches bearing in mind the specific characteristics of the respective instruments. The relationship between the two instruments is now defined in a precise manner allowing the very close co-operation between the two Committees to be pursued. More generally the CIME considers much of its recent work, discussed in the present report, particularly the proposals for strengthening the application of the investment instruments in the 1976 Declaration, as contributing to the 1982 Ministerial request.

2. CONFLICTING REQUIREMENTS IMPOSED ON MULTINATIONAL ENTERPRISES

23. Issues arising from conflicting requirements imposed by Member countries on multinational enterprises were considered by the drafters of the 1976 Declaration and Decisions. Of particular relevance are paragraph 11 of the Introduction to the Guidelines for Multinational Enterprises and paragraph 5 of the Revised Decision of the Council on Intergovernmental Consultations Procedures on the Guidelines. In this context, paragraph 7 of the Introduction to the Guidelines for Multinational Enterprises is also recalled.

24. Concerns arise in particular when a country's legislation or legal requirements with extraterritorial reach conflict with legislation or policies in other countries and affect, for instance, the operations of entities of multinational enterprises located in these countries. The importance and scope of such problems has tended to grow in recent years, this trend reflecting, inter alia, the increasing interdependence of OECD economies. Conduct abroad has an increasing impact on national economies and on the possibilities for avoidance of national laws. Some countries have attempted to control or counteract such developments through the adoption, modification or application of laws and regulations having an extraterritorial reach, whereas some of the countries affected have adopted blocking legislation or have taken blocking actions.

25. All in all, the risk of conflicting requirements being imposed on multinational enterprises by Member countries is viewed to be increasing, the effects of this on the investment climate tending to become more significant.

This is why the CIME has come to the conclusion that bilateral and multilateral co-operation should be strengthened in that area, to avoid such conflicts or to limit their scope, in the interest of, inter alia, promoting and safeguarding an international environment favourable to the development of trade and investment.

26. For these reasons, the CIME has agreed to the general considerations and the practical approaches set out in paragraphs 27 to 30 below, which Member countries should take into account whenever they consider the adoption, modification or application of laws or regulations which may lead to conflicting requirements being imposed on multinational enterprises.

a) General Considerations

27. In contemplating new legislation, action under existing legislation or other exercise of jurisdiction which may conflict with the legal requirements or established policies of another Member country and lead to conflicting requirements being imposed on multinational enterprises, the Member countries concerned should:

- i) Have regard to relevant principles of international law;
- ii) Endeavour to avoid or minimise such conflicts and the problems to which they give rise by following an approach of moderation and restraint, respecting and accommodating the interests of other Member countries (21);
- iii) Take fully into account the sovereignty and legitimate economic, law enforcement and other interests of other Member countries;
- iv) Bear in mind the importance of permitting the observance of contractual obligations and the possible adverse impact of measures having a retroactive effect.

28. Member countries should endeavour to promote co-operation as an alternative to unilateral action to avoid or minimise conflicting requirements and problems arising therefrom. Member countries should on request consult one another and endeavour to arrive at mutually acceptable solutions to such problems.

b) Practical Approaches

29. Recalling paragraph 5 of the Revised Decision of the Council on Intergovernmental Consultation Procedures on the Guidelines for Multinational Enterprises, Member countries also recognised that in the majority of circumstances, effective co-operation may best be pursued on a bilateral basis. On the other hand, there may be cases where the multilateral approach could be more effective.

30. Member countries should therefore be prepared to:

- i) Develop mutually beneficial, practical and appropriately safeguarded bilateral arrangements, formal or informal, for notification to and consultation with other Member countries;
- ii) Give prompt and sympathetic consideration to requests for notification and bilateral consultation on an ad hoc basis made by any Member country which considers that its interests may be affected by any measure of the type referred to under paragraph 27 above, taken by another Member country with which it does not have such bilateral arrangements;
- iii) Inform the other concerned Member countries as soon as practicable of new legislation or regulations proposed by their Governments for adoption which have significant potential for conflict with the legal requirements or established policies of other Member countries and for giving rise to conflicting requirements being imposed on multinational enterprises;
- iv) Give prompt and sympathetic consideration to requests by other Member countries for consultation in the CIME or through other mutually acceptable arrangements. Such consultations would be facilitated by notification at the earliest stage practicable;
- v) Give prompt and full consideration to proposals which may be made by other Member countries in any such consultations that would lessen or eliminate conflicts.

c) Future Work

31. The CIME will continue to serve as a forum for consideration of the question of conflicting requirements, including, as appropriate, the national and international legal principles involved.

32. Member countries should be prepared to assist the CIME in its periodic reviews of the experience with the practical approaches described in paragraph 30 above.

33. The Committee shall periodically invite the Business and Industry Advisory Committee to the OECD (BIAC) and the Trade Union Advisory Committee to the OECD (TUAC) to express their views on matters relating to conflicting requirements.

34. In view of the importance attached to the foregoing considerations, it is proposed that Ministers, in endorsing the conclusions and recommendations of the present Report, make specific mention of the general principles and practical approaches described in paragraphs 27 to 30 above. It is also proposed that the Council Decision on the Guidelines for Multinational Enterprises, already referring to the subject of conflicting requirements imposed on multinational enterprises, be amended to reflect some of these results.

Chapter II

THE GUIDELINES

35. The Guidelines are recommendations jointly addressed by Member countries to multinational enterprises operating in their territories which, in taking into account the problems which can arise because of the international structure of these enterprises, lay down standards for the activities of these enterprises in the different Member countries. This review of the Guidelines is organised as follows. Section 1 examines the experience with the Guidelines since the 1979 Review, focusing particularly on the period since the 1982 Mid-Term Report (22). It draws in particular on the results of a survey on such matters as promotional activities concerning the Guidelines, the support for and observance of the Guidelines by enterprises and the experience of National Contact Points (23), to which governments contributed after having, in general, consulted national business and employee representatives (24). This section also considers the experience with the Guidelines at the multilateral level, including, inter alia, the regular contacts between the Committee and BIAC and TUAC, the clarifications of the Guidelines which the Committee has issued at the request of some governments or the two consultative bodies, relevant activities in other international fora and special studies which the Committee found necessary to undertake in preparation for the present Review. Among the latter, the subject of structural adjustment of multinational enterprises has been singled out for examination in this Review in section 2. Its conclusions are complemented by those of section 3 which reviews the Guidelines, on a chapter-by-chapter basis, noting further issues and concerns raised in each chapter and the conclusions reached by the Committee in respect of these.

1. EXPERIENCE WITH THE GUIDELINES

a) Promotional activities

36. A precondition for the effective application of the Guidelines is their broad dissemination among managers of multinational enterprises together with efforts to increase their understanding of their recommended standards of behaviour. The Committee has provided a number of clarifications to assist in

this process of dissemination of the Guidelines. A wide range of promotional activities has been reported by governments and by business and labour organisations. These have involved such actions as the publication and translation of texts related to the Guidelines; circulars and letters of support from BIAC and business organisations to enterprises; seminars, workshops and training programmes; articles in government, business and employee organisation's publications and brochures. The Guidelines have also been involved in various discussions between government, industry and labour, through Contact Points or otherwise and sometimes in parliamentary debates.

37. The Mid-Term Report, issued in 1982, indicated that particular promotional efforts should be undertaken with respect to specific categories of multinational enterprises, viz., state-owned enterprises, small and medium-sized enterprises and enterprises in the service sector. Member countries have reported that such special efforts have indeed been made for some or all of the above categories of enterprises, and in particular for state-owned enterprises. For small and medium-sized enterprises, one difficulty in the dissemination of the Guidelines continues to be the diversity and large number of enterprises in this category, and also the situation that many do not consider themselves as "multinationals". Repeated efforts towards such enterprises are clearly required, as whether or not an enterprise is to be considered as a multinational enterprise does not depend on its size, and since the Guidelines apply, when relevant, to all enterprises. In the service sector, particularly in relation to banking and insurance, one difficulty has been that of the applicability of the Disclosure of Information Guidelines, where there is a need to adapt the meaning of certain accounting terms used in the Guidelines to the specific modes of operations of enterprises in these sectors. This has been recognised by the Committee, and this report notes its work on clarifications to meet the special needs of the banking sector (25). For these sectors a number of Member countries have indicated their intention to increase promotional efforts subsequent to the publication of this Review. More generally, and given the role and importance of promotional activities, the Committee will continue to work on this aspect, and business circles are encouraged to do the same. To facilitate dissemination of knowledge of the Guidelines the Committee will be issuing later in 1984 a compendium comprising the Guidelines and other relevant material, such as clarifications, for easy use by managers, workers' representatives and other interested parties (26).

b) Enterprise observance of, and support for the Guidelines

38. In the course of recent years, the Committee has assembled a number of elements allowing it to assess the extent to which multinational enterprises observe the Guidelines. Governments have reported on their experience in this respect and in their view most enterprises apply the standards of conduct embodied in the Guidelines. Additional evidence available to the Committee tends to confirm this view. The Committee has also conducted a survey in this connection, for the Guideline on the Disclosure of Information, the results of which are reported below (27) and have led the Committee to envisage the possibility of undertaking further surveys of other chapters of the Guidelines.

39. Public statements of support for and experience with the Guidelines were recommended to enterprises in the 1979 Review (28). The Committee maintains the view that the general awareness, knowledge and application of the Guidelines would benefit from public support by enterprises. While a certain number of individual enterprises have publically stated their support for the Guidelines, the number of statements of support has not been as great as the Committee had hoped. However, many business federations have publically expressed their support for the Guidelines. Nevertheless, and concerning statements of support by enterprises, the Committee considers that further efforts should be undertaken to dispel possible misunderstandings and improve knowledge and application of the Guidelines.

c) Experience of National Contact Points

40. Following the recommendation to Member countries in the 1979 Review, a major and innovatory development in recent years has been the establishment of National Contact Points by all Member countries (29). These are to provide facilities for handling enquiries and for discussion with the parties concerned on matters relating to the Guidelines. While the institutional patterns and variety of functions conducted by the Contact Points varies from country to country (30), common functions involve the dissemination, promotion and, to the extent necessary, explanation of the Guidelines, the collection of information on experience with the Guidelines (for example, as concerns the above-noted survey on experience with the Guidelines, or in relation to analytical work undertaken by the Committee as in the case of its work on structural adjustment (31)), the provision of a forum for discussion, particularly with business and trade unions, on problems which may arise in relation to the Guidelines, and engaging in direct contacts with other National Contact Points where necessary. In this Review, the Decision of the Council on the Guidelines for Multinational Enterprises has been revised so as to reflect, inter alia, the above role of Contact Points. Also, while the Contact Points have been established to deal at the local level with matters relating to the Guidelines, the Committee notes that Contact Points do sometimes handle enquiries concerning the National Treatment and Investment Incentives and Disincentives instruments, and could in any case assist enterprises or workers' representatives with such enquiries, for instance in directing them to the competent national authority.

41. As noted above, one of the major functions of Contact Points is to provide a forum for discussion and to assist in solving problems which may arise between business and labour organisations in matters covered by the Guidelines. In such situations, Contact Points may effectively contribute to resolving difficulties by providing information on and explanation of the Guidelines, as well as their status, purpose and nature. The responses of Member countries to the questionnaire on experience with the Guidelines has indicated that Contact Points can be effective in this role. In other cases where the Contact Points have not been used, this has been explained by the absence of disputes relating to the Guidelines in some countries or the more frequent use of traditional channels for consultations and negotiations. In some instances, direct contacts between Contact Points have taken place and have proved useful in ascertaining facts and resolving problems, for example,

where the restructuring activities of a multinational enterprise have had effects in more than one country. Experience since their establishment has shown that Contact Points have been a positive innovation and that the Contact Points have provided a constructive and useful instrument with respect to the application of the Guidelines.

d) Experience with the Guidelines at the multilateral level

42. At the multilateral level, the Committee and its Working Group on the Guidelines have met regularly with BIAC and TUAC, continuing their use of the expanded consultation procedures set up following the 1979 Review. The periodic contacts with BIAC and TUAC provide a forum for a continuing dialogue on matters concerning the Guidelines, but have also extended very usefully to exchanges of views on other issues related to multinational enterprises and international direct investment, including National Treatment and investment incentives and disincentives.

43. The Committee has continued to carry out its function of discussing issues arising in practice with the application of the Guidelines, such issues having been raised by governments or by enterprises' and workers' organisations. Following such discussions, the Committee has issued clarifications or made comments on the Guidelines when necessary. A number of such clarifications were published with the Mid-Term Report and, in the period since then, clarifications have been provided concerning the National Contact Points (32), on paragraph 6 of the Employment and Industrial Relations Guidelines (33) and in the chapter on the Disclosure of Information (34). Further clarifications or comments on the Guidelines by the Committee resulting from the Review process itself are addressed in section 2 below in the discussion of structural adjustment and in section 3 in the chapter-by-chapter discussion of the Guidelines.

44. The Committee reiterates its opinion that, when difficulties arise with respect to the Guidelines, attempts should first be made to solve them at the national level and, where appropriate, with other Contact Points. It is desirable that Contact Points should refer to the Committee for guidance when there is doubt as to the proper understanding of the Guidelines, and it is recalled that the Committee retains sole authority for issuing clarifications.

45. It is noteworthy that the principles enshrined in the OECD Guidelines have been amply reflected in the texts of other international instruments on the subject of multinational enterprises, such as the International Labour Office Tripartite Declaration of principles concerning multinational enterprises and social policies, and the set of mutually agreed equitable principles and rules for the control of Restrictive Business Practices, agreed in the UN General Assembly. As concerns the ILO Tripartite Declaration, for example, which OECD Member countries as well as business and trade union representatives support, it may be recalled that the 1979 Review stated that where the principles of the ILO Declaration refer to the behaviour expected from enterprises, they parallel the OECD Guidelines and do not conflict with them. They can therefore be used in relation with the OECD Guidelines to the extent that they are of a greater degree of elaboration, as is for example the

case in matters relating to the working environment (35). Similarly, as concerns the area of competition, to the extent that the United Nations RBP Code has a greater degree of specificity than the Guidelines, the provisions of the former may be seen as illustration of practices to which the Guidelines also apply. It must, be borne in mind, however, that the responsibilities for and follow-up procedures of the OECD Guidelines and the other international instruments noted above are institutionally separate.

2. STRUCTURAL ADJUSTMENT AND MULTINATIONAL ENTERPRISES

46. In recent years, a number of issues that have come up in discussion in the Committee in relation to the Guidelines have centred on the relevance of the Guidelines in instances where multinational enterprises undertake substantial reorganisation of their activities following changes in technology and market conditions and prospects. Structural adjustments of this kind are a permanent feature of the life of enterprises. But it does seem that the long period of industrial recession in OECD countries, characterised by a relatively low level of investment, a high rate of bankruptcy of firms and the major growth of unemployment under conditions of the growing competitive power of some developing countries, major technological developments declining tariffs and changing trade barriers, and redirections of Member government policies has imposed upon many multinational groups hard decisions regarding their business strategies and their geographical implantation. The Guidelines address many of the issues relating to multinational enterprise responses to structural challenges which can be a source of concern of governments and in this respect it is clear that the Guidelines should be applied by enterprises in a way that will contribute to increasing the benefits and decreasing the costs of adjustments. The Committee recognised that further analysis of this phenomenon, particularly as concerns strategies which have become evident more recently, should be carried out in order, inter alia, to ensure that the solutions proposed by the Guidelines when restructuring takes place are still workable and satisfactory. A major study of the structural adjustment strategies of multinational enterprises was undertaken and the issue was discussed several times with representatives of BIAC and TUAC. The main results of this study and its implications are found below.

47. Structural adjustment is neither a new nor necessarily a problematical phenomenon, as many of the experiences of the fifties and sixties illustrate. It is also a process which may take the form of a series of relatively minor steps, rather than a major upheaval in the life of an enterprise. Structural adjustment may nevertheless be seen to present a particular issue today because the coincidence of a number of major structural changes in the seventies, and the slowness to realise their secular rather than cyclical nature, has resulted in serious structural imbalances in some industrial and geographical areas, creating major pressures for change, often of an abrupt and lumpy nature. In this respect, there is a broad consensus in the OECD area for the adoption of positive adjustment policies aimed at promoting and managing structural change by enhancing the flexibility of the market mechanism to foster the changes required by new patterns of demand and supply while

recognising that government measures aimed at bringing about positive structural adjustment under socially acceptable conditions and at a speed which is politically feasible may be fully legitimate in specific cases (36).

48. The reactions of enterprises to adjustment pressures may take many forms, and the Committee's study has found, in general, few major differences in the strategies and reactions of multinational vis-à-vis domestic enterprises, as both groups are subject to relatively similar sets of pressures. The available evidence suggests that, broadly speaking, multinational enterprises have made a positive contribution to structural adjustment because they have often been able to adjust more flexibly, sometimes even in anticipation of adjustment pressures due to their managerial, financial and technology position, before problems grow acute. Their employment performance has been at least equal to, and in some cases superior to, domestic firms. Nor do they, from the evidence collected by the Committee, resort more to the closure of an entity, in comparison to their domestic counterparts. Despite these broad similarities, however, there are a number of areas where the actions of some multinational enterprises may differ from domestic firms, stemming in particular from features unique to multinationals, such as their internationality, operations across national boundaries, unity of purpose and pursuit of global strategies. Differences of degree, for example, concerning technology, marketing or managerial or financial resources also exist.

49. Such differences can have implications for the nature of decision making inside a group of related enterprises or for the implementation of strategic decisions implying structural adjustment. It is understandable, in this connection, that a number of issues and concerns should have been raised in areas covered by the Guidelines, for example in the chapters on General Policies, Disclosure of Information, Employment and Industrial Relations and Science and Technology. For example, there may be considerable political sensitivity at the national level if restructuring decisions by multinational enterprises leading to plant closures or substantial layoffs are taken at head offices, outside the jurisdiction of the country concerned. When major restructuring activities are carried out across national boundaries the Guidelines, for example paragraph 2 of the General Policies chapter, which requests enterprises to give due consideration to the aims and priorities with regard to economic and social progress of the Member countries in which they operate, may provide guidance to multinational enterprises as to how they should take into account the interests of the countries in which they operate. In this respect paragraph 8 of the Introduction to the Guidelines, which states, inter alia, that the Guidelines are addressed to the various entities within the multinational enterprise according to the actual distribution of responsibilities among them on the understanding that they will cooperate and provide assistance to one another as necessary to facilitate observance of the Guidelines, is also relevant.

50. In discussing the issues and concerns raised in connection with the adjustment strategies of multinational enterprises, the Committee noted a relatively recent aspect of these strategies, concerning the still recent advent of technologies permitting rapid collection and treatment of information on the performance of the group as a whole. These technologies may

facilitate some multinationals to adopt a more centralised decision-making structure while, for others, they may permit greater decentralisation. Many feel that the latter is to be encouraged to minimise and to equitably distribute the costs, and maximise the benefits, of adjustment.

51. In those cases where multinational enterprises are pursuing more centralised control of their activities as a whole, it can easily be understood that this leads to concern that the degree of autonomy of subsidiary entities is being reduced excessively, thus possibly rendering the latter less responsive to local conditions. The desirability of having subsidiaries develop freely their activities or exploiting competitive advantages in domestic and foreign markets, consistent with the need for specialisation and sound commercial practice, is addressed by paragraph 5 of the Guideline on General Policies. The Guideline does not call for the freezing of the existing structures of multinational enterprises, nor do they infringe on the freedom of these enterprises to take decisions to divest in the furtherance of global strategies judged to be in the best interests of the firm as a whole. But paragraph 5 (together with paragraph 4 of the General Policies chapter of the Guidelines) is to be understood as recommending that enterprises should favour, to the extent possible, integration of the component entities of a multinational enterprise into the economic context of the countries in which they operate, and give to these entities sufficient responsibilities and resources to enable them to maintain and develop their competitive potential, giving due concern to the interests of the enterprise as a whole as well as the situation of any of its entities. These considerations may allow entities greater opportunities for competitive structural adjustment, as opposed to contraction, when realistic choices exist, and to engage in adjustments that may be important for some governments such as developing and utilising economic local sources of supply, upgrading natural resources before export and allowing local equity participation.

52. Structural adaptation may involve decisions which have major effects on the livelihood of employees, such as closure or transfer of an entity or part thereof, the reorganisation or concentration of activities, and the introduction of new technologies. In cooperation between management and labour for the purpose of mitigating to the maximum extent practicable the adverse effects on labour of such decisions, some governments and some trade union representatives have reported instances where they feel that the provision of information on such decisions on an adequate and timely basis has not been forthcoming. Employees and their representatives may require particular information including, for example and in specific situations, information on the allocation of markets and production between entities, in order for them to assess the position of their entity in a wider context (37). A further area where concerns have been raised by employees and their representatives is that of access to management representatives with sufficient authority to take any decisions which might be called for in the circumstances. The specific concerns in the field of co-operation between management and labour relating to changes in operations which would have major effects on the livelihood of employees are addressed by paragraph 6 of the Employment and Industrial Relations Guidelines. The special character of multinational enterprises is also recognised in this regard, as in other matters related to the Guidelines, in paragraph 8 of the introduction to the

Guidelines, which states that "Guidelines are addressed to the various entities within the multinational enterprise (parent companies and/or local entities) according to the actual distribution of responsibilities among them on the understanding that they will co-operate and provide assistance to one another as necessary to facilitate observance of the Guidelines". The Committee has provided a clarification to paragraph 9 of the Employment and Industrial Relations Guideline regarding different ways in which, when negotiations or collective bargaining or labour management relations issues are concerned, firms can ensure that management representatives who participate in such negotiations "are authorised to take decisions on the matters under negotiation". Regarding paragraph 6, which states that, in considering changes in their operations, enterprises should "provide reasonable notice of such changes" and "co-operate with the employee representatives and appropriate governmental authorities so as to mitigate to the maximum extent practicable adverse effects", the Committee has indicated, by means of a clarification, its opinion that it would be in conformity with the intention of paragraph 6 of the Employment and Industrial Relations Guideline if representatives of management participating in the process of co-operation addressed in this paragraph had sufficient authority to co-operate in good faith and consistent with paragraph 8 of the introduction to the Guidelines, to take the decisions that might be called for as required by the circumstances (38).

3. REVIEW OF THE VARIOUS CHAPTERS OF THE GUIDELINES

53. Proceeding chapter by chapter of the Guidelines, this section does not deal exhaustively with all points in the Guidelines. Rather, it stresses those aspects which, in addition to the points covered in the preceding section, were seen to deserve particular comments or clarifications (39). Where relevant, the work of other OECD Committees is also taken into account. The resulting emphasis on certain chapters should not obscure the fact that the Member governments view the Guidelines as a comprehensive set of standards of good practice for multinational enterprises which should be seen as a balanced whole.

General Policies

54. Paragraphs 1 and 2 of this chapter recommend to enterprises to take fully into account the general policy objectives of the Member countries in which they operate, and paragraph 2 identifies a number of areas of aims and priorities. As concerns paragraph 2, the Committee has devoted particular attention to the areas of consumer and environmental protection given recent developments in these areas.

55. Over the last years there has been a growing recognition of the interest of consumer protection in OECD Member countries and policies in each country aimed at protecting consumer interest have been developing. The international aspects of consumer policies have also been underlined in

relation to such factors as the expansion of international trade and technological developments, for instance in such areas as product packaging, marketing and sales practices and product safety. Concerning the latter, reference is made in particular to the work of the Committee on Consumer Policies on the export of dangerous products and the 1979 Council Recommendation on the safety of consumer products.

56. Obviously, multinational enterprises do play an important role in furthering economic and technological interdependence. Thus the Committee has considered it appropriate to explicitly recognise the international aspects of consumer policies in the form of a specific reference to consumer interests in paragraph 2 of the General Policies chapter as follows, "... the protection of the environment and consumer interests, the creation of employment opportunities ...". Many of the international issues which may arise in the consumer protection area may not be particular to multinational enterprises, and even many of these should be handled through consumer protection legislation in Member countries. Nevertheless relevant issues do arise which are not so covered and the purpose of this amendment to the Guidelines is to indicate to multinational enterprises that they should give due concern to Member countries' interests in the area of consumer protection. Also, the Committee noted the concern expressed by some Delegations that multinational enterprises should endeavour to ensure uniform quality of a particular product, sold under a given trademark, irrespective of where it is produced, subject, however, to the need for local requirements.

57. There has also been a growing public awareness and concern with the environment over the last years, and this has been reflected in the development of policies at the national level in the field of environmental protection. Growing worldwide economic and technological interdependence have also stressed the international dimension in the area of environmental protection, and this has been recognised in the Guidelines where paragraph 2 of the General Policies chapter recommends enterprises give due consideration to host countries' aims and policies with regard to, inter alia, the protection of the environment. A number of environmental problems of bilateral, regional or global significance, however, such as transfrontier pollution and export of hazardous chemicals or waste, cannot only be dealt with adequately within a national context and their solution also depends on international co-operation and agreement. This is also pertinent to multinational enterprises, although the Committee recognises that many of the issues which may arise in the field of environmental protection may not be particular to multinational enterprises.

58. Recognising the importance of environmental issues and their relevance to multinational enterprises, the Committee noted, in this respect, that paragraph 2 of the General Policies chapter provides room to accommodate further relevant questions that might arise and permits such questions to be raised in the context of the Guidelines. Furthermore, the Committee intends to address these important issues in its future work. In particular, it will consider proposals from the Environment Committee with a view to assessing what additional measures, if any, might be appropriate including clarification of the instrument insofar as environmental protection is concerned or drafting of an appropriate chapter on the environment for inclusion in the Guidelines.

Disclosure of Information

59. The complexity of multinational enterprises sometimes gives rise to concern and in this respect the purpose of the Disclosure of Information Chapter is to give greater transparency to the activities of multinational enterprises. This Chapter has been the object of intensive work by the Committee and its Working Group on Accounting Standards in three broad areas; clarification of the accounting concepts contained in these Guidelines, review of experience with the application of the Guidelines in this area and efforts in the field of promoting greater international comparability of accounts and harmonisation of accounting standards. The Committee's work in these areas has been facilitated by informal consultations with BIAC, TUAC, the International Accounting Standards Committee and the EEC Groupe d'études des experts comptables in developing clarifications and in the research into accounting practices in Member countries which was published in 1980 (40).

60. As reported above in section 1 of this chapter on experience with the Guidelines at the national level (41), it has been recognised that a number of accounting terms and disclosure items in the chapter on the disclosure of information required further explanation to assist enterprises in complying with them. The work of the Committee on these respects, resulting in a number of clarifications of this chapter of the Guidelines (operating results, sales, new capital investment, sources and uses of funds, average number of employees, R & D expenditure, accounting policies and segmentation of information) has been published (42). The purpose of these clarifications is to explain in more detail the meaning of existing provisions in order to provide guidance to the parties concerned when preparing and using published accounts of enterprises and to assist enterprises in their understanding and application of the Guidelines. These clarifications are nevertheless not to be considered as new accounting standards. More recently the Committee has issued a clarification of item viii) of this chapter, the policies followed in respect of intra-group pricing, such that, under this item, enterprises should indicate in their financial statements the general approaches they follow in the setting up of prices for intra-group transactions. In particular, they should indicate whether transfers have been made following market prices or, in the absence of such prices, following other methods which should be specified.

61. As noted above (43), the special characteristics of specific sectors, such as banking and insurance, have given rise to some difficulties concerning the applicability of certain concepts to the disclosure of information on their operations, and it was felt that clarifications of certain items in these Guidelines, as they apply to such sectors would facilitate the application of these Guidelines by enterprises in these sectors. For banks, the Committee, through its Working Group on Accounting Standards, is considering clarifications on a number of items, including "sales" where it has been found that there is a need to provide a definition which would enable banks to disclose information equivalent to sales. Other issues in the area of banking where further work on clarifications is needed include the structure of banks, the definition of the main components of operating results, new capital investment, sources and uses of funds and accounting

policies. For insurance companies the items identified for clarification include sales, operating results, capital investment, sources and uses of funds, accounting policies and segmentation of information.

62. As part of the efforts of governments in gaining information on experience with the Guidelines, a survey has been undertaken on experience with the application of the Disclosure of Information Guidelines. Bearing in mind differences concerning the items considered, countries involved and the nature and activities of the enterprises surveyed, the study suggests that compliance with these Guidelines is best established where the recommendations of these Guidelines are backed by national legislation and practice and where enterprises have major activities in countries where national legislation is strongest in the area concerned. Where national legislation is less comprehensive than the Guidelines, it is nevertheless intended that enterprises should take action under the Guidelines by publishing the information called for. While a substantial number of enterprises follow many, and in some cases most of the recommendations of the disclosure chapter, it is equally evident that considerable gaps still exist and that further efforts are required to increase the application of these Guidelines.

63. The Committee is concerned about potential differences in the application of the Disclosure of Information Guideline due to the lack of harmonisation of accounting standards and comparability of accounts and is pursuing, through its Working Group on Accounting Standards, work aimed at energising efforts to improve comparability and harmonisation in this area. In respect of this objective, the Committee is supporting efforts by States, groups of States and recognised international professional bodies towards increased international comparability of accounts and considering ways and means of achieving a greater international harmonisation of accounting standards. An international conference is being prepared on the process of harmonisation of accounting standards, which will bring together government officials, private, national and international standard setting bodies, BIAC, TUAC and other users of financial accounts and thus act as a catalyst to further efforts by all concerned with greater harmonisation of accounting standards and with obtaining more comparable information on the structure and activities of multinational enterprises.

Competition, Financing and Taxation

64. In its discussions in the context of this Review, the Committee agreed that there was no need to amend the Guideline on Competition at the present stage. When the OECD Guidelines and the United Nations Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices are compared, it appears that although the latter has a greater degree of specificity, its provisions can be seen as an illustration of practices to which the OECD Guideline also applies, it being understood that the responsibilities for the follow-up procedures under the Guidelines and the UN RBP Code are institutionally separate.

65. The Committee is also being kept informed of the ongoing work of the Committee of Experts on Restrictive Business Practices, in conjunction with the Trade Committee, on problems arising at the frontier of competition and trade policies including, for example, intra-firm trade practices. The Committee of Experts on Restrictive Business Practices is also engaged in reviewing the 1979 Council Recommendation concerning co-operation between Member countries on restrictive business practices affecting international trade. That Committee has signalled that these activities, referred to above, as well as future work of that Committee, may have longer term implications for the Guidelines.

66. No particular issues have been raised with the Committee relating to the Guidelines on financing and taxation. The Committee notes that, in relation to taxation, the OECD Fiscal Affairs Committee expects to be able to present to the OECD Council in the course of 1984 an important international convention, prepared jointly with the Council of Europe, on mutual assistance between competent authorities in the assessment and collection of taxes that will represent a significant step forward in international co-operation in matters related to international tax avoidance and evasion.

Employment and Industrial Relations

67. To date, this is one of the chapters of the Guidelines to which the Committee has devoted most time and effort, reflecting the importance and complexity of the subject matter of these Guidelines, the special concern of employees with them and the wishes in particular of employees (as represented by TUAC) to seek further information or clarification on the scope and intent of these Guidelines. In the period since the Mid-Term Report and in the preparation of this Review the main issues and concerns examined by the Committee are summarised below.

a) The right of employees to be represented by trade unions and other bona fide organisations of employees

68. Paragraph 1 of the Employment and Industrial Relations Guidelines provides that multinational enterprises should "respect the right of their employees to be represented by trade unions and other bona fide organisations of employees". As said in the chapeau to this chapter of the Guidelines, the conditions under which these rights are exercised are to be consistent with law, regulations and practices in each of the countries in which they operate. Paragraph 1 provides expressly for management engaging in constructive negotiations with employee representatives on employment conditions, and the provision of paragraph 2 a) adds that enterprises should provide such facilities to representatives of the employees as may be necessary to assist in the development of effective collective agreements. It appears, however, that problems in this area continue to exist. Some cases have been brought to the attention of the Committee where it has been reported that not only the right of employees to be represented by trade unions has not been respected, but that active efforts have been undertaken to discourage organising activities by employees. The Committee recalls its appeal in the

1979 Review Report and takes this opportunity to reaffirm the importance of the Guidelines in this area as well as the sentiments that the thrust of the provisions of the Guidelines with respect to the right of employees to be represented is towards having management adopt a positive approach towards the activities of trade unions and other bona fide organisations of employees of all categories and, in particular, an open attitude towards organisational activities of workers within the framework of national rules and practices.

b) The use of national languages

69. The issue has been raised concerning the use of national language in negotiations, consultations, co-operation and the provision of information referred to in the Guidelines on Employment and Industrial Relations, between multinational enterprises and employees' representatives. In fact, a number of paragraphs of the Guidelines on Employment and Industrial Relations are of direct relevance. Negotiations, consultations, co-operation or provision of information imply effective communication between the parties concerned. As a general rule, it is expected that management and employee representatives will communicate, in the framework of prevailing laws, regulations and practices, in a language effectively understood by employees or employee representatives. Nevertheless, it must be recognised that there may be cases, such as those which may occur when representatives from the parent company are involved, where it may be unreasonably difficult to do so. In such cases adequate interpreter and translation facilities should be provided.

c) The provision of information for a true and fair view of the performance of the enterprise as a whole

70. Paragraph 3 of the Employment and Industrial Relations Guidelines states that enterprises should, "provide to representatives of employees where this accords with local law and practice, information which enables them to obtain a true and fair view of the performance of the entity or, where appropriate, the enterprise as a whole". Issues were raised as to how this paragraph, and in particular the notion of "information enabling a true and fair view of the performance of the entity or where appropriate, the enterprise as a whole" should be understood.

71. In this respect, the Guidelines on the Disclosure of Information also make a reference to information on the enterprise as a whole. The types of information enterprises should publish consistent with this reference are indicated in these Guidelines (44). These Guidelines on Disclosure of Information, however, refer to the information for the general public. It is the opinion of the Committee that employees and their representatives may need and should have access to more specific information, in a form suitable for their interests and purposes, than that available to the public at large.

72. In this connection, certain activities of multinational enterprises, for instance restructuring activities, may be understood and put into perspective only if the information on the position of the enterprise as a whole is available. For example, if restructuring or similar decisions result

in negotiations where the performance of the enterprise as a whole is a key element, then employee representatives should have information which gives a true and fair view of the enterprise as a whole in these instances where and inasmuch such information is needed for meaningful negotiation on conditions of employment. The Committee is also aware that considerations of business confidentiality may mean that information on certain points may not be provided, or may not be provided without safeguards. The CIME recognises the importance of these issues, and it stands ready to hold discussions on them.

Science and Technology

73. Paragraph 1 of this chapter has the aim of promoting, within the limits of economic feasibility and other considerations, the distribution by multinational enterprises of R & D activities among the countries where they operate. The Committee's work on structural adjustment has noted, for example, in some cases, the responses by multinational enterprises to structural adjustment pressures may have implications for the research and innovation capacities of subsidiaries and that concerns have been expressed in this respect. In the view of the Committee, the Guidelines on Science and Technology in this respect are interpreted in the sense that enterprises should, when considering changes in their operations, and endeavour to ensure that their entities are not deprived of resources for technological development directly related to their manufacturing and marketing role in the group as a whole. Also, the Guidelines on Science and Technology recommend that the activities should include, as far as possible, the establishment and improvement of their capacity to innovate, which can be understood as encouragement to enterprises, bearing in mind the need for sound commercial practices, to develop in their component entities a capability for technological innovation.

74. More generally, the Committee is following closely the work of the Committee of Science and Technology Policy (for example, in the area of the transfer of technology) and, with respect to information technologies and transborder data flows, given their possible implications on the structure and organisation of multinational enterprises, and the roles these may play in structural adjustment, the Committee is being kept informed of the work in this area of the Committee on Information, Computer and Communication Policy.

Chapter III

NATIONAL TREATMENT

1. INTRODUCTION

75. In the 1976 Declaration, Member countries declared that enterprises operating in their territory and controlled by nationals of another Member country should (with certain qualifications) be treated not less favourably than domestic enterprises in like situations, that is, should be accorded National Treatment. In the related Decision, Member countries agreed, inter alia, to notify to the Organisation all government measures constituting exceptions to National Treatment and to periodically review the application of National Treatment in Member countries with a view to extending that application. The Committee's experience with this instrument since 1976 has reinforced its conviction that the application of National Treatment is of considerable importance to the environment for international investment not only with respect to the OECD area but for all countries seeking such investment.

76. A major part of the CIME's efforts in this area has been devoted to developing a comprehensive view of existing government measures and policies related to National Treatment, that is, to improving transparency. In order to carry out this work and, in particular, to provide guidance to Member countries as to which measures should be notified, the CIME has found it necessary to carry out analytical work on the concept of National Treatment in order to develop certain needed clarifications on the scope and coverage of the instrument. The first set of clarifications were included in the 1982 Mid-Term Report (45) and the subsequent clarifications, which will be presented in a forthcoming publication (46), are summarised in section 2 below. On the basis of these clarifications, the CIME has carried out an extensive survey of relevant Member country measures (47), the main results of which are summarised in section 3 below. These results have permitted the CIME to develop an improved understanding of the measures in effect, of their underlying motivations, and of their relative importance to international investors. The work of the Committee in this area has progressed to the stage where, in conformity with its intentions stated in the 1982 Mid-Term

Report (48), it is in a position to propose certain ways and means to strengthen international co-operation in this area with the objective of further extending the application of National Treatment. These proposals are given in section 4.

2. CLARIFICATIONS OF THE SCOPE OF THE INSTRUMENT

77. The efforts of the CIME during the last two years to clarify the scope and coverage of the National Treatment instrument have focused on two categories of government measures, those relating to investments by established foreign-owned or -controlled enterprises and those relating to the access by such firms to bank credit and the capital markets of the host country (49). The clarification relating to the first of these categories seeks to explain the concept of investment by foreign-owned or -controlled enterprises operating in a Member country and to better delineate the application of the National Treatment instrument to such investments in comparison with the application of OECD's Code of Liberalisation of Capital Movements to inward direct investments by non-residents. This clarification recalls that the Council Decision on National Treatment refers to "new investment by foreign-controlled enterprises already established in their territory". Thus, initial investments by a foreign, non-resident company clearly are not covered by the National Treatment instrument but rather fall under the Code. It is also evident that the National Treatment instrument clearly does cover investments undertaken by subsidiaries of foreign-controlled companies which are already established in a host country since subsidiaries are locally-incorporated business entities and are regarded as residents of the host country. However, where additional investment in the country in question is undertaken by the parent company and not by an already established local subsidiary, it would not fall under the National Treatment instrument. Rather, such an investment, being an inward investment by a non-resident, would fall under the Code.

78. Measures concerning the current activities of branches of foreign-controlled enterprises are covered by the National Treatment instrument since they are "enterprises operating in their territories owned or controlled directly or indirectly by nationals of another Member country". However, the clarification concludes that investment carried out through branches normally do not fall under the National Treatment instrument as they are, in fact, investments by the foreign parent (non-resident) company and the Code would apply. The CIME, nevertheless, recognises that in some particular cases investments by branches could be considered to fall under the instrument. It has agreed that, for the purpose of transparency, any measures restricting new investment by branches should be reported by Member countries.

79. This clarification also confirms the understanding that the National Treatment instrument covers investments undertaken in all sectors of economic activity. Thus, for example, if there is a sector where concessions and licences are not granted to an established foreign-controlled enterprise on terms equal to those applied to enterprises under national control, such

measures fall under the instrument. Also, measures preventing foreign-controlled enterprises established in the country concerned from engaging in activities in specific sectors different from those in which they are already operating, where no such limitations are imposed on domestic enterprises, are covered by the instrument. Thus, second or further establishment by foreign-controlled firms already established in the host country, is covered by the instrument, although measures relating to the initial establishment are not (50).

80. This clarification also considers investment restrictions imposed at territorial subdivision levels in some countries. It notes that the Council Decision on National Treatment refers to restrictions on new investment by foreign-controlled enterprises established in a Member country territory, irrespective of the possible territorial subdivisions of that territory. Thus discriminatory measures of territorial subdivisions are considered to be exceptions to National Treatment, and paragraph II.3 of the instrument indicates the commitment of national governments to endeavour to ensure that their territorial subdivisions apply National Treatment.

81. The second clarification addresses measures restricting the access of foreign-controlled enterprises to local bank credit and the capital market, focusing on the treatment of foreign-controlled financial institutions. The clarification notes that measures restricting the ability of foreign-controlled enterprises in host countries to collect deposits are to be considered as restrictions to investment or further establishment by established foreign-controlled enterprises, rather than being seen as restrictions to their access to local bank financing and the capital market. Thus the clarification summarised in paragraphs 58 to 61 above applies. It was also agreed that in determining whether measures applied to branching by foreign banks are to be considered as exceptions to National Treatment, comparisons with enterprises in "like situations" should not be limited to branches of locally-owned banks and the circumstances of each case should be considered. This clarification also establishes that discriminatory measures related to the access to preferential credits are covered by the instrument.

82. In the course of its work, the CIME has also found it useful to provide additional comments on certain general aspects of the instrument. The Committee has considered measures based on reciprocity and noted that a denial of National Treatment on the basis of reciprocity considerations may be seen as reflecting different motivations from some other restrictive measures covered by the instrument. While an objective of reciprocity conditions may be to encourage other countries to liberalise their treatment of foreign-controlled firms, the use of such conditions still constitutes an exception to National Treatment which has to be notified. More generally, the Committee has considered that such an approach is at variance with multilateral approaches to international economic relations.

83. In relation to Member country discriminatory measures motivated by "public order and essential security interests" (51), the CIME noted that these traditionally recognised safeguard concepts of international economic relations should be distinguished from measures taken for economic, cultural or other geopolitical interests. The National Treatment instrument recognises

that discriminatory measures may be taken for economic interests, cultural interests or other national geo-political interests, but such measures clearly constitute exceptions to National Treatment. In contrast, measures taken on the basis of public order and essential security interests are not exceptions per se, but are to be reported in the interest of transparency. Here again, countries may vary in their perception of the need to discriminate against foreign-controlled enterprises, but it is important that measures in fact taken for economic, cultural, or other interests be identified as such and not be shielded by a too extensive interpretation of public order and security interests.

84. Attention was also focused on international transportation activities because of the numerous measures in effect related to air and maritime transportation in the category "investments by established foreign-controlled enterprises" and the question of the status of offices of transportation companies in host countries. The Committee recognises the relationship of international conventions on air and sea transportation to the identified measures in this area, and has determined that measures restricting investment operations of international transportation companies operating through branches, representative offices, sales offices and agents should be reported for purposes of transparency but do not generally constitute exceptions to National Treatment.

3. MEMBER COUNTRY SURVEY

85. On the basis of its work on the clarifications of the scope and coverage of the National Treatment instrument, the CIME has carried out an extensive Member country survey of exceptions to National Treatment and related measures.

86. The 1983 survey (52) differs from the 1978 preliminary survey (53) in four important respects. First, the survey included, for the purpose of transparency measures of host country governments that result in less favourable treatment of foreign-controlled as compared to locally-owned enterprises although they are not considered to be exceptions to National Treatment. These measures often involve differential treatment based on considerations of essential security interests where, for example, foreign-controlled firms are restricted in supplying products for national defence and are precluded from engaging in business in certain sectors (54). Second, the survey includes the motivations of governments underlying the identified measures. Third, the survey contains a larger number of exceptions than the last survey, not because Member governments are resorting more to such measures but, rather, because of the increased scope of the survey and the better understanding of the concept of National Treatment which has better enabled countries to identify measures to be reported. Fourth, the survey includes an assessment of the relative importance of the effects on foreign investors of the various categories of exceptions to National Treatment. The findings of the survey with respect to five major categories of exceptions to National Treatment and related measures can be summarised as follows.

a) Measures relating to investments by established foreign-controlled enterprises.

87. The scope of this category of measures was defined in the clarification to the instrument summarised above in section 2 of this chapter. The preponderance of the identified exceptions to National Treatment in Member countries falls under this category and all Member countries have such measures in effect. Often these measures take the form of limiting the expansion of foreign-owned or -controlled enterprises into particular sectors or areas of activity. The sectors most frequently cited are air and maritime transport, mining and natural resources, banking, insurance, and broadcasting and publishing. Also, about half of the Member countries maintain measures of a more general nature which require prior authorisation for some forms of new investments, with the most common of such requirements being those related to takeovers of existing firms.

b) Measures related to government procurement and public purchasing.

88. The Committee has noted that BIAC has suggested that, in terms of foregone revenue, this area may be the most significant as regards discrimination. About fifteen Member countries have reported exceptions or other measures in this area. Aside from measures relating to the important area of defence procurement, most of the reported measures in this category appear to have a moderate overall economic impact. But in addition to such identified measures, note has also to be taken of the fact that in this area non-transparent practices, often of a discretionary nature and arcane procedures in awarding public contracts, often make competition difficult for foreign-owned firms and increases their perception of encountering discriminatory treatment.

c) Measures related to government aids and subsidies.

89. This category refers to official financial and other assistance to business enterprises, given for such policy reasons as demand management, employment and industrial policy, promotion of research and development, and regional development. It is recalled that aids and subsidies extended by a government in its capacity as shareholder of public enterprises, or tending to compensate for costs the government itself imposes on certain categories of enterprises (in the area of public services for instance) are generally not considered as exceptions to National Treatment. Fifteen Member countries have reported measures constituting exceptions to National Treatment or "related measures" in this category, with most being of a sector-specific nature, i.e. provision of support to the tourism industry and preferential treatment of domestic oil and gas companies. It is another area cited by BIAC as being among the most troublesome from the business point of view. Also of relevance in this area are the financial relations between the State and publicly-owned firms in the competitive sector, which are not always very transparent. Transparency and predictability may also be lacking in the criteria and procedures relating to aids and subsidies granted to privately-owned firms, and this may heighten concerns about possible discriminatory treatment. As to

their economic effect, aids and subsidies in the form of credits for new plants and equipment and grants for research and development are often significant, and when National Treatment is not applied in this area, the discriminatory impact may be important.

d) Measures relating to access to local bank credit and capital markets.

90. This category of exceptions is of rather more limited importance in the OECD area than the preceding categories both from the viewpoint of business as reported by BIAC and from the relatively small number of measures notified by Member countries. Five Member countries require foreign-controlled enterprises to obtain a portion of their financing abroad. The restrictiveness of such measures tends to vary with the balance-of-payments condition of the host country and they may or may not present a hardship to the foreign investor depending on the prevailing conditions for local and foreign credit.

e) Measures related to tax obligations.

91. This is a complex area where there already exists a considerable network of bilateral tax treaties among Member countries and where Member countries have agreed on certain guidelines as set out in the OECD Model Double Taxation Convention on Income and Capital. Avoidance of discrimination is an important feature of international co-operation in this field. The CIME, in co-operation with the Committee on Fiscal Affairs, has provided a clarification of the scope of the National Treatment instrument in this area (55). Relatively few measures have been reported by Member countries in this area, most of which relate to less favourable treatment of branches of foreign companies in host countries compared to locally incorporated companies. In addition, BIAC has reported business concerns in the areas of imputation systems, dividend taxes, consolidation rules and unitary tax systems as was indicated in the Mid-Term Report (56) which are clearly of importance to foreign investors. However, these concerns relate to matters involving the relationship between non-resident taxpayers and a company in a foreign country rather than to differential treatment between resident locally-owned and resident foreign-owned firms, and thus do not fall under the National Treatment instrument.

f) Changes in Measures relating to National Treatment since 1978

92. There appear to have been only a limited number of changes in the exceptions to National Treatment in effect in Member countries since the last survey was made in 1978, with no perceptible overall trend. The most significant reductions of such measures notified have been the removal by the United Kingdom of restrictions on government procurement of computers from foreign-controlled enterprises and restrictions on access to credit. With respect to the introduction of exceptions to National Treatment, the most significant were those instituted by Canada in the oil and gas exploration and

production sectors. It should also be noted that in 1981 Turkey adhered to the National Treatment instrument and has notified the Organisation of its exceptions. Thus, all OECD countries now have accepted the instrument.

4. STEPS TO EXTEND THE APPLICATION OF NATIONAL TREATMENT

93. The Committee's work to date relating to the application of National Treatment, as reported in the preceding sections, has resulted in a considerable improvement in the transparency of the relevant Member country measures, of their economic significance as viewed by foreign investors, and of the scope and coverage of National Treatment in Member country policies towards foreign-owned or -controlled firms, and the Committee has thus devoted particular attention in the present Review to considering possible ways and means to strengthen international co-operation in this area with the objectives of extending the application of National Treatment and the scope of the instrument.

94. In view of these objectives, the CIME has found it most appropriate to focus on the procedures of paragraph 4 of the 1979 Revised Decision on National Treatment, namely:

"The Committee on International Investment and Multinational Enterprises (hereinafter called "the Committee) shall periodically review the application of 'National Treatment' (including exceptions hereto) with a view to extending such application of 'National Treatment'. The Committee shall make proposals as and when necessary in this connection."

After discussing various ways of undertaking the periodic reviews called for in this paragraph, the CIME decided that at the present stage the most constructive approach would be to undertake periodic, in-depth reviews of the major categories of exceptions and related measures maintained by Member countries, considering in the review of each category the relevant measures of all Member countries. Such an approach would no doubt require focusing on the countries that apply measures in the category under examination.

95. The Committee has agreed that during the reviews of measures, it would, if it so wished, reach conclusions, possibly concerning specific measures of countries. Such conclusions would be transmitted to Delegations with the recommendation that they communicate with their national authorities and report reactions to the Committee. It was recognised that the Committee would also, when appropriate, in view of the objective of extending the application of National Treatment, report the results of its reviews to the Council accompanied by proposals as and when necessary in this connection. The Committee believes such an approach would be consistent with the final sentence of paragraph 4 of the Decision as cited in the preceding paragraph.

96. Regarding the possible subject matter of the first few periodic reviews, the Committee has decided that certain horizontal issues deserve

increased attention, including measures motivated by public order and essential security interests that do not constitute exceptions but are reported for transparency, which would be addressed at an early stage. In addition, beyond the categories in which measures related to National Treatment have been classified, as cited in paragraphs 87 to 91 above, measures relating to services, public utilities, those of territorial subdivisions and those based on reciprocity have been singled out for future examination.

97. As a further step in reviewing the application of National Treatment, the Committee has also agreed to hold a thorough discussion each time a new exception is notified, including consideration of its motivation and proposed duration, although it would be unwise to place excessive attention on new exceptions compared to existing ones. In this context, the Committee has recalled that a consultation procedure is provided in paragraph 6 of the Revised Decision to discuss exceptions of particular importance at the request of a Member country and has noted that its experience with this provision in 1980 (57) demonstrated the use to which it can be put to improve understanding between Member countries of their respective policies and concerns.

98. The Committee has underlined the fact that the effectiveness of this consultation procedure as well as the sector reviews will depend upon the open attitude of Member governments to providing information and explanations, as needed, on measures, policies and practices which may constitute exceptions. Thus, as has been the case with respect to past work in the OECD on National Treatment, the close co-operation of all Member countries will be essential.

Chapter IV

INTERNATIONAL INVESTMENT INCENTIVES AND DISINCENTIVES

99. The instruments on international investment incentives and disincentives in the 1976 Declaration and Decisions consist of three main elements: a commitment by Member countries "to give due weight to the interests of Member countries affected by specific laws, regulations and administrative practices providing official incentives and disincentives to international direct investment", a commitment by Member countries "to endeavour to make such measures as transparent as possible", and a provision for consultations in the CIME at the request of a Member country with respect to measures taken by another Member country. Incentive and disincentive measures are used by Member governments to influence the nature, location and size of direct investment for a variety of policy purposes such as industrial, regional and trade policies. The OECD instruments are intended to cover those measures that affect international direct investment decisions.

100. In 1979, the CIME received a mandate to undertake a medium-term work programme of an analytical nature to focus initially on the effects of government investment incentives and disincentives on international direct investment flows. A major step in this analytical work programme was accomplished in 1981, when the CIME completed a wide ranging survey of investment incentive and disincentive measures in OECD Member countries that possibly affect international direct investment. Country reports describing such measures and the related programmes and policy of Member countries were included. That survey was complemented with an assessment of the effects of the identified measures on international direct investment (58). The main results of both the survey and the assessment were described in the 1982 Mid-Term Report (59).

101. The study found that investment incentives and related preconditions or performance requirements generally have only a small influence on the decision of whether or not to invest abroad and on the choice of a particular form of direct investment. However, location decisions, as well as decisions concerning the size and timing of investment, may be sensitive in certain circumstances to investment incentives and related preconditions and performance requirements. Market prospects or industry specific factors, for example, the availability of natural resources in the case of mining industry investments, still play a more important role in such decisions, however. In

comparing different investment incentives, together with related preconditions and performance requirements, the feature that appears most relevant to the international investment process, is the incentive's size, that is, the amount of the explicit or implicit award. The predictability of awards and related preconditions or performance requirements was found to be another important feature.

102. In its examination of sectoral and geographical factors affecting the responsiveness of investment decisions to investment incentives and related conditions, the study found that at the inter-regional level such measures are likely to affect the locational decision for only a limited number of sectors or activities, for instance, activities related to serving world markets rather than regional markets, or certain raw material processing industries. In contrast, in the case of intra-regional location decisions, for example, choice of a country within Europe, such measures were found likely to have a more significant impact and for a larger number of sectors and activities.

103. Since 1982, the CIME has been engaged in a more detailed study of trade-related investment measures and their effects, following the mandate of the Council, meeting at Ministerial level in May 1982, to the CIME and the Trade Committee to pursue "work on trade-related investment measures, both inside and outside the OECD area approaching the work in a balanced way which takes into account the interests and preoccupations of both investing and host countries. In light of the results, consideration should be given as required to ways of strengthening international co-operation in these matters".

104. For the purpose of this study the CIME focused on certain specific categories of investment measures that are likely to have a direct impact on trade and/or are motivated by trade policy considerations. With respect to host country measures, these categories are local content or servicing requirements or limitations on imports, export requirements, international product mandate requirements and technology transfer requirements. The study also included home country measures affecting the imports or exports of foreign-located affiliates of national firms. The CIME took note of the fact that numerous other government trade-related measures, which are not considered as investment measures, may also have an impact on foreign investment decisions, such as buy-national laws, tariff barriers, and more generally incentives or disincentives to trade.

105. To provide a factual basis for its study, the Committee undertook a survey of Member country trade-related investment measures that covered government policies regarding these measures, a description of the actual home and host country measures, government motivations for the measures, the experience with such measures with regard to their policy objectives and the extent to which countries consider that their economic interests have been injured by the trade-related investment measures of other countries. The Committee also compiled information on the extent of trade-related investment measures in a number of developing countries and found that such measures appear to be more prevalent in the developing countries than is the case in the OECD area.

106. Using the results of the survey and the previous work on investment incentives and disincentives, the CIME next made an assessment of the effects of trade-related investment measures on the international investment process covering also, where appropriate, those of some trade incentives and disincentives (60). In considering the effects on investment of trade-related measures imposed by host countries, an initial distinction must be made between first time or "green field" investments by a foreign enterprise and subsequent investments by foreign-owned or -controlled enterprises which are already established in the country concerned. For the former, trade-related investment measures, such as local content or export requirements, may act to discourage certain investments in the country in question. In contrast, for the latter, such measures may be seen in some cases (for example, high local content requirements or high tariffs) as to operate as an incentive to further investment in that country. In general, the Committee's work in this area has found that such measures, at the aggregate level, are unlikely to be a major determinant of investment decisions but that significant disincentive effects may occur in particular cases for individual enterprises. In particular, in line with the findings of the Committee's previous work on incentives and disincentives noted above, trade-related investment measures may have an important effect in some cases on location decisions, particularly at the intra-regional level, especially when other measures with possibly similar effects, such as tariffs, are included. Trade-related investment measures may also influence the form of international involvement, for example, in that buy-national policies, local content requirements for goods sold on the domestic market or tariffs may encourage foreign direct investment, in preference to exporting to the market concerned, or in that performance requirements may result in greater recourse to alternatives to equity investments such as licensing agreements which avoid such measures. In addition, trade-related investment measures may also have an impact on the size of projects as, for example, when the size of the investment is increased in order to meet export requirements.

107. However, these effects of trade-related investment measures should not be seen in isolation from investment or trade incentive measures with which they are often associated, and which counterbalance some of these effects. Furthermore, the impact of trade-related investment measures appears to be more important in developing countries where such measures are frequent, than in OECD countries.

108. Three main categories of government motivations have been found to underlie the use of trade-related investment measures in OECD countries. First, such measures may be used in an attempt to promote basic national economic objectives in fields such as investment, employment, balance of payments and so on, where the intention is to promote the contribution of foreign investment to such objectives. Secondly, in particular, where performance requirements are linked to incentives awards, such measures may be seen as a means for ensuring accountability to governments for expenditures incurred under incentive schemes and that the objectives of the provision of such assistance are being followed by foreign investors. Finally, trade-related measures may be operated in some countries to counter perceived particular intra-enterprise practices of some multinational enterprises felt to be contrary to the interests of the host country, such as, for instance,

procurement or market sharing arrangements between the various entities of an enterprise. Obviously, there is the danger that trade-related measures taken for some of the motivations indicated above can reduce the ability of firms to adopt flexibly to changes in their environment, or can promote patterns that are not viable over the medium term, or that protection of local industries, including those with important foreign participation runs ultimately counter to the objectives for which the measures were taken. However, such dangers are minimized when the measures concerned counteract genuine market imperfections.

109. The Committee also considered trade-related measures which have been taken by home countries, for reasons related to, for example, national security and strategic economic interests. When such measures interfere with the import or export activities of foreign-located affiliates of national firms, effects on the affiliates' trade and output can spread to investment plans and increase the risks of international investment.

110. On the basis of the results of its analytical work programme on incentives and disincentives, the CIME has come to a number of conclusions. First, it is felt that further efforts are necessary to promote increased transparency in this area. Formal procedures for bringing measures to the attention of the Committee were considered but the Committee has felt that the measures which might be appropriately covered in such procedures are difficult to delineate with sufficient detail for the desirability and practicability of such a procedure to be assessed. At one extreme, a narrow scope for such measures hides too much of the overall picture of government policies affecting direct investment; at the other, a too wide definition would change into an overview of the whole range of government macro-economic policies and their policies towards industry. Accordingly, the Committee stressed the necessity of maintaining a flexible approach towards the objective of transparency and has agreed that at present such an approach would best be served by periodically updating the relevant aspects of its existing survey (61) covering, in particular, trade related investment measures and other measures with similar effects, such as relevant trade measures or local equity participation measures, it being understood that any future work in this area would be undertaken in co-operation with the Trade Committee.

111. Member countries agree that the CIME should continue to provide a forum where discussions between Member governments on issues arising in the area of investment incentives and disincentives can be organised and policies explained and assessed, as required. In this respect, it should be noted that the Revised Decision on International Investment Incentives and Disincentives, in paragraph 1, already provides for consultations in the Committee "at the request of a Member country which considers that its interests may be adversely affected by the impact on its flow of international direct investments of measures taken by another Member country specifically designed to provide incentives or disincentives for international direct investment". However, the CIME is conscious of the fact that this formulation has an undesirably restrictive effect on the use of the Committee as a forum for such consultations as it has found in its survey work that the overwhelming majority of relevant Member country measures were not, in fact, specifically designed to provide incentives or disincentives to international direct

investment, per se. Rather, while they are usually applicable to such investment, they are, in most cases, applicable on a non-discriminatory basis to domestic investors as well. Thus, it has been agreed to improve the flexibility of the instrument as an instrument promoting effective international co-operation by providing for a change in the wording of this Decision.

112. Specifically, the Declaration, in paragraph 2 of its section III on international investment incentives and disincentives, states that Member countries "recognise the need to give due weight to the interests of Member countries affected by [measures] providing official incentives and disincentives to international direct investment". The Committee recommends that the present more restrictive wording of the Revised Decision should be amended so as to bring it closer to the language of the Declaration. This would permit consultations which would consider the "interests of Member countries affected by measures providing significant official incentives and disincentives to international direct investment" without the limitation that such measures be "specifically designed to provide incentives or disincentives for international direct investment". It is not intended, however, to encompass macroeconomic policies in general, such as monetary and fiscal policies, even though such policies may have an incidental effect on investment.

Chapter V

OTHER POLICY ISSUES RELATING TO INTERNATIONAL DIRECT INVESTMENT

113. As indicated in paragraph 3 of the Foreword to this report, the terms of reference of the CIME to address international investment and multinational enterprise issues extend beyond the Committee's specific role in relation to the 1976 Declaration and Decisions. As most of the work undertaken in this broader context relating to foreign investment policies, is, nevertheless, related to subjects addressed under the 1976 instruments, a summary of this work is included in the following paragraphs.

114. A major issue in the present world economic situation is that of co-operation among Member countries in relation to international direct investment in a geographical context wider than the OECD area. For some time the Committee has been devoting an increasing portion of its work programme to such matters, focusing on issues relating to investment in developing countries. In 1981 it completed a major review of recent trends in international direct investment in the world context (62). This review noted, inter alia, the brake to the flow of international direct investment to developing countries in the recession years, as well as its increasing geographical concentration on a small number of countries, with changing sectoral patterns. The emergence of more diversified forms of direct investment either to minimise risks or to comply with host government policies shows a flexible response by the investor. The potential mutual benefits to be derived from an improvement in the flow of foreign investment to developing countries has become more apparent since the external debt situation of many developing countries has become critical. Closer co-operation between developing and developed countries on international investment measures is thus even more desirable. This conclusion was underlined by a 1982 Ministerial Mandate requesting the Committee to consider whether, and if so, how, experience with co-operation in the international investment area within the OECD could provide a basis for strengthening such co-operation at a broader level. This mandate was understood by the CIME as reinforcing the indications already given in the three instruments on the subject of international direct investment in a worldwide context (63).

115. In this respect, the CIME has consistently supported and continues to support the efforts of Member countries to negotiate in the United Nations on a Code of Conduct for Transnational Corporations, believing that agreement of the broad membership of that institution on a balanced, comprehensive Code would make a favourable contribution to the international investment climate. The CIME also follows closely and supports the efforts made by other international organisations in the area of international direct investment.

116. As a complement to these efforts, the Committee has held several exchanges of views on home and host country policies and bilateral and multilateral arrangements relevant to the international investment in developing countries. The Committee has focused, in particular, on bilateral investment agreements where there have been important and positive developments that are to be encouraged. The exchange of information and of experience that have taken place in the CIME have been helpful to a number of Member countries in evaluations and reviewing their policies in this area, and the CIME has the intention of pursuing this process.

117. The present context underlines the need to develop a better understanding of the interrelationships between investment, trade and financial issues, in the development process and in economic relations between developing and developed countries. The CIME's work programme on these subjects, aimed at identifying and assessing further means for increasing foreign direct investment flows to developing countries and their contribution to economic development, will initially focus on an analysis of the broad range of political and economic determinants which affect international investment in developing countries (64) (65). This work will be co-ordinated with other relevant bodies in the Organisation in this area, in particular with the work of the Development Assistance Committee.

118. In parallel with the above work programme, the Committee intends to explore ways to foster exchanges of views between interested parties and experts from both inside and outside the OECD area on issues of common interest relating to investment. The Committee believes that such exchanges of views, could encourage positive, balanced and mutually acceptable consideration of further means to promote direct investment flows to developing countries and their contribution to economic development.

119. The Committee does not underestimate the difficulties involved in achieving significant results through these efforts in the present context where the prospects for direct investment in developing countries appear, in a number of cases, to have become less favourable, for a number of reasons internal and external to the countries concerned. Nevertheless, it also detects trends towards the improvement of this context. It believes that an improvement of various policies aimed at increasing the flow of direct investment to developing countries and its contribution to economic growth, development and world trade is particularly needed, and moreover is possible.

120. According to its mandate, the Committee has the task of further developing and strengthening co-operation among Member countries in the field of international investment and multinational enterprises and is responsible for monitoring and promoting co-ordination of all work carried out within the

Organisation in that field. It is regularly informed of the activities of other OECD Committees of relevance to international investment and multinational enterprises and has engaged in co-operative efforts with many of them, as well as with the OECD Development Centre. The Committee on Capital Movements and Invisible Transactions and the Trade Committee have already been referred to in this regard (66). Other committees may be mentioned such as the Industry Committee, the Committee for Environment, the Committee for Science and Technology Policies, the Committee on Fiscal Affairs, the Committee of Experts on Restrictive Business Practices and the Development Assistance Committee.

121. One particular area in which the CIME has been active is the improvement of international direct investment statistics. Responding to the invitation of the CIME, the OECD Group of Financial Statisticians has prepared a detailed benchmark definition of international direct investment for statistical purposes (67). This definition was approved by the OECD Council with a recommendation that Member countries, when in the process of adjusting their own definitions, attempt to bring them closer to the OECD benchmark definition. Further work is continuing in this area, the ultimate objective being that improved statistics on international direct investment would provide the CIME, and more generally policy-makers in Member countries, with a better basis to assess trends in this area and to formulate the most appropriate policies.

NOTES AND REFERENCES

1. The latest version of this Declaration, and the related Decisions are in International Investment and Multinational Enterprises, 1979 Revised Edition, OECD, 1979. A new Revised Edition will be published at the same time as this report.
2. The Turkish Government did not participate in the 1976 Declaration and abstained from the Decisions. In March 1981, Turkey adhered to the Declaration and the Decisions, so that now all OECD Member countries participate in these instruments.
3. Other aspects of the CIME terms of reference and of activities of the CIME related to them are addressed in chapter V below.
4. International Investment and Multinational Enterprises, Review of the 1976 Declaration and Decisions, OECD, 1979.
5. International Investment and Multinational Enterprises, Mid-Term Report on the 1976 Declaration and Decisions, OECD, 1982.
6. Positive Adjustment Policies: Managing Structural Change, OECD, 1983
7. See chapter II, section 2.
8. Relevant in this respect are the CIME report, International Investment and Multinational Enterprises, Recent International Direct Investment Trends, OECD, 1981 and its work on structural adjustment and multinational enterprises. The subject matter of the latter is discussed in chapter II below.
9. See paragraphs 27 to 30 below.
10. See paragraph 56.
11. See paragraph 52.

12. See paragraphs 40 and 41.
13. See paragraphs 77 to 84.
14. See paragraphs 85 to 91.
15. See paragraphs 93 to 98.
16. See paragraphs 103 to 109.
17. See paragraphs 111 and 112.
18. This and other related questions are discussed in Chapter V.
19. This subject is also addressed in paragraphs 77 to 80 in chapter III below.
20. National Treatment, OECD (forthcoming).
21. Applying the principle of comity, as it is understood in some Member countries, includes following an approach of this nature in exercising one's jurisdiction.
22. International Investment and Multinational Enterprises, Mid-Term Report on the 1976 Declaration and Decisions, OECD, 1982.
23. The role and functioning of Contact Points is discussed in paragraphs 40 and 41 below and in the Annex to this report.
24. The OECD's Advisory Bodies, the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC) have also been consulted with regard to the review of the Guidelines.
25. See paragraph 61 below.
26. The OECD Guidelines for Multinational Enterprises, OECD (forthcoming).
27. See paragraph 62.
28. Clarifications concerning such statements have been provided in the Mid-Term Report, op. cit., Annex IV.
29. Full details concerning the Contact Points in Member countries are found in Annex III to the Mid-Term Report, op. cit.

30. Details of the role, institutional patterns and functions of the Contact Points are provided in the Annex to this report.
31. See paragraphs 46 to 52 below.
32. See paragraph 40 above, and the Annex to this report.
33. See paragraph 52 below.
34. See paragraph 60 below.
35. See paragraphs 36 to 39 of the ILO Declaration in this respect.
36. See, Positive Adjustment Policies, Managing Structural Change, op. cit.
37. In this respect, paragraph 5 of the General Policies Chapter is also relevant.
38. Other implications of structural adjustment for the Guidelines are addressed in paragraphs 72 to 74.
39. The Guidelines also address the issue of conflicting requirements being imposed by governments on multinational enterprises. Given its link with other parts of this Review, this issue is discussed in chapter I.
40. International Investment and Multinational Enterprises. Accounting Practices in OECD Member Countries, OECD, 1980.
41. See paragraphs 36 to 41.
42. See Disclosure of Information by Multinational Enterprises. Clarification of the Accounting Terms in the OECD Guidelines, OECD, 1983.
43. See paragraph 37.
44. Furthermore, clarifications concerning some of the accounting terms used in these Guidelines have been provided.
45. See Annex V of International Investment and Multinational Enterprises, Mid-Term Report on the 1976 Declaration and Decisions, op. cit.

46. National Treatment, a forthcoming OECD report providing a comprehensive view of the National Treatment instrument, its application in Member countries, and the work of the OECD in this area.
47. The complete results of the survey will be included in the forthcoming report cited in the previous footnote. The results of an earlier less comprehensive survey were reported in National Treatment for Foreign-Controlled Enterprises Established in OECD Member countries, OECD, 1978.
48. Mid-Term Report, op. cit., paragraph 43.
49. More detailed statements of these clarifications will be published in National Treatment, forthcoming, op. cit.
50. As indicated in chapter I above, the Committee on Capital Movements and Invisible Transactions has recommended to the Council that certain categories of measures restricting establishment by non-residents seeking to carry out inward direct investment be covered by the inward direct investment provisions of the Code of Liberalisation of Capital Movements.
51. See the clarification noted in the Mid-Term Report on the 1976 Declaration and Decisions, paragraphs 33 and 34, and paragraphs 9 to 14 of Annex V.
52. The results of this survey will be included in National Treatment, OECD, forthcoming.
53. National Treatment for Foreign-Controlled Enterprises Established in OECD Countries, op. cit.
54. Other types of measures reported for the purpose of transparency included measures based on commitments relating to international peace and security, measures relating to areas covered by public monopolies, public aids and subsidies granted by the state as a shareholder in an enterprise or those designed to offset costs imposed by the state, and regulatory measures, for example, prudential controls in cases where the foreign-controlled firms may not be "in like situations" in comparison with domestic firms.
55. Mid-Term Report, op. cit., Annex V, paragraphs 15-25.

56. Mid-Term Report, op. cit., Annex V, paragraph 23, which states that although such systems do introduce an irritant in the taxation of international investment and may result in taxation not in accord with internationally accepted principles of taxation of income from such investment, insofar as they do not impose a greater burden on foreign-controlled corporations than that on domestic-controlled corporations they are not contrary to National Treatment.
57. Mid-Term Report, op. cit., paragraph 41.
58. Investment Incentives and Disincentives and the International Investment Process, OECD, 1983.
59. Mid-Term Report on the 1976 Declaration and Decisions, op. cit., paragraphs 47-58.
60. The Trade Committee, also using the results of the CIME survey as background, has undertaken an assessment of the effects of such measures on international trade.
61. Investment Incentives and Disincentives and the International Investment Process, op. cit.
62. International Investment and Multinational Enterprises. Recent Direct International Investment Trends, op. cit. Work on updating this has already started, in co-operation with the OECD Group of Financial Statisticians.
63. Of particular relevance are paragraph 3 of the introduction to the Guidelines for Multinational Enterprises and paragraph 2 of the Declaration on National Treatment. These are found in International Investment and Multinational Enterprises, 1979 Revised Edition, op. cit.
64. Attention was also given to developing countries in the Committee's work on trade related investment measures as is indicated in chapter IV above.
65. Many aspects of this initial phase of work would be covered in the context of the preparation of the new Committee study on Recent International Direct Investment Trends, referred to in paragraph 114 above.
66. See paragraphs 21 and 22 in chapter I above and paragraphs 103 and 106 in chapter IV above.
67. This benchmark definition is now derestricted and available under the title "Detailed Benchmark Definition of Foreign Direct Investment".

ANNEX I

THE ROLE OF NATIONAL CONTACT POINTS

1. In its 1979 Review Report, the Committee asked Member countries which had not already done so to provide facilities for handling enquiries and for discussions with the parties concerned on matters related to the Guidelines (1). The Committee considered that such facilities could usefully contribute to the solution of problems relating to the Guidelines that may arise, and that, in any event, as a general principle such prior contacts and discussions at the national level should take place before matters are raised at an international level. Setting these contact points was seen as contributing to the common aim of Member countries expressed in the 1976 Declaration to encourage the positive contributions which multinational enterprises can make to economic and social progress and to minimise and resolve difficulties to which their various operations may give rise.

i) INSTITUTIONAL PATTERNS AND MAIN FUNCTIONS OF NATIONAL CONTACT POINTS

2. The organisation and the functions of contact points have remained stable since their establishment (2). Three main organisational patterns can be discerned:

- In a number of countries the functions of the contact point have been entrusted to an existing ministerial department or government agency;
- Other countries use an inter-ministerial Working Group.

While under these two approaches the employers' and workers' organisations have access to the national contact point, they do not directly participate in its organisational structure.

- In a third group of countries the function of the contact point is exercised by committees composed of government officials as well as representatives of non-governmental groups such as employers' and workers' organisations.

3. Despite differences in national practices, contact points have common features meeting the indications given by the Committee in its 1979 Review Report:

- They are specifically in charge of disseminating, promoting and, to the extent necessary, explaining the Guidelines and the conclusions reached during the review, in cooperation with the business community and workers' organisations;
- They have the general task of gathering information on experience with the application of the Guidelines at the national level. In this context the contact points have been used for the preparation of the recent government submissions in view of this report;
- They provide a forum for discussions with interested parties (in particular business and trade unions) on problems which may arise in relation to the Guidelines. For this purpose they may organise regular meetings and/or ad hoc consultations to deal with specific matters, and the facilities they provide can usefully contribute to the solution of these problems;
- They engage, when necessary, in direct contact with other contact points, a number of these having been taken since 1979, allowing them to play a constructive role, for instance in exchanging information necessary to conduct enquiries requested of them (3).

4. In some countries the contact points assume additional functions (e.g. inter-ministerial co-ordination, organisation of surveys on observance of the Guidelines, assistance in the solution of problems arising under the Guidelines) but national practices vary considerably in these areas. Government institutions designated as contact points in several countries have broader tasks than those conferred to them under the Guidelines, being competent for instance for all matters concerning international investment and multinational enterprises. In this respect, the present Review Report reflects that contact points could also handle enquiries concerning the National Treatment and International Investment Incentives and Disincentives instruments.

5. The question was raised as to whether contact points should be institutionally separated from existing government bodies. It was argued that national contact points carrying out their tasks autonomously would give greater weight to the Guidelines without being unduly influenced by national policy concerns. It was pointed out, on the other hand, that such an institutional separation might be neither feasible nor desirable, in particular, in those areas where the Guidelines had been closely integrated into national policies. In addition, the necessity of inter-ministerial

co-ordination to give effect to the Guidelines in specific areas such as competition, financial reporting, employment and labour relations was underlined.

6. The above diversity in national contact point structures no doubt reflects to a large extent different practices in different countries in matters relating to investment and to contacts with the employers' and workers' organisations. Each national approach has its merits in its specific national context. In any event, given that the main functions of the contact points, noted above, correspond to those set out in the Review Report, it was not considered necessary to propose the establishment of uniform structures.

ii) PROCEDURES FOLLOWED BY NATIONAL CONTACT POINTS.

7. Experience with the functioning of national contact points also differs considerably from one country to another. Such differences tend to centre on the chapter on Employment and Industrial Relations of the Guidelines, and TUAC has addressed itself particularly to this aspect of the actual functioning of the contact points. While in some countries little use has been made of the services of the contact points, in others, contact points have been approached with specific enquiries or problems raised under the Guidelines, including in some instances working relations with their counterparts abroad. Such contacts are in conformity with paragraph 83 of the 1979 Review Report concerning prior involvement by national contact points and they have played a useful role in allowing the Committee to concentrate on its role of discussing issues for clarification of the Guidelines.

8. Concerning the procedural aspects of the activities of contact points, two interrelated issues have been raised:

- Are contact points themselves expected to take initiatives or should they wait for matters to be raised with them by the parties concerned?
- When a question is raised with the contact point, what should be its approach in attempting to "usefully contribute to the solution of problems relating to the Guidelines" (1979 Review Report, paragraph 79)?

9. No precise answers to these questions are given in the 1979 Review Report or subsequent work of the Committee. But it would seem reasonable to conclude from the nature of the Guidelines and from the reasons given in that Review Report for setting up contact points that the action of the latter was expected to be guided by the following general principles:

- The broad orientations for the action of contact points laid down in the Review Reports;
- The voluntary nature of the Guidelines and the international character of this instrument;

- The need affirmed by Ministers in 1979 for effective follow-up action under the Guidelines;
- The desirability of associating the employers' and workers' organisations with the functioning of the Guidelines at the national level as is the case with the rules of procedure of the Committee itself at the international level.

The following paragraphs comment on some aspects of these general principles.

10. As noted above, contact points do play a positive role. In the first place, governments are committed to undertake, in co-operation with the business community and workers' organisations, further promotion and educational activities "to make more widely known the content of the Guidelines and the manner in which they are implemented" (paragraph 76 of the 1979 Review Report). Governments are further expected to submit every two years reports to OECD on "experience and pertinent developments at the national level in all matters related to the Guidelines" (paragraph 78 of the 1979 Review Report). Most of the reports received have involved consultations with the employers' and workers' organisations. These two tasks, both of which imply an active role, constitute natural functions for contact points and indeed have been generally included in their terms of reference. In addition, as stated in paragraph 79 of the 1979 Review Report, the Committee believes that the facilities provided by the contact points "could usefully contribute to the solution of problems relating to the Guidelines which may arise" and quite a number of such matters have been brought to the attention of contact points in various Member countries. As to the relationship between the action of national contact points and the clarification of the Guidelines, and in particular, the rationale of paragraph 83 of the 1979 Review Report stating the principle of prior discussions at the national level before issues are submitted to the Committee, the Committee clearly retains sole authority to issue clarifications. But it has been demonstrated that the use of prior consultations at the national level has been beneficial, including on occasion direct consultations between contact points.

11. Contact points are more likely to be able to make an effective contribution to the solution of problems if they act in a flexible manner, avoiding rigid or formalised procedures. By so doing they will avoid coming into conflict with existing dispute settlement mechanisms, which would be a source of confusion and not be in the interest of smooth working procedures for dealing especially with labour relations issues. While the final responsibility for providing clarifications of the Guidelines lies with the Committee, matters discussed by contact points may well at times involve questions of the scope and meanings of the Guidelines in specific circumstances. A contact point would remain within the intention of the procedures laid down in paragraph 83 of the 1979 Review Report in seeking to explain to interested parties the relevance of the Guidelines to the matters at hand. In doing so, the contact point should recognise, however, the international character of the Guidelines and the overriding necessity of avoiding conflicting national interpretations. Where there is any doubt or divergence of views as to the consistency of an interpretation under

consideration by a contact point with clarifications adopted at the level of OECD, it is desirable that the matter should be brought to the attention of the Committee before the contact point provides a final answer. In order to speed up such proceedings these matters could be referred directly to the Working Group on the Guidelines, but any final conclusions would have to be approved by the Committee.

12. According to paragraph 6 of the draft Second Revised Decision of the Council on the Guidelines for Multinational Enterprises, "the Committee shall not reach conclusions on the conduct of individual enterprises". The voluntary nature of the Guidelines precludes the Committee from acting as a judicial or a quasi-judicial forum in this area. When discharging their function, as described above, to contribute to the solution of problems relating to the Guidelines, national contact points may indicate to the parties concerned the relevance of the Guidelines in particular situations. The above considerations are without prejudice to the right of a government to make its position known on matters relating to the Guidelines discussed at the national level in ways it considers appropriate.

NOTES AND REFERENCES

1. Since that date all Member countries have set up National Contact Points.
2. A first list of contact points was derestricted in September 1980 under the title: "Action by Member governments to promote the OECD Guidelines for Multinational Enterprises : National Contact Points". A revised list was included in the 1982 Mid-Term Report, Annex III.
3. In its 1982 Mid-Term Report, the Committee encouraged these direct contacts.

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ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

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Paris, drafted: 1st May 1984

dist: 2nd May 1984

C/MIN(84)6(Final)

Or. Engl.

COUNCIL AT
MINISTERIAL LEVEL

THE 1984 REVIEW OF THE OECD 1976 DECLARATION ON
INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES

(Note by the Secretary-General)

I. INTRODUCTION

1. In June 1976, the Governments of OECD Member countries, represented by the Ministers taking part in the meeting of the OECD Council at Ministerial Level, took a significant step toward strengthening international co-operation in an important and complex area by adopting a Declaration on International Investment and Multinational Enterprises, to which the Guidelines for Multinational Enterprises were annexed. At the same time, the Council adopted related Decisions on Intergovernmental Consultation Procedures on the Guidelines for Multinational Enterprises, on National Treatment, and on International Investment Incentives and Disincentives (1). The Declaration and the related Decisions were seen as constituting a balanced framework within which the OECD countries would organise their co-operation and consultation on issues relating to international investment and multinational enterprises.

2. As requested in 1976, the Declaration and Decisions were reviewed at the 1979 meeting of the OECD Council at Ministerial Level (2), at which time the Ministers decided to review the Declaration and Decisions again at the latest in five years and requested the Committee on International Investment and Multinational Enterprises (hereafter called "the Committee") to submit in June 1982 a mid-term report relating to the application of the Declaration and Decisions, as revised in 1979 (3).

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3. The present Review of the Declaration and Decisions on International Investment and Multinational Enterprises [C/MIN(84)5(Final)] is based on the experience to date of the Committee in implementing these instruments, on experience with these instruments at the national and multilateral levels as reported by Member governments and on a number of exchanges of views between the two advisory bodies, BIAC and TUAC, and the Committee and its Working Groups on the Guidelines and on International Investment Policies. This Review also takes account of activities in other Committees of the Organisation on matters related to those covered by the 1976 Declaration and Decisions (4).

II. RESULTS

4. The overall conclusion of the Review Report [C/MIN(84)5(Final)] is that the Declaration and Decisions, as revised in 1979, have made an important contribution to the international investment climate. They have provided and will continue to provide, when the proposed amendments are adopted, mechanisms for intensified co-operation and consultation among Member governments and exchanges of views with the international business community and labour organisations on issues relating to international investment and multinational enterprises.

5. The Committee's Review of the Declaration and Decisions has confirmed the continued relevance of their texts and, with the exception of those concerning conflicting requirements, described below, only a few amendments to them are proposed. In fact, the flexibility of these instruments has been found adequate to allow them to deal with the new situations that have been experienced in this period, most often through clarifications and comments which the Committee has provided and will continue to provide when appropriate. In a period of economic instability, the stability of the instruments is seen as valuable. Most of the Committee's efforts, particularly since 1982, have thus been devoted to encouraging the promotion and improving the application of the instruments, including increasing the transparency of government policies and enterprises' behaviour. In these respects, the Committee has also devoted considerable attention to providing clarifications, as required, on the scope of the instruments and is proposing a number of modifications of the related procedures with the aim of strengthening their application.

6. The main thrust of the Committee's proposals concerning the Declaration and Decisions are as follows:

- Guidelines for Multinational Enterprises: Recognising the value of the present formulation of these Guidelines, the Committee proposes no major changes to the text of the Guidelines for multinational enterprises. There is only one exception in this respect, where an addition concerning consumer interests is proposed to paragraph 2 of the General Policies chapter, as set out in paragraph (b) of the draft entry in the Minutes of the Council to be found below. Furthermore, in response to issues that have been raised under the Guidelines, the Committee has developed explanatory comments which clarify but do not modify the Guidelines; these comments are embodied in Chapter II of the Report. Finally, since 1979, National

Contact Points have been established in Member countries charged with, inter alia, the promotion and dissemination of the Guidelines and the provision of a forum for discussion of problems which may arise under the Guidelines. The Committee's review of the National Contact Points has found that they play a positive and constructive role, and the Committee proposes that the Decision of the Council on the Guidelines for Multinational Enterprises (5) be modified so as to reflect the role of National Contact Points in the application of the Guidelines;

- Conflicting Requirements: Since 1983 the Committee has devoted considerable efforts to problems that may arise when multinational enterprises are made subject to conflicting requirements by Member countries. Such problems were already referred to in the Annex to the 1976 Declaration relating to the Guidelines. Agreement has been reached among Member countries on general considerations and practical approaches for strengthening international co-operation in this area. In view of the significance of this agreement, it is proposed that the Ministers in their Communiqué endorse, in particular, the special section of the Review Report on conflicting requirements (paragraphs 23 to 33). In addition, it is proposed that the existing OECD consultation procedures relating to this subject set out in the Decision on the Guidelines for Multinational Enterprises be strengthened to reflect the relevant aspects of these results;
- National Treatment: Based on its work on clarifying the scope of this instrument, which has permitted a significant improvement in the understanding of it, the Committee has completed a new and extensive survey of relevant country measures related to National Treatment. The survey has substantially increased the transparency of the measures covered by the instrument. This work has led to proposals for periodic examinations of the various categories of measures relating to National Treatment maintained by Member countries. These examinations will have the effect of strengthening the instrument and extending its application;
- International Investment Incentives and Disincentives: The Council Decision on this subject provides for the Committee acting as a forum for discussions between Member countries on issues relating to the measures concerned. The Committee has carried out extensive survey work on the extent such measures are used in Member countries and has analysed their effects on international investment. The Committee proposes an amendment to the Council Decision on this subject with the purpose of increasing the flexibility and use of the instrument's consultation procedures to make them more operational;
- Investment in Developing Countries: In the Declaration, Member countries indicated that they will consider applying "National Treatment" in respect of countries other than Member countries, and in the Guidelines for Multinational Enterprises they noted that international co-operation in the field of the operations of multinational enterprises should extend to all States. The Committee reports on its past work and the orientations for its

future efforts with respect to improving international co-operation in this area, including developing approaches to broadening the geographical scope of this co-operation, taking into account the principles underlying the OECD investment instruments, and encouraging the development of discussions with interested parties, including those in developing countries, on issues of common interest relating to investment.

In sum, the present proposals focus on strengthening the Declaration and Decisions, on the follow-up to the provisions thereof, and on the future programme of work of the Committee in areas which it is hoped will lead to further means of co-operation between Member governments in the field of international investment and multinational enterprises.

7. Recognising the importance which Member governments attach to the matters covered by the Declaration and Decisions and the interest of multinational enterprises, their employees and the general public in the results of this Review of those instruments, it is proposed that Ministers reaffirm the commitment taken by Member countries in 1976 and 1979 to intensify their co-operation and consultation on international investment and multinational enterprises through the Declaration and Decisions and agree to review these instruments again in six years.

8. The Secretary-General intends, in the interest of informing business, labour and the general public on matters dealt with by the Declaration and Decisions and on steps which are being taken for the implementation of these instruments, to publish the Committee's Review Report. He also intends to publish the revised instruments (Declaration and Decisions) as a separate publication, together with the sections of the Review Report relating to Conflicting Requirements (paragraphs 23 to 33), with the relevant section of a communiqué of the Ministerial Meeting and the entries in the Council Minutes set out below.

9. Finally, it should be noted that the Committee's present mandate expires on 31st December 1984. The Committee has found its existing mandate well suited to its present and foreseeable tasks. The Council might wish to invite the Secretary-General to make, after consultations with the Committee, a proposal for an extension of the Committee's mandate by the end of 1984.

10. Accordingly, the Secretary-General invites the Council to adopt the following draft entry in its Minutes:

"THE COUNCIL

- a) noted that the governments of OECD Member countries on the occasion of the meeting of the Council at Ministerial Level have reaffirmed their Declaration on International Investment and Multinational Enterprises and have decided to review the Declaration again in six years;
- b) noted that the Governments of OECD Member countries have amended paragraph 2 of the General Policies chapter of the Guidelines for Multinational Enterprises to read as follows:

'General Policies

2. Enterprises should,

.....

in particular, give due consideration to those countries' aims and priorities with regard to economic and social progress, including industrial and regional development, the protection of the environment and consumer interests, the creation of employment opportunities, the promotion of innovation and the transfer of technology;'

.....

- c) endorsed the Conclusions and Recommendations of the Report of the Committee on International Investment and Multinational Enterprises on the Review of the 1976 Declaration and Decisions on International Investment and Multinational Enterprises [C/MIN(84)5(Final)], and in particular the section of this Report on conflicting requirements (paragraphs 23 to 33);
- d) adopted the draft Second Revised Decision of the Council on the Guidelines for Multinational Enterprises as set out in Appendix I to C/MIN(84)6;
- e) adopted the draft Second Revised Decision of the Council on National Treatment as set out in Appendix II to C/MIN(84)6;
- f) adopted the draft Second Revised Decision of the Council on International Investment Incentives and Disincentives as set out in Appendix III to C/MIN(84)6;
- g) invited the Secretary-General, for the next phase of the OECD activities on international investment and multinational enterprises, to propose, in consultation with the Committee on International Investment and Multinational Enterprises and in the light of the proposals for future work given in the Committee's Report to the Council, new terms of reference for the Committee before the end of 1984;
- h) decided that the Report, C/MIN(84)5(Final), together with the relevant paragraph(s) of the Communiqué, C/MIN(84)8, the Revised Decisions referred to in paragraphs d), e) and f) above, and this entry in its Minutes be derestricted.

Appendix I

D R A F T

SECOND REVISED DECISION OF THE COUNCIL ON THE GUIDELINES FOR
MULTINATIONAL ENTERPRISES

THE COUNCIL,

Having regard to the Convention on the Organisation for Economic Co-operation and Development of 14th December 1960 and, in particular, to Articles 2 d), 3 and 5 a) thereof;

Having regard to the Resolution of the Council of 28th November 1979, on the Terms of Reference of the Committee on International Investment and Multinational Enterprises and, in particular, to paragraph 2 thereof [C(79)210 (Final)];

Taking note of the Declaration by the Governments of OECD Member countries of 21st June 1976 in which they jointly recommend to multinational enterprises the observance of guidelines for multinational enterprises;

Having regard to the Revised Decision of the Council of 13th June 1979 on Inter-Governmental Consultation Procedures on the Guidelines for Multinational Enterprises [C(79)143];

Recognising the desirability of setting forth procedures by which consultations may take place on matters related to these guidelines;

Recognising that, while bilateral and multilateral co-operation should be strengthened when multinational enterprises are made subject to conflicting requirements, effective co-operation on problems arising therefrom may best be pursued in most circumstances on a bilateral level, although there may be cases where the multilateral approach would be more effective;

Considering the Report on the Review of the 1976 Declaration and Decisions on International Investment and Multinational Enterprises [C(79)102(Final)] and the Report on the Second Review of the 1976 Declaration and Decisions on International Investment and Multinational Enterprises [C/MIN(84)5(Final)], including the particular endorsement of the section in the Second Review Report relating to conflicting requirements;

On the proposal of the Committee on International Investment and Multinational Enterprises:

DECIDES:

1. Member Governments shall set up National Contact Points for undertaking promotional activities, handling enquiries and for discussions with the parties concerned on all matters related to the Guidelines so that they can contribute to the solution of problems which may arise in this connection. The business community, employee organisations and other interested parties shall be informed of the availability of such facilities.
2. National Contact Points in different countries shall co-operate if such need arises, on any matter related to the Guidelines relevant to their activities. As a general procedure, discussions at the national level should be initiated before contacts with other National Contact Points are undertaken.
3. The Committee on International Investment and Multinational Enterprises (hereinafter called "the Committee") shall periodically or at the request of a Member country hold an exchange of views on matters related to the Guidelines and the experience gained in their application. The Committee shall be responsible for clarification of the Guidelines. Clarification will be provided as required. The Committee shall periodically report to the Council on these matters.
4. The Committee shall periodically invite the Business and Industry Advisory Committee to OECD (BIAC) and the Trade Union Advisory Committee to OECD (TUAC) to express their views on matters related to the Guidelines. In addition, exchanges of views with the advisory bodies on these matters may be held upon request by the latter. The Committee shall take account of such views in its reports to the Council.
5. If it so wishes, an individual enterprise will be given the opportunity to express its views either orally or in writing on issues concerning the Guidelines involving its interests.
6. The Committee shall not reach conclusions on the conduct of individual enterprises.
7. Member countries may request that consultations be held in the Committee on any problem arising from the fact that multinational enterprises are made subject to conflicting requirements. The Member countries concerned should be prepared to give prompt and sympathetic consideration to requests by Member countries for consultations in the Committee or through other mutually acceptable arrangements, it being understood that such consultations would be facilitated by notification at the earliest stage practicable. Governments concerned will co-operate in good faith with a view to resolving such problems, either within the Committee or through other mutually acceptable arrangements.

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8. The CIME will continue to serve as a forum for consideration of the question of conflicting requirements, including, as appropriate, the national and international legal principles involved.
9. Member countries should be prepared to assist the Committee in its periodic reviews of experience on matters relating to conflicting requirements.
10. The Committee shall periodically invite the Business and Industry Advisory Committee to the OECD (BIAC) and the Trade Union Advisory Committee to the OECD (TUAC) to express their views on matters relating to conflicting requirements.
11. This Decision shall be reviewed at the latest in six years. The Committee shall make proposals for this purpose as appropriate.
12. This Decision shall replace Decision [C(79)143].

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Appendix II

D R A F T

SECOND REVISED DECISION OF THE COUNCIL ON
NATIONAL TREATMENT

THE COUNCIL,

Having regard to the Convention on the Organisation for Economic Co-operation and Development of 14th December 1960 and, in particular, to Articles 2 c), 2 d), 3 and 5 a) thereof;

Having regard to the Resolution of the Council of 28th November 1979 on the Terms of Reference of the Committee on International Investment and Multinational Enterprises and, in particular, to paragraph 2 thereof [C(79)210(Final)];

Taking note of the Declaration by the Governments of OECD Member countries of 21st June 1976 on National Treatment;

Having regard to the Revised Decision of the Council of 13th June 1979 on National Treatment [C(79)144];

Considering that it is appropriate to establish within the Organisation suitable procedures for reviewing laws, regulations and administrative practices (hereinafter referred to as "measures") which depart from "National Treatment";

Considering the Report on the Second Review of the 1976 Declaration and Decisions on International Investment and Multinational Enterprises [C/MIN(84)5(Final)];

On the proposal of the Committee on International Investment and Multinational Enterprises;

DECIDES:

1. Measures taken by a Member country constituting exceptions to "National Treatment" (including measures restricting new investment by "Foreign-Controlled Enterprises" already established in their territory) in effect on 21st June 1976 shall be notified to the Organisation within 60 days after that date.

2. Measures taken by a Member country constituting new exceptions to "National Treatment" (including measures restricting new investment by "Foreign-Controlled Enterprises" already established in their territory) taken after 21st June 1976 shall be notified to the Organisation within 30 days of their introduction together with the specific reasons therefor and the proposed duration thereof.
3. Measures introduced by a territorial subdivision of a Member country, pursuant to its independent powers, which constitute exceptions to "National Treatment", shall be notified to the Organisation by the Member country concerned, insofar as it has knowledge thereof, within 30 days of the responsible officials of the Member country obtaining such knowledge.
4. The Committee on International Investment and Multinational Enterprises (hereinafter called "the Committee") shall periodically review the application of "National Treatment" (including exceptions thereto) with a view to extending such application of "National Treatment". The Committee shall make proposals as and when necessary in this connection.
5. The Committee may periodically invite the Business and Industry Advisory Committee to OECD (BIAC) and the Trade Union Advisory Committee to OECD (TUAC) to express their views on matters related to National Treatment and shall take account of such views in its periodic reports to the Council.
6. The Committee shall act as a forum for consultations, at the request of a Member country, in respect of any matter related to this instrument and its implementation, including exceptions to "National Treatment" and their application.
7. Member countries shall provide to the Committee, upon its request, all relevant information concerning measures pertaining to the application of "National Treatment" and exceptions thereto.
8. This Decision shall be reviewed at the latest in six years. The Committee shall make proposals for this purpose as appropriate.
9. This Decision shall replace Decision [C(79)144].

Appendix III

D R A F T

SECOND REVISED DECISION OF THE COUNCIL ON INTERNATIONAL
INVESTMENT INCENTIVES AND DISINCENTIVES

THE COUNCIL,

Having regard to the Convention on the Organisation for Economic Co-operation and Development of 14th December 1960 and, in particular, Articles 2 c), 2 d), 2 e), 3 and 5 a) thereof;

Having regard to the Resolution of the Council of 28th November 1979 on the Terms of Reference of the Committee on International Investment and Multinational Enterprises [C(79)210 (Final)];

Taking note of the Declaration by the Governments of OECD Member countries of 21st June 1976 on International Investment Incentives and Disincentives;

Having regard to the Revised Decision of the Council of 13th June 1979 on International Investment Incentives and Disincentives [C(79)145];

Considering the Report on the Second Review of the 1976 Declaration and Decisions on International Investment and Multinational Enterprises [C/MIN(84)5(Final)];

On the proposal of the Committee on International Investment and Multinational Enterprises;

DECIDES:

1. Consultations will take place in the framework of the Committee on International Investment and Multinational Enterprises at the request of a Member country which considers that its interests may be adversely affected by the impact on its flow of international direct investments of measures taken by another Member country which provide significant official incentives and disincentives to international direct investment. Having full regard to the national economic objectives of the measures and without prejudice to policies designed to redress regional imbalances, the purpose of the consultations will be to examine the possibility of reducing such effects to a minimum.
2. Member countries shall supply, under the consultation procedures, all permissible information relating to any measures being the subject of the consultation.

3. The Committee may periodically invite the Business and Industry Advisory Committee to OECD (BIAC) and the Trade Union Advisory Committee to OECD (TUAC) to express their views on matters relating to international investment incentives and disincentives and shall take account of these views in its periodic reports to the Council.
4. This decision shall be reviewed at the latest in six years. The Committee on International Investment and Multinational Enterprises shall make proposals for this purpose as appropriate.
5. This decision shall replace Decision [C(79)145].

NOTES AND REFERENCES

- (1) The Turkish Government did not participate in the 1976 Declaration and abstained from the Decisions. In March 1981 Turkey adhered to the Declaration and the Decisions, so that now all OECD Member countries participate in these instruments.
- (2) International Investment and Multinational Enterprises, Review of the 1976 Declaration and Decisions, OECD, Paris, 1979.
- (3) International Investment and Multinational Enterprises, Mid-Term Report on the 1976 Declaration and Decisions, OECD, Paris, 1982.
- (4) Reference should be made also to the following reports by the Committee to the Ministers on work undertaken under the 1982 mandate for the follow-up to the Trade in the 1980s Study:
 - Under Agenda Item 2,
 - Ministerial Mandate on the Geographical Extension of Co-operation in the International Investment Area and Work Programme on Direct Investment in Developing Countries [IME(84)12];
 - Under Agenda Item 3,
 - Ministerial Mandate on Trade-Related Investment Measures [IME(84)11];
 - Ministerial Mandate on Possible Gaps in the OECD Instruments on International Investment [IME(84)10].
- (5) The previous Decision of the Council on this subject was entitled "Decision of the Council on Inter-governmental Consultation Procedures on the Guidelines for Multinational Enterprises".

a number of our industrial sectors; the growing internationalisation and economic importance of services; and the requirement to develop an improved trading framework between developed and developing countries, in particular the NICs, are among the more significant issues to be addressed.

3. Against this background, Ministers may wish to give guidance on and take decisions regarding:

- (i) the steps to be taken to ensure early and concrete progress in relaxing and dismantling trade restrictions and trade-distorting domestic measures;
- (ii) the ways and means by which the international trading framework can be strengthened and broadened over the medium term.

REDUCING BARRIERS TO TRADE

4. In 1983 Ministers agreed that strengthening the open multilateral trading system was essential to supporting the recovery and the transition to sustained growth. They recognised the importance of the positive role which trade policy can play in strengthening market forces and, therefore, the desirability of making use of the favourable conditions provided by recovery to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade distorting domestic measures.

5. In its Review of Trade Policy [C/MIN(84)3(Final)], the Trade Committee has noted that while the results are mixed, the improvement in the trading system which had been hoped for last year, has not been realised. Instead there has been a further continuation and expansion of protectionist measures with an attendant further erosion of the international trading system and its rules. The causes of these developments are varied. They include not only continuing pressures generated by the severity of the economic recession, differences in the pace of recovery and major movements in exchange rates, but also more systemic factors which have been the subject of analysis under the Organisation's programme of work on trade in the 80s.

6. The introduction of trade measures has often been motivated by employment concerns. Yet even in the short term the benefits claimed for trade restrictions may not be convincing. The results of work underway within the Organisation on the costs and benefits of protectionism will be available later this year. However, it is already clear from the work undertaken that protectionism, particularly through the vehicle of domestic subsidies, remains a significant factor in the OECD economy and that such protectionism has had very limited results in maintaining or increasing employment. What results the measures have had in terms of saving employment in particular sectors have almost certainly been achieved at the cost of jobs elsewhere, and of a reduction in total real incomes.

7. The necessity of rolling back protectionist measures in order to foster necessary structural adjustment, avoid new inflationary pressures, strengthen growth in our economies and ensure the steady and mutual expansion of trade between developed and developing countries so as to help achieve financial stability is evident. Yet, despite the clear requirement for concerted action, little progress has thus far been made. Short-term economic and political considerations have dominated decisions to the detriment of medium-term considerations necessary to ensure a lasting economic recovery. A

key question to be addressed therefore is that of how to mobilise sufficient political support so as to ensure concrete results with respect to the relaxation and dismantlement of protective measures and the further liberalisation of world trade.

8. The inability to mobilize sufficient political support and the uncertainty about future market access generated by the drift of trade policy over recent years constitute important questions facing governments. A number of factors have contributed to this uncertainty which has a particular impact on investment decisions. These include: the sheer number of measures which have been taken to restrain trade; the tendency to isolate whole sectors within Member countries from international competition and world prices; the fact that the measures have frequently been taken outside of the agreed international rules; the failure in the Tokyo Round and subsequently to reach agreement on a Safeguards Code which would provide strong multilateral disciplines and surveillance; a growing tendency to accuse trading partners of engaging in 'unfair' practices, leaving the impression that only one of the partners is 'playing by the rules'; a failure to live up to the ambitions which had been generated prior to the November 1982 GATT Ministerial meeting; the increasingly evident tendency towards bilateralism -- both to resolve conflicts and to pursue further liberalisation in a manner inconsistent with the multilateral framework; the strong protectionist pressures being felt in some major trading countries and uncertainty as to what the final government responses will be. The anti-protectionism statements by governments, at the November 1982 GATT Ministerial meeting, the 1983 OECD Ministerial meeting and the Williamsburg Summit have not eased the concerns generated by these developments, since they have not been reflected sufficiently in actual trade policy decisions.

9. Last year's OECD Ministerial conclusions were premised on the assumption that a return to recovery would facilitate the task of combatting protectionism. It was then hoped that by this time protectionist pressures would have eased, and that some progress would have been registered in dismantling restrictive measures. As set out in the report of the Trade Committee, this hope has not yet been fulfilled. Indeed the pressures today -- even in relation to industries where there has been a clear recovery in sales and profit margins -- are as strong as ever. While the political and social obstacles are very real, the credibility of the multilateral trading system and its role in fostering sustainable economic growth are at stake. It is hoped therefore that Ministers can collectively give the necessary political impulse to assure meaningful implementation of last year's conclusions on relaxation and dismantlement.

Phase One

10. In elaborating the follow-up to last year's conclusions, it has already been agreed that specific action with respect to rollback would be carried on in two phases. With respect to the first phase, and as set out in paragraph 25 of the Report of the Trade Committee, Member countries have expressed their determination, subject in some cases to domestic approval procedures, to advance implementation by one year to the beginning of 1985 of all scheduled 1986 MTN tariff cuts. The Trade Committee has expressed its hope that through such a process of acceleration, all the scheduled MTN tariff reductions will be achieved not later than the beginning of 1986 -- one year ahead of schedule. Secondly, those Member countries which do not already

provide overall duty and quota free access for the least developed developing countries, have agreed to consider improving their GSP schemes as far as possible in this direction. Finally, some Member countries have indicated that steps have been taken or are being considered to remove import restrictions and to further bilateral co-operation. It is proposed that Ministers confirm this agreement.

Phase Two

11. These results are a first step forward and can be helpful in building confidence. They are, however, of limited importance for international trade. Success under Phase 2 will therefore be essential to meet the objective of a substantial rollback of protectionism. In order to achieve early and concerted action to relax or dismantle trade restrictions and trade distorting domestic measures, Ministers are asked to endorse a definite programme of follow-up work which would provide the basis for concrete proposals on which Member governments might act.

12. The programme of follow-up and action proposals should give priority attention to the elements set out below. All elements should be considered as part of the dismantlement effort. In addition, some of them would also be of significant longer-term benefit for international co-operation.

(i) Non-market conforming measures and bilateralism

13. The trading system constructed in the post-war period was centred on two fundamental principles, a commitment to multilateralism as enshrined in the M.F.N. clause and the use of a single instrument of protection -- the tariff. Their effective application through the success of the OEEC Liberalisation Programme of the 1950s, in removing quantitative restrictions between its Members and the tariff reductions negotiated in the GATT, allowed the world economy to repair the harm caused during the earlier period by high tariffs and the bilateralisation and cartelisation of trade.

14. It is the erosion of these principles and the growing trend once again towards bilateralism and the use of non-market conforming measures which threaten our economic performance and the open trading system. Trade flows determined by political decisions and measures which effectively insulate firms or sectors from market signals prevent those adjustments occurring that will be necessary for sustained growth over the medium term. There is a requirement to move away from the bilateral approaches which have characterised action in these sectors and reinforce our ability to address these issues in a multilateral context. Similarly there is a need to give priority attention to the dismantlement of those measures most damaging to competition and efficiency, namely quantitative restrictions, both formal and informal, which often preclude effective competition as well as minimum price and subsidy practices which distort or harm trade. In this context, the Trade Committee has, as set out in its Report, decided to undertake a series of sectoral examinations. These will include the measures which have been adopted, the general economic context and the adjustment that has occurred, so as to enable the Committee to identify the possibilities for relaxation and dismantlement. While the examinations will cover all measures, it is suggested that particular attention be given to the measures described above.

(ii) Measures which restrict imports from developing countries

15. The importance for international financial stability and strengthened world growth prospects of expanding markets and increased export earnings for developing countries has been identified as a key medium term issue. It will be crucial for developing countries to expand their export earnings so as to be able to service their debt and to finance growing imports. A number of developing countries are, however, increasingly being affected by the spillover effects of protective actions primarily aimed at other developed countries. At the same time, their exports continue to be adversely affected by various measures, including long-standing restrictions and subsidies in the agricultural sector as well as by continually tightened restrictions on textiles and clothing. An integral part of the rollback effort must therefore be a rigorous examination of particular impediments and restrictions on imports from developing countries and the identification of perhaps limited but specific actions that could be taken by individual Member countries as part of an OECD programme.

It is proposed that the Trade Committee make a progress report to Council on points (i) and (ii) by the end of the year, and a further report to the Ministerial Council in 1985.

(iii) Country reviews of trade policy

16. A further important contribution to be made to improving transparency and encouraging rollback would be agreement to undertake periodic reviews of trade policy on a country basis. While country reviews are held within the Organisation on a wide variety of government policies including agriculture, investment, development assistance, steel, as well as the general economic review, no such possibility exists for trade, nor is this done in the GATT or elsewhere. The initiation of such reviews by the Trade Committee should be carried out in a flexible and pragmatic manner, bearing in mind available resources. Initially, such reviews would concentrate on policies and measures to include in potential rollback actions.

(iv) Revised GATT safeguard clause

17. Failure to reach international consensus on a revised safeguard clause in the GATT has become a major cause of uncertainty in the trading system with consequent effects on trade and investment decisions. The issues involved are complex and include such matters as: the conditions under which action should be permitted; whether or not there should be a close link to adjustment in the domestic industry; and the degree of multilateral surveillance that should be involved. Agreement on these issues in the near future is important to ensuring a stable environment which would be favourable for investment and development. Ministers might wish to express their commitment to an early agreement on safeguards in the GATT.

(v) Trade-related concessional finance

18. The risks posed by an increasing recourse to trade-related concessional finance have been covered in the paper on Finance, Trade and Development [C/MIN(84)2(Final)]. Co-operation on export financing through the Guiding Principles for Associated Financing and the Arrangement on Guidelines for Officially Supported Export Credits has been improved over the past year.

Nonetheless, a commitment by Member countries to strengthen multilateral disciplines would reduce the possibility that use of aid finance will cause trade distortions or divert aid resources from development objectives. This would also be an important element of the rollback programme.

(vi) Trade-distorting domestic measures

19. Last year's conclusions on rollback explicitly recognised the importance of trade-distorting domestic measures and the need to deal with these as part of the dismantlement effort. In a context marked by rapidly increasing internationalisation of industrial production and persistent severe structural difficulties, industrial, manpower and other policies which have significant consequences for structural change have become important subjects for discussion in international fora. Attention has focused in particular on the impact of such policies and practices on economic growth as well as their international implications. Various work within the Organisation, including, notably, continuation of efforts in the Industry Committee towards an improved information system on industrial policies, as well as the recent proposal that the EDRC should undertake more systematic country-specific evaluation of adjustment policies in an overall economic perspective, represent potentially important steps in improving transparency and providing for a better analytical understanding of the impacts of various policies. This work can substantially assist the Trade Committee in the rollback exercise.

(vii) Strengthened commitment to standstill

20. Implicit in last year's decision on rollback was a commitment to standstill. The report by the Trade Committee makes clear that standstill has not been achieved and there are worrying indications that further restrictive measures may well be taken over the next few months. To strengthen the standstill commitment, could Ministers agree that where trade protection has been requested, assessment of the need for and the implications of such measures will include specific analysis in individual Member countries of the economic costs of such actions to the general public. These assessments should also include the identification of measures of liberalisation which would be introduced to compensate trading partners, thereby strengthening the defence against protectionist pressures.

STRENGTHENING THE MULTILATERAL TRADING SYSTEM

21. Proposals have recently been made for a new round of multilateral trade negotiations. Such negotiations could contribute over time to a strengthening of the world trading framework and to promoting further liberalisation. It is evident that the content of a new round will require careful elaboration and preparatory work. A number of the elements of the current OECD work programme described below could be relevant in this regard. This prospect is not a substitute for implementing the OECD dismantlement conclusions, but rather the two should be regarded as mutually reinforcing actions. Progress in reversing the erosion that has occurred is crucial to ensuring that an adequate base exists for an expansion of the trading system. A new round should not lead to delays in decisions which are required in the near term so as to strengthen the prospects for sustained recovery. On the other hand, preparations for a new round should make the dismantlement exercise more effective. Ministers

may wish to reaffirm their determination to make progress in the current work programme of the OECD and GATT in the trade area.

22. In addition to the roll-back of existing protectionist measures, there are a number of avenues for strengthening the scope and management of the multilateral trading system thereby improving prospects for economic growth. Substantial work in the OECD has focused on developed/developing country trade relations, international trade in services, investment issues related to trade, trade in high-technology products, the effects of trade measures upon competition and upon consumer welfare, and matters relating to agriculture and fisheries.

Improved Framework for Developed/Developing Country Trade Relations

23. The continuing expansion in the trading relationships between developed and developing countries and its importance to the stability of the international financial system and to future world economic growth prospects have been highlighted in the Note by the Secretary-General C/MIN(84)2(Final) under Agenda item 2. A vital aspect of a strengthened multilateral trading system will need to be an improved framework for developed/developing country trade relations. A number of factors should be taken into account in this regard. On the one hand, long-standing restrictions by industrialised countries on products in which developing countries have an evident comparative advantage should be removed and greater security of access for LDC exports provided. On the other hand, developing countries should rationalise their own trade regimes and lower their often excessive tariff and other barriers to imports. Further efforts will be required to strengthen the prospects of those developing countries who most require it, to exploit preferential market access; at the same time those LDCs, in particular the NICs, who are becoming increasingly world competitive in a number of areas, should increasingly be encouraged to operate within the framework of the Most-Favoured-Nation principle. Ministers may wish to instruct the competent Committees within the Organisation to develop a comprehensive approach to a better integration of developing countries into the multilateral trading framework.

International Trade in Services

24. Since 1978, a growing amount of activity within the Organisation has focused on issues related to international trade in services. This increased attention has been paralleled more generally outside the OECD as well, although it is in the OECD that the most extensive and substantive work has been done. This heightened interest derives from a number of factors including the development of a new range of services, the internationalisation of financial markets as well as from the growing interaction between goods and services trade. The development of new technologies of analysis and communication and for the storage and retrieval of data is also a factor.

25. The issues raised in the services sector are complex and often masked by a lack of basic data and a lack of transparency. Initial work in the Organisation focused on identifying obstacles to trade in services and assessing their relative importance. In 1982 Ministers noted the work underway and "encouraged the responsible Committees as soon as possible to progress so that they can turn in the light of the results to examining ways to remove unjustified impediments to international trade in services; and to

considering ways of improving international co-operation in this area, notably the possibility of developing a general framework, comprising principles and criteria".

26. In response to this mandate two distinct types of analysis were undertaken: sectoral studies and horizontal/conceptual analysis. Major sectoral studies on banking, insurance, maritime transport and tourism have been completed and additional analyses of the computer/communications and audiovisual sectors and certain personal services (legal, architecture) are underway. Horizontal work includes the up-dating and strengthening of the OECD Codes by the QMIT and of the National Treatment instrument by the CIME. The recent agreement to extend the scope of the Code of Liberalisation of Capital Movements to include aspects of the right of establishment is also of key importance for trade in services(1). The Trade Committee, which has a leading role with respect to the development of a general framework, has examined concepts which might have a general relevance to trade in various service sectors, for example market access, right of establishment, non-discrimination, national treatment and transparency. It will draw on the completed sectoral studies in order to test these and other concepts.

27. It is evident that while additional factual analysis will continue, the weight of the work within the Organisation will now focus increasingly on ways to remove unjustified impediments and to improve international co-operation as called for by Ministers two years ago. Because of the varied interests in this subject and the need to avoid divergences in approaches developing, it would be desirable to strengthen the basic coordination within the Organisation on this work. Recently, the Chairmen of the Trade Committee, the QMIT and the CIME, which are the horizontal committees primarily engaged in this effort, have begun to meet regularly to review their committees' respective work in this area. This was a welcome step and the Secretary-General has invited these three chairmen, calling upon others (in particular the chairmen of the sectoral committees) as necessary, to constitute a Chairmen's Advisory Group on Services. Their primary task would be to coordinate the work of their committees in this area with a view to making as rapid progress as possible. Such a group would also provide advice to the Secretary-General. It is the intention of the Secretary-General to submit a substantive report, including action proposals, to Council within two years.

Trade in High-Technology Products

28. The characteristics and economic impact of high-technology products and the nature and extent of current flows of technology have been the subject of analytical studies carried out recently within the Organisation. The results

(1) In this regard, the QMIT in its report to Ministers under the 1982 mandate to determine what gaps exist, if any, in the range of instruments notes its concern that one Member country has not adhered to the Code of Liberalisation of Capital Movements. It has expressed the wish that the authorities of this country examine the possibility of progressing towards taking a decision to adhere to that Code.

to date are summarised in the two progress reports which have been circulated as background documents (Trade in High-Technology Products and the International Flow of Technologies).

29. Several important observations can be made in light of these studies. First, high technology trade constitutes an increasingly significant share of total manufactured exports among OECD countries (not counting the contribution of high-technology components to other items such as automobiles and machine tools). Second, there are major differences amongst OECD countries with respect to their high-technology performance. Third, analysis of trade effects of high technology is a very complex task due to its rapidly changing character, strong dependence on vigorous and strategically sensitive R & D, high risk investment requirements, and compressed time scale from innovation to product obsolescence.

30. On the basis of work on trade in high technology products, a number of issues have been identified. These include: government support for R & D and investment, and government sanctioned R & D programmes; the impact of government control of technology transfer on strategic security grounds; government and public procurement policies; special benefits of spin-off from military or space programmes; standards, registration procedures and tests; export promotion measures; disadvantages resulting from the small size of firms or countries; and business strategies.

31. These issues extend beyond the trade field. They should be also viewed against the background of the contribution of technology to economic growth and world trade, the uncertain and risky nature of innovative activities, and the importance of the other government policy objectives such as defence and national security. Based on the preliminary work to date, it is proposed that Ministers call for further efforts to identify more clearly the trade issues involved and the ways in which identified problems can be addressed, as well as to examine means of strengthening the contribution of technological developments to economic growth, and of facilitating international flows of technology.

Competition, Consumers and Trade

32. Work by the Committee of Experts on Restrictive Business Practices and the Committee on Consumer Policy has also highlighted how trade policy measures can obstruct the effective functioning of both national and international markets. In addition to inhibiting the pro-competitive effects of international trade in terms of price, consumer choice and incentives to innovate products and production processes, trade policies can be conducive to collusion between market participants and to a cartelisation of import and export markets. In their reports, the Committees suggest a framework for broader analysis of the economic impacts of trade measures and set the stage for developing further international co-operation on these issues. They also suggest ways and means by which competition and consumer policy considerations can be given greater weight in the formulation and implementation of trade policies so as to strengthen the hands of governments in resisting pressures for protectionist measures. It is suggested that Ministers endorse these proposals.

33. As a first practical step within the Organisation, it is intended to organise for November 1984 an international symposium on consumer policy and

international trade which is to serve as a forum for an exchange of views between the various parties concerned. In this way, it is hoped to increase general awareness of the link between consumer welfare and international trade and to act as a catalyst for further discussions on the issues identified. On the basis of the conclusions of the Report of the Committee of Experts on Restrictive Business Practices, further work is necessary to review existing mechanisms for considering related competition and trade issues and resolving disputes among Member countries. The review of the 1979 Council Recommendation concerning co-operation on restrictive business practices affecting international trade is an important part of this exercise. The conclusions of this review, together with further suggestions for a policy framework for dealing with related trade and competition issues, will be presented to the Council in 1985.

Trade-Related Investment Measures

34. Ministers, in 1982, requested the CIME and the Trade Committee to jointly pursue work on trade-related investment measures. Reports from both Committees on this subject are contained in the background documentation.

35. The work of the CIME which focused on the investment effects of such measures found that at the aggregate level, they are unlikely to be a major determinant of investment decisions but that significant disincentive effects may occur in particular cases for individual enterprises. In particular, trade-related investment measures may have an important effect in some cases on location decisions, especially at the intra-regional level, or on the size of investment or the timing of investment decisions. In a similar vein, the analysis by the Trade Committee suggests that the effects of trade-related investment measures on overall trade flows are unlikely to be of major significance, although there may well be specific circumstances in which the trade effects of trade-related investment measures could be important. Both reports stress that the effects of trade-related investment measures should not be seen in isolation from investment or trade incentive measures with which they are often associated and which may counter-balance some of these effects.

36. Proposals contained in the CIME review report (item 4 of the agenda) are aimed at improving the monitoring of the investment effects of such measures. The Trade Committee has noted that the introduction of new trade-related investment measures by Member countries can be also monitored in the context of the Trade Committee's regular review of main trade developments. Furthermore, the available notification/consultation procedures provide a vehicle by which specific concerns raised by possible adverse trade effects of an individual measure could be considered. Ministers might wish to endorse the conclusions and proposals contained in this and the preceding paragraph.

Agriculture

37. It is now generally accepted that an improvement in international agricultural trade can hardly come about without a change in domestic policies affecting agriculture. On the other hand the changes in domestic policies required to improve trading conditions could be minimised if all countries were to reduce simultaneously the protection accorded to their agricultural sectors. These basic ideas are being analysed and discussed in the context of

the Mandate given by the Council at Ministerial level in 1982 and should result in 1985 in the preparation of an overall report by the Committee for Agriculture and the Trade Committee which would subsequently be submitted to the Council. This report should indicate the path which Member governments might follow in improving international agricultural trading relations. Governments should already be intensifying their efforts to oppose protectionist forces and to reduce existing trade restrictive and distorting measures. As well, Ministers may wish to stress the importance of urgent action to deal with the structural and trade problems being caused by overproduction of certain agricultural products, in particular dairy and grains.

Fisheries

38. Three major developments over the past decade -- the regime of 200-mile limits as embodied in UNCLOS III, overfishing and the escalation of fuel prices -- have created important adjustment problems for the fishing industry. The consequences of these developments for trade flows, consumption of fish and in terms of dislocation of fishermen and fishing fleets have been considerable given that one-third of the world catch is traded internationally. The Fisheries Committee is completing its review of the trade effects of these adjustment problems, the measures adopted by Member countries to resolve them and the possibilities for further liberalisation of trade. Ministers may wish to encourage further efforts by the Organisation in this regard.

Conclusions

Reducing Barriers to Trade

Ministers may wish to express their political commitment to achieving concrete progress in the relaxation and dismantlement of trade restrictions and trade distorting domestic measures. In particular they may wish to endorse the programme of follow-up work elaborated in paragraphs 13 to 20 with respect to:

- (i) Non-market conforming measures and bilateralism;
- (ii) Measures which restrict imports from developing countries;
- (iii) Country reviews of trade policy;
- (iv) Revised GATT safeguard clauses;
- (v) Trade-related concessional finance;
- (vi) Trade-distorting domestic measures;
- (vii) Strengthened commitment to standstill.

Strengthening the Multilateral Trading System

Ministers may wish to confirm the importance they attach to efforts to strengthen and broaden the multilateral trading system, including the possibility of a new trade round. They may wish to encourage further efforts by the Organisation and endorse the proposals set out in paragraphs 23 to 38 with respect to:

- Improved Framework for Trade Relations between Developed and Developing Countries;
- International Trade in Services;

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Trade in High-Technology Products;
Trade Related Investment Measures;
Competition, Consumers, and Trade;
Agriculture; and
Fisheries.

CONFIDENTIAL

~~Mr Graham.~~
E/1

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

CONFIDENTIAL

Paris, drafted: 1st May 1984

dist: 3rd May 1984

C/MIN(84)2(Final)

Or. Engl.

COUNCIL
AT MINISTERIAL LEVEL

FINANCE, TRADE AND DEVELOPMENT:
A GLOBAL AND MEDIUM-TERM PERSPECTIVE WITH SPECIAL REFERENCE
TO DEVELOPING COUNTRIES

(Note by the Secretary-General)

I. ISSUES FOR DISCUSSION

1. Ministers are invited to address one of the major tasks now before economic policy makers -- how to strengthen the critical interlinkages between finance, trade and development in a situation where risks, uncertainties and systemic problems remain important.

Financial Resource Flows and Resumed Growth

2. The remaining large debt overhang reflects, inter alia, a critical failure in the past to ensure that external financing was accompanied by sound macroeconomic and development policies and used to support productive investment. Action is required now to strengthen the medium-term policy framework for promoting flows of financial resources to developing countries and their efficient use. For this purpose, the policy advisory and structural adjustment financing capacity of the World Bank should be extended and co-operation between the World Bank and the IMF intensified. OECD Member countries have an important contribution to make through improving the security of trade access, through achieving better macroeconomic balance and by working to improve the quality and the quantity of both official and market financial flows. (Paragraphs 13-22)

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3. Strengthened international cooperation is required to encourage resumed growth of foreign direct investment in developing countries. OECD work could be intensified with a view to helping Member countries improve their policy approaches and to preparing for constructive discussions with developing countries in the established fora. (Paragraphs 23-25)

4. A better linkage between policies and resource flows is also required in the area of official development assistance. The accumulated requirements of policy reform, adjustment and new investment call for a stronger and more flexible aid effort. The role of IDA is crucial. It is suggested that Ministers invite the DAC to address the special problems of adapting development assistance to the particularly difficult conditions and requirements of sub-Saharan Africa. (Paragraphs 26-30)

5. It is suggested that Ministers affirm their commitment to avoid escalation in the use of trade and aid distorting financing and enjoin the competent bodies of the Organisation to strengthen transparency and discipline in this area through increases in established minimum grant elements and other appropriate means. (Paragraph 31)

Trade Policy in an Economic and Development Context

6. Trade policies have an important influence on domestic economic performance and development progress, and the functioning of international markets. Alongside the traditional negotiation processes, trade liberalisation should be pursued more systematically as an aspect of economic and development policies. The international financial institutions should be encouraged to intensify their analysis, advice and technical assistance on trade policy aspects of national economic development. Efforts are needed to reach a more common understanding with developing countries on these issues. (Paragraphs 32-37)

International Economic Cooperation and the Dialogue with Developing Countries

7. Economic interdependence between developed and developing countries makes an effective policy dialogue imperative. Ministers might encourage current efforts to improve the dialogue in the United Nations fora. Ministers might also encourage the OECD to intensify low-key informal contacts with interested developing countries in areas where the Organisation has a special competence and can bring an interdisciplinary approach to bear, such as direct investment. (Paragraphs 38-45)

II. WORLD ECONOMIC RECOVERY AND THE POLICY FRAMEWORK

8. A successful transition from economic recovery to durable growth in the world economy is critical, but not assured. The policies needed within and among OECD countries to promote such a transition are addressed in C/MIN(84)7. This note looks at the challenges of transition in a global perspective focussing on the policies needed in both developing and developed countries to strengthen the overall economic policy framework and to allow the potential gains from interdependence to be realised - recognizing fully the diversity of individual country situations.

9. Financial and trade flows between developed and developing countries are again expanding. The strong recovery in the United States, higher growth in Japan and improving output performance in Europe have turned around the contraction of world trade experienced between 1980 and 1982. The export volumes of non-oil developing countries grew by nearly 7 per cent in 1983 and their import volumes are forecast to increase by nearly 6 per cent in 1984, the first real increase for two years. In a considerable number of developing countries, particularly in Asia, a continuing resilience and dynamism is evident. There is emerging strength in yet others, including India and China. However, important areas of fragility remain. The interest burdens of the major debt problem countries continue to weigh heavily on their economies (See Table A). Real interest rates have not fallen and - contrary to the assumption made at the time Table A was prepared - may increase in the coming months. Important amounts of interest arrears are still outstanding. In the low-income countries, particularly in Africa, adverse climatic conditions have compounded development failures. Per capita incomes in Sub-Saharan Africa are declining and are now below pre-independence levels in many countries. There is thus a diverse set of situations and issues to be addressed.

10. A major policy objective for OECD countries should to be strengthen trade and financial relations with developing countries as a matter of mutual interest so as to foster sustained growth in investment, employment and incomes in the world economy. Not only are the economic interests of OECD countries involved, but so also is world stability.

11. The severity of the recent world recession and the seriousness of the debt problem have produced a heightened awareness of the interrelationships between the domestic and international dimensions of macroeconomic policies, the financial system and the trade system. The problem of consistency in and among these major policy areas is now perceived to be a central issue.

12. Coherent and effective policies will need to be put in place in all countries. OECD Member countries have particularly important responsibilities in the macroeconomic field, in improving the security of trade access and in strengthening the financial system. Improved economic and trade policies in the developing countries and particularly in the major debtor countries are equally vital. And the possibility remains that problems arising in the energy field could again inflict damage on the world economy at some time in the future. There is thus a need to maintain the momentum already achieved in improving world energy balances and the readiness to handle interruptions in oil supplies.

III. FINANCIAL RESOURCE FLOWS AND RESUMED GROWTH

Current Debt and Financing Issues in a Medium-Term Perspective

13. Significant progress has been made in containing and managing the debt problem. The strategy developed to meet the crisis has consisted of five interrelated elements:

- First, the fostering of orderly but effective adjustment by debtor countries under IMF auspices.

- Second, adequate provision of resources to the IMF to enable it to play its key role.
- Third, a continuation of net new financing by the banks to countries where appropriate adjustment programmes are in place.
- Fourth, where necessary, the provision of short-term bridging finance by monetary authorities.
- And finally, the achievement of a credible recovery in the OECD to restore trade flows and avert protectionist pressures.

14. Over the past year, this strategy has been, in the main, implemented effectively. But there is no doubt that the debt overhang has introduced a new source of fragility into the international economic system that will persist for some time. It is therefore essential to persevere with these policies. Full commitment to continued cooperation by debtor governments, creditor countries, the major international financial institutions, and the private banking community remains the basic guarantee that the international financial system can underpin world recovery and assist the resumption of economic growth and development progress in debtor countries.

15. It is important to pursue steadily the above strategy with those individual countries affected by debt problems. But for all developing countries it is equally important now to focus on the more fundamental task of ensuring that trade and finance flow in a dynamic and sustainable way, providing the incentives and the scope for investment, growth and adjustment. This task, with a time horizon stretching through the rest of the decade, is vital both to the stability of the world economy and to the economic and social progress of the developing countries.

16. Development progress and economic and financial viability over the medium term depend, above all, on the economic policies implemented by developing countries. A key question is how to ensure that external financing -- official and private, concessional and non-concessional -- is used efficiently and contributes to sound medium-term development in each developing country.

17. Major changes have occurred in the pattern of financial flows since the late 1960s especially with the growth of bank lending to developing countries. The pattern of finance is diverse and a large share is now provided at market terms. But the role of official financing, including non-concessional forms of finance, has not declined very much so that official policies as much as market forces still influence the shape and the scale of financial flows and their distribution. Tables B and C attached to this paper contain some of the key facts.

Strengthening the Policy Framework for Private Market Financing

18. Recent experience demonstrates that the pluralistic, interdependent financial system that has emerged needs stronger underpinning through policy co-operation and policy monitoring. Past failure on the part of both lenders and borrowers to ensure that external financing is accompanied by sound macroeconomic and development policies has led to costly mistakes.

19. The international financial institutions, and particularly the World Bank and the IMF working closely together, have a key role to play in providing, on a continuing basis, a policy "core" for official and private financing. The role of the IMF during the intense adjustment phase has been central and essential. Continuing IMF surveillance of macroeconomic policies in debtor countries will be necessary. It is important now to build on stabilisation and adjustment efforts by intensifying the medium-term investment and development orientation. This should help to contribute to a more strongly anchored set of medium and long-term financial flows with a better basis in domestic policies and with more stability in the supply of private funds.

20. This kind of evolution would require a more central role for structural adjustment and similar lending facilities related to agreed commitments by recipient countries regarding their medium-term development policies. Such a policy-related "core" could serve as a reference point for medium-term private lenders to developing countries. It may be useful to envisage the World Bank's consultative group system, established now primarily for the major aid recipients, evolving in the direction of bringing together also the economic decision-makers of interested middle-income countries and their major official lenders, with appropriate association of private lenders.

21. Movement in this direction is already discernible. Agreement to move more comprehensively in this direction could play a particularly helpful role in the next year or two in consolidating the financial position of the developing countries. There is a growing recognition among the international banks that rescheduling arrangements and terms need to be put into a medium-term context. With a very significant bunching of repayments due between 1985 and 1987, it seems important to develop as soon as possible more adequate consultative frameworks for resolving, on a case by case basis, domestic policy questions, refinancing arrangements and new financing requirements.

22. For the World Bank and other competent international financial institutions to be able to play an effective policy monitoring role, they must have full policy support of Member countries; they must have flexibility in adapting their lending instruments to the new requirements; and they must have an adequate level of resources.

A Stronger Role for Foreign Direct Investment

23. Increased productive investment is a basic requirement of resumed growth and development. The bulk of investment in developing countries is and will continue to be indigenous in ownership and financing. External financing will be primarily through borrowing and, in the case of poorer countries, aid. The role of foreign direct investment in the process of development and external financing is nevertheless crucial. The main contribution of foreign direct investment, when it is effectively related to the host country's development needs, lies in the steady development of efficient production and employment and the integration of their productive base into the world economic structure through trade, specialization and technology transfer. Recent experience also shows the importance of an appropriate relationship between debt and equity financing for the balance of payments. Equity financing in total resource transfers to developing countries has declined as

a share of total resource flows, as have concessional transfers, while the shares of private lending and official non-concessional resources have increased. This change in the structure of external financing has exacerbated the impact of increases in interest rates and reductions in export earnings on debt burdens. (See Table C for changes in the pattern of financing since 1970).

24. The current interest of a number of developing countries in stimulating foreign direct investment provides an opportunity to enhance international co-operation in this area. The OECD has in recent years developed an effective, balanced framework for international co-operation between Member countries on international investment and multinational enterprise issues. The principles underlying this framework could provide a useful basis for developing international co-operation in this area in a wider geographic context. The report by the Committee on International Investment and Multinational Enterprises (CIME) describes the efforts to date of the Organisation in this area [C/MIN(84)5(Final)] and outlines a programme of future work by that Committee on direct investment in developing countries.

25. The strength of the OECD as an inter-disciplinary body is its ability to address the inter-linkages between foreign direct investment, macroeconomic policy, trade, finance and development. Ministers may wish to instruct the Organisation to intensify its work on foreign direct investment in developing countries with a view to helping Member countries to improve their policy approaches and to preparing for constructive discussions with developing countries in the competent international bodies. Elements which could be further discussed and developed in the course of the broader range of on-going OECD activities might include:

- improved monitoring of direct investment flows and analysis of trends in sectoral orientations, in location and motivation;
- identification of the main elements of an improved economic policy framework for investment, foreign and domestic, in developing countries;
- identification of the contribution of developed country policies and measures to facilitating increased investment in developing countries;
- strengthening investor/host country confidence and security. This objective might be sought through further development of bilateral inter-governmental investment agreements and provisions for insurance; through improved arrangements for arbitration and dispute settlement; and through using the principles and procedures underlying the OECD's investment instruments as a basis for developing a framework for international co-operation on international investment and multinational enterprises in a wider geographical context. Suggestions on these matters have been made in the CIME report referred to above.
- improved understanding and dialogue. There is at present inadequate provision for multilateral discussion of investment policy issues in a broad interdisciplinary context. Efforts are needed to identify

institutional frameworks in which such discussions with developing countries could be developed in the context of a market-oriented approach.

The Contribution of Official Development Assistance to More Effective Policy Co-operation for Resumed Growth

26. The need to provide a better linkage between policies and resource flows is now also clearly perceived in the area of official development assistance. In many poorer countries the development process is failing despite relatively large infusions of aid and the activity of a large number of aid agencies. More effective policies and improved aid co-ordination are emerging as priority requirements. These closely related questions have been discussed intensively in the DAC over the past year. The key question is how recipient countries can be helped to develop their own capacities for marshalling the great variety of aid flows on which they rely.

27. Policy-related concessional lending by the World Bank through IDA obviously provides a fulcrum in this context. It is crucial therefore that IDA's capacity to play this role should be supported by adequate resources for the countries where the policy and development problems have become increasingly acute. The current efforts to secure an adequate funding level for IDA VII are important. Early review of the adequacy of the resources of IDA VII in relation to the problems to be managed will be necessary.

28. Low-income countries are making increasing efforts to adjust to the new world economic realities. Policy reform and adjustment, with all the tensions and human hardships they imply, can be encouraged and facilitated by the availability of adequate levels and forms of aid. Improved donor/recipient co-operation is also required in the effective planning and mobilisation of resources for new productive investment, an essential basis for the resumption of growth and development.

29. Trends and prospects in the low-income countries of Sub-Saharan Africa in particular are such that they must be a major international concern. Deep-seated economic, social and political development constraints of a structural nature have been exacerbated by an adverse international economic environment and recently again by natural calamities. But there have also been serious deficiencies in recipient country policies and basic approaches. The effectiveness of the international aid effort has been impaired by these factors but there are also constraints and deficiencies on the donor side.

30. A major and concerted donor effort is required to adapt aid to the particularly difficult conditions and requirements of Sub-Saharan Africa. Central tasks include renewed and concerted cooperation with recipients to help them improve their policies in critical areas, especially agricultural production and rural development; more systematic and concerted long-haul approaches to institution-building and human resources development; and realistic adaptation of projects and aid processes to weak administrative, economic and technical maintenance capacity. New concerted efforts along these lines may require willingness to sacrifice shorter-term political and commercial benefits from aid as well as firm political direction. The DAC

could be invited to address these problems, drawing on the experience of the Sahel Club and the competent international institutions.

Aid and Trade Related Financing

31. While export credits are an established element of international trade and can constitute a valuable complement to development financing, the growing use of concessional export financing, including the use of Official Development Assistance in association with export credits, increases the risk of aid and trade distortion. Improved economic performance in developing countries and the world economy generally require more effective use of resources. Official financing should contribute to improved resource allocation rather than to distortions. Donor policies and practices which threaten to undermine these objectives need to be made subject to satisfactory standards and discipline or, where plainly undesirable, contained and reversed. Some action has been taken under OECD auspices to improve international transparency and discipline. But it is necessary to take further prompt action to avoid escalation in the use of ODA for Associated Financing and, more generally, to eliminate trade and aid distorting practices. Avenues currently under discussion on which Ministers' guidance is necessary include: significant increases in the minimum permissible grant elements for Associated Financing and ODA; the extension of the principles of transparency and discipline to similar transactions such as less-concessional tied official loans; agreed international action to limit and, progressively, to reduce the use of official development assistance for Associated Financing. The DAC High-Level Meeting later this year provides an occasion to review progress made along these lines in the broader context of strengthening the developmental quality of official development assistance.

IV. TRADE POLICY IN AN ECONOMIC AND DEVELOPMENT CONTEXT

32. Discussion of the debt problem at last year's Ministerial meeting gave rise to further consideration in the relevant OECD Committees on the linkages between trade and finance. While trade problems were not one of the root causes of the debt crisis, there is a basic trade-finance linkage that needs more direct attention by economic policy-makers. Furthermore, while debtor specific trade actions are not a desirable approach to trade liberalisation from a trade-system or resource allocation perspective, the resolution of general trade problems affecting debtor countries would help materially. More generally, an improved trade policy climate is important to stimulate productive investment in line with comparative advantage.

33. The fundamental relationship between trade and finance is a longer term structural one. Domestically, trade policy, in harmony with other policies, has to work in the direction of ensuring that resources are allocated efficiently in both lending and borrowing countries. Internationally, it has to ensure that production and trade structures adjust progressively to the emerging savings and investment flows. These concerns for efficiency and consistency are system-wide, not restricted to the situation of particular countries. Hence it is necessary to ensure that particular trade problems,

including those of debtor countries, are placed firmly in a multilateral context. At the same time, recent experience shows that in the major debt problem countries specific failures of macro-economic policy were usually compounded by structural weaknesses arising from longer-term more general deficiencies in resource allocation and trade policies. These countries will need to rapidly improve their policies in this area if they are to develop the competitive export capacity essential to restoring growth and credit-worthiness to their economies.

34. These principal concerns of the moment suggest that there is a need for both developed and developing countries to consider trade policies as much in terms of the effective functioning of their own domestic economies and of the whole world economy as in the more traditional terms of negotiations and reciprocity. It is clear that the current restrictive trends in trade policies in both developed and developing countries need to be arrested and market access and market security improved if the transition to sustained non-inflationary growth is to be accomplished and financial problems are to be resolved.

35. Reinforcing and extending the trade system will not only have to be subject to multilateral negotiations but will also depend on concerted but autonomous actions. The main issues here are set out in the note on "International Trade : Present and Future Challenges" C/MIN(84)4(Final). Indeed, there is an urgent need to find approaches through which changes of direction can be achieved at an early stage, thereby also contributing to the outcome of a possibly lengthy negotiating process. In developed countries this implies looking for ways to ensure that trade policies support structural adaptation, productivity growth and job creation rather than retard the process of change and growth. In developing countries, it implies looking for ways to ensure that trade policies are working to improve resource allocation and external viability rather than to protect high cost industries or simply restrict import payments.

36. Seen in this broader context, trade policy reform in developing countries is a major component of medium-term development policy which needs to be thoroughly integrated with complementary policy developments outside the trade field if it is to be feasible and effective. It is therefore closely related to the development financing issues discussed above. The actions which the international financial institutions might take to help identify opportunities for expanding developing country trade and to play a greater role in support of trade liberalisation through their analysis, advice and technical assistance, might be further explored.

37. This suggests that creating a shared conceptual approach for cooperation of the kind needed to secure the improvements in the trade system which are vital for both developed and developing countries ought to be a priority issue. The first step however must be to achieve a meeting of minds on the approach itself, including the ways in which autonomous improvements in trade and structural policies can be effectively interrelated with multilateral trade system improvements. The OECD could perhaps make a particular contribution in this respect.

V. INTERNATIONAL ECONOMIC CO-OPERATION AND THE DIALOGUE
WITH DEVELOPING COUNTRIES

38. The record of international economic co-operation in recent years shows a number of positive achievements. Crisis-management has been generally effective, the main principles of the open market economy system have been defended and there has been a constant evolution in some of the central aspects of the financial system, in particular in the operations of the IMF and the World Bank.

39. Nevertheless, there has been a progressive tendency for trade policy to be conducted outside the trade system and on a bilateral basis. In the field of macroeconomic policy co-operation, finding ways to bring about greater consistency of policies, both within and among countries, remains a principal problem. There is room for debate as to how comprehensive the solutions to these problems might need to be. The successful functioning of the world economy, in which the developing countries have an increasingly critical role (and in some cases, increasingly critical problems), requires, at least, a more focused effort to improve the management of the trade and finance systems and the coherence of macroeconomic policies.

40. The new perspectives which are emerging on international economic issues, including their domestic policy aspects, may have contributed to the present hiatus in the North-South dialogue. Major questions regarding agenda, fora and procedures have been the focus of attention over the last few years and remain unresolved.

41. A number of proposals have been made as to how the dialogue in the UN fora could be made more useful and effective. This general question is now under active review in the OECD Group on North-South Economic Issues. One point which seems to be emerging is that procedures should bring out the complexity of problems and the different interests among countries rather than, as at present, tending to produce an over-simple dichotomy between two group positions. Procedural developments along such lines, if successful, could lead to a significant modification of the way in which issues are formulated and priorities established in the dialogue. They may thus enable North-South discussions to relate more effectively to other streams of international economic discussion.

42. A unifying element in the approaches discussed in this paper for improving the performance of the interdependent world economy is the concept of autonomous action by individual countries, within a process of multilateral consultations. This concept does not replace the need for established rules nor does it conflict with a role for negotiations. It does however supply a model for international co-operation in the rather wide area where neither rules nor negotiations are relevant or feasible.

43. Co-operation among Member countries in the OECD framework broadly follows this model. With the flexibility it allows regarding both procedures and substance, and with the emphasis it produces on individual country experience and situations, it seems well-adapted to some of the major current requirements for wider international co-operation. It may not be easy to translate such approaches into the global fora, if only because of the very

larger number of actors involved but some further consideration of how these methods might be applied in the world-wide fora seems desirable.

44. A particular problem, as evidenced by the lack of progress in the global fora, is how to promote an effective discussion of international economic linkages. Individual issue areas are handled in specialised agencies whose relationships with the more general fora are delicate. Important progress has been and can be achieved in the specialised agencies, particularly in the IMF, World Bank and the GATT in the central areas of money, finance and trade. But a formula has yet to be found for successfully treating the interrelationships between issues. Past attempts to bring a number of issues into a negotiating frame have failed, not simply because of the complexities involved, but because approaches based on trade-offs between issues are fundamentally flawed.

45. The successful operation of an interdependent world economy depends rather on bringing issues and policies into a coherent overall pattern. A particular strength of the OECD is that it possesses, through its broad range of competencies, as reflected in the Committee structure, the capacity for horizontal approaches to particular issues, involving the relevant policy-makers. This capacity could be increasingly drawn upon in stimulating progress on some major issues of concern to both developed and developing countries. The aim would not be to attempt to substitute for more global discussions with developing countries or replace other fora, but rather to work to invigorate co-operation generally and to help evolve a more common appreciation of policy issues. The Organisation has already in the past, in line with its mandate, developed various kinds of low-key contacts with developing countries in a number of areas. The DAC and the Development Centre have obviously been most involved in this process. It is suggested that, with the increasingly wide ramifications of developing country involvement in the world economy, Ministers might encourage the intensification of selective and carefully-prepared contacts between the OECD and developing countries in certain areas, such as, for example, direct investment and trade. The work of several OECD Committees (ECSS, CIME, EPC Working Party No.3, DAC, Trade) could be drawn upon in such efforts.

Table A

EVOLUTION OF INTEREST PAYMENTS, AVERAGE INTEREST COSTS
AND INTEREST/EXPORT RATIOS, 1978-1984

	1978	1979	1980	1981	1982	1983(a)	(1984)(b)
<u>Annual Increase in Gross Interest Payments on Medium- and Long-Term Debt</u> (\$ billion)							
Low-income countries	0.7	0.7	0.3	0.4	0.6	0.0	(0.5)
Lower middle-income countries	0.5	1.3	1.4	1.0	1.5	-0.3	(0.9)
Upper middle-income countries	3.5	6.1	8.0	6.7	4.9	-1.9	(4.9)
All LDCs	4.7	8.1	9.7	8.0	7.1	-2.2	(6.3)
of which: Non-OPEC, Non-OECD	2.9	5.1	7.6	6.0	5.4	-0.8	(4.1)
<u>Average Interest Costs on Medium- and Long-Term Disbursed Debt</u> (percent)							
Floating-interest debt	8.4	12.3	15.5	17.4	17.1	12.7	(12.5)
Total LDC debt	6.3	7.7	9.0	9.7	10.0	8.7	(9.0)
of which:							
LICS	3.4	3.8	3.8	3.8	4.0	3.7	(3.7)
LMICs	5.2	7.3	8.7	9.0	9.8	8.3	(8.4)
UMICs	7.8	9.3	11.0	12.1	12.2	10.6	(11.0)
<u>Total Gross Interest Payments (including short-term) as</u> <u>Percent of Total Exports of Goods and Services</u> (percent)							
Non-OPEC, Non-OECD LDCs	8	9	11	13	17	15	(14)
4 largest debtors:							
Brazil	24	31	32	39	50	39	(40)
Mexico	20	21	20	26	31	31	(35)
Argentina	11	14	22	34	52	42	(44)
South Korea	6	8	12	14	14	14	(13)
All others	6	6	7	8	10	9	(8)

a. Reflects mainly fall in interest rates, but also some further net accumulation of interest arrears during 1983.

b. 1984 figures are conjectural, based on projections in the OECD Economic Outlook 34 and on Secretariat projections regarding interest payments, based on interest costs and debt build-up in 1984, but making no allowance for payment of substantial amount of interest arrears now outstanding and with a technical assumption of no change from November 1983 exchange rates.

Source: External Debt of Developing Countries, 1983 Survey: OECD, 1984.

Table B

NET EXTERNAL FINANCIAL RECEIPTS OF DEVELOPING COUNTRIES AND TERRITORIES
BY TYPE AND INCOME GROUP, 1981-1982 AVERAGE

	ALL LDCs		LOW-INCOME COUNTRIES								LMICs		UMICs	
	\$ b	% of total	Total		LLDCs		China & India		Other LICs		\$ b	% of total	\$ b	% of total
			\$ b	% of total	\$ b	% of total	\$ b	% of total	\$ b	% of total				
I. <u>Official Development Assistance</u>	35.35	35.3	16.96	66.1	6.60	92.3	2.26	67.9	8.10	53.4	5.12	35.4	5.42	13.5
1. Bilateral	27.63	27.6	11.53	44.9	4.45	62.2	0.89	26.7	6.19	40.8	4.27	29.6	4.98	12.4
a) DAC countries	18.41	18.4	9.21	35.9	3.34	46.7	0.96	28.8	4.91	32.3	2.44	16.9	3.02	7.5
b) OPEC countries	6.21	6.2	0.93	3.6	0.81	11.3	-0.09	-2.7	0.22	1.4	1.15	8.0	1.85	4.6
c) OMEA countries & other donors	3.01	3.0	13.9	5.4	0.30	4.2	0.02	0.6	1.06	7.0	0.68	4.7	0.11	0.3
2. Multilateral agencies	77.2	7.7	5.43	21.2	9.15	30.1	1.37	41.1	1.91	12.6	0.85	5.8	0.44	1.1
II. <u>Grants by Private Voluntary Agencies</u>	2.16	2.2	-	-	-	-	-	-	-	-	-	-	-	-
III. <u>Non Concessionnel Flows</u>	62.41	62.5	8.71	33.9	0.55	7.7	1.07	32.1	7.08	46.6	9.33	64.6	34.65	86.5
1. Official or officially supported	22.06	22.1	4.81	18.7	0.45	6.3	1.10	33.0	3.25	21.4	4.26	29.5	9.61	24.0
a) Export Credits	11.53	11.5	3.10	12.1	0.18	2.5	0.84	25.2	2.07	13.6	2.31	16.0	5.82	14.5
b) Multilateral	6.17	6.2	1.20	4.7	0.10	1.4	0.26	7.8	0.84	5.5	1.82	12.6	3.09	7.7
c) Other Official and Private Flows	2.30	2.3	0.51	2.0	0.17	2.4	-	-	-	-	-	-	0.70	1.8
d) Other donors	2.08	2.1	-	-	-	-	-	-	-	-	-	-	-	-
2. Private	40.36	40.4	3.90	15.2	0.10	1.4	-0.03	-0.9	3.83	2.52	5.07	35.1	25.04	62.5
a) Direct Investment	14.55	14.6	2.53	9.9	0.12	1.7	0.10	3.0	2.31	15.2	1.67	11.6	6.76	16.9
b) Bank Sector	25.00	25.0	1.22	4.8	-0.01	-0.2	-0.16	-4.8	1.39	9.2	3.56	24.6	17.45	43.5
c) Bond Lending	0.81	0.8	0.14	0.5	-0.01	-0.2	0.02	0.6	0.13	0.8	-0.16	-1.1	0.83	2.1
<u>Total Receipts (I+II+III)</u>	99.92	100.0	25.67	100.0	7.15	100.0	3.33	100.0	15.18	100.0	14.45	100.0	40.07	100.0

LICs - Low income countries (per capita income in 1980 below US\$600)
 LMICs - Lower-Middle income countries (" " " " between US\$600-1200)
 UMICs - Upper-Middle income countries (" " " " exceeding US\$1200)

Source: Development Co-operation Directorate, OECD.

Table C

COMPONENTS IN THE INCREASE OF FINANCIAL RESOURCE FLOWS 1970-82

(grants, direct investment and other official and private financial flows
with maturities of more than one year)

(real terms : 1981 prices and exchange rates)

	1970		1982		Increase	
	\$b	% of total	\$b	% of total	\$b	% of increase
Total	51	100	98	100	47	100
I. ODA	21	41	35	36	14	30
DAC (bilateral)	15	29	18	18	3	6
OPEC "	1	2	6	6	5	11
Other Donors	2	4	3	3	1	2
Multilateral	3	6	8	8	5	11
II. Private Grants	2	4	2	2	0	0
III. Non-Concessional	28	55	61	62	33	70
(a) <u>Private</u>						
Direct Investment *	10	20	14	14	4	9
Capital Market Finance (Bank Sector + Bonds)	8	16	23	23	15	32
(b) <u>Official or Officially-Supported</u>						
Export Credits (DAC)	7	14	12	12	5	11
Other	1	2	5	5	4	9
(c) <u>Multilateral</u>	2	4	7	7	5	11
Memo Items						
1. <u>Official Sector</u> (+ Private Grants)						
(I+II+III(b)+III(c))	33	64	61	62	28	60
<u>Private Sector</u> (III(a))	18	36	37	38	19	40
2. <u>Total DAC ODA</u> (bilateral + multilateral)	17	34	27	28	8	17

(*) For direct investment the 1982 figure is in fact an average of 1981 and 1982. Direct investment flows have fluctuated considerably in the last few years and the 1981-82 average seems a reasonable representation of the trend level in the recent period.

Source: Development Co-operation, Report by the Chairman of the Development Assistance Committee; OECD 1983.

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ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

CONFIDENTIAL
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Or. Engl.

COUNCIL
AT MINISTERIAL LEVEL

ACHIEVING DURABLE GROWTH:

FLEXIBLE ADJUSTMENT IN A CHANGING WORLD

(Note by the Secretary-General)

1. The world economy is performing better than it has for a number of years. There have been sizeable and widespread gains against inflation. Recovery is under way. World trade is growing again. Economic policies have contributed considerably to these achievements.
2. But how to ensure that recovery is consolidated into durable non-inflationary growth? And how to ensure sufficient job-creation to make lasting inroads into unemployment? How to lessen persisting imbalances and rigidities so that inflation is not reignited? How to resolve the build-up of government debt domestically and internationally in an orderly fashion? These are basic questions to be addressed in the formulation of economic policies.
3. Policies need to be consistently formulated, nationally and internationally. They have to be sustainable over an extended time horizon. But the search for consistency and sustainability must not be allowed to postpone action. To build on recovery, extending it into durable economic expansion requires better medium-term policies now.

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I. ISSUES FOR DISCUSSIONPolicy Strategy

4. Ministers are invited to consider and affirm the broad strategy for economic policy developed in this note, and reflected in the draft Communique before them.
5. In giving effect to that strategy, governments are asked to pursue policies which will:
 - control inflation and build on recovery, extending it into durable economic expansion;
 - provide a stable economic environment which permits markets to function efficiently;
 - promote flexibility and innovation: in private sectors, in public sectors and internationally, thereby fostering more resilient economic and social structures;
 - take further steps to relax and dismantle trade restrictions and trade-distorting domestic measures; and to further strengthen the multilateral trading system;
 - strengthen and improve trade, financial and investment relations with developing countries as a matter of mutual interest; and provide increased and more effective help to the poorer developing countries in their difficult adjustment and development efforts.

Policies in Individual Countries

6. Within these general orientations, the specific policy imperatives for each Member country differ according to the progress they have made in addressing economic imbalances, and depending on the particular impediments to improved performance which face them. In its discussion of the different policy areas, this note provides, at a number of points, specific indications to countries.

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Policy Interactions

7. The complex and changing ways in which policies and performance interact internationally is reflected in:
- paragraphs 16 to 20 and 43 for macroeconomic and financial interdependence;
 - paragraphs 31 to 37 for structural and trade policies.

Attention to international repercussions and consistency is an important requirement of policy formulation.

Policy Review

8. Also indicated in the note, and reflected in the Draft Communiqué, are proposals whereby the Organisation might contribute to the process of surveillance and review so as to improve policies and performance. For macroeconomic and structural policies it is suggested that:

- the Organisation maintain and further develop the medium-term orientation of its policy analysis and review;
- there be a sharper focus on positive adjustment policies -- in all markets and across the whole range of sectors -- in the economic policy reviews of Member countries, supported by a stronger framework for reporting and reviewing industrial policies (para. 37);
- the Organisation's work programme on labour market flexibility, arising out of the Conference on Employment Growth in the Context of Structural Change in February 1984, should involve consultations with BIAC and TUAC, bearing in mind the contribution that collective bargaining and consensus-building can make (para. 38-40).

Operational suggestions in other policy areas, consistent with the policy strategy, are contained in the companion papers under Agenda Items 2, 3, and 4.

II. ECONOMIC PROSPECTS

9. Recovery is under way in nearly all OECD countries. Except in North America and one or two smaller countries, it has been relatively slow. On the basis of present policies, and other technical forecasting assumptions, the prospects are for North American growth to slow down from its present high rate, for some pick-up in Europe and continued modest growth in Japan. For the OECD as a whole output could grow by 4 per cent in 1984 and nearly 3 per cent in 1985 (see Table). World trade is projected to grow by 6 to 7 per cent in volume in 1984, up from 2 per cent in 1983.

10. Budget deficits in many countries are expected to fall, for the first time since 1979. But the United States structural deficit will rise sharply on present policies. Growth in monetary aggregates is generally expected to be a little less in 1984 than in 1983, and probably steady thereafter.

11. Inflation has continued to decline, but may level out at a little above 5 per cent for the OECD as a whole, with somewhat more convergence among countries than heretofore.

12. Recovery so far has derived mainly from consumption -- largely due to households saving less as inflation has been brought down -- and, outside the United States, net exports. Only in the United States has investment growth been a strong contributor. But with corporate profit shares and rates of return generally recovering -- albeit from low levels -- prospects for investment are improving.

13. OECD unemployment has stopped increasing. It should fall further in the United States, and remain low in Japan. It may continue to rise somewhat in Europe before levelling out following resumed growth in employment during 1985.

14. A problematic feature of the forecasts -- based on the technical assumption of unchanged exchange rates -- is the pattern of current account balances (see Table and discussion below).

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SUMMARY OF PRELIMINARY SHORT-TERM PROJECTIONS (a)

seasonally adjusted at annual rates

Note: These forecasts were prepared for the meeting of the Economic Policy Committee on 3rd-4th May, 1984, and are now in the process of revision.

	1983	1984	1985	1984		1985		
				I	II	I	II	
	percentage increase over previous year			percentage increase over previous period, at annual rates				
<u>Growth of real GNP</u>								
United States	3.4	5 3/4	3	5 3/4	4	2 3/4	2 1/2	
Japan	3.0	4 3/4	4	5 1/4	3 3/4	3 3/4	4 1/2	
Germany	1.3	2 1/2	2 3/4	2 1/2	2 3/4	2 1/2	2 3/4	
OECD Europe	1.2	2	2 1/4	2	2 1/4	2 1/4	2 1/2	
Total OECD	2.4	4	2 3/4	4	3 1/4	2 3/4	2 3/4	
<u>General government structural budget balance</u>								
	percent of GDP (- signifies deficit)							
United States	-0.2	-3/4	-2	semi-annual figures not available				
Japan	-2.0	-1 1/2	-1					
Germany	0.5	1 3/4	2 1/2					
OECD Europe(b)	-2.5	-2	-1 1/2					
Total OECD(b)(c)	-1.1	-1	-1 1/2					
<u>Inflation (private consumption deflator)</u>								
United States	3.9	4 1/2	5 1/4	4 1/2	5 1/4	5	5 1/4	
Japan	1.5	2 1/4	3	2 1/2	2 1/4	2 3/4	3 1/2	
Germany	3.0	3	3 1/4	2 3/4	2 1/2	3 1/2	3 1/4	
France, United Kingdom, Italy, Canada	8.7	7	5 3/4	7	6	5 3/4	5 3/4	
High inflation smaller countries(d)	27.9	31 3/4	21 1/2	34 1/4	27 1/2	21	18	
Other OECD countries	7.7	6 1/2	5 1/2	6 1/2	5 3/4	5 1/2	5 1/4	
Total OECD	5.4	5 1/2	5 1/4	5 1/2	5 1/4	5 1/4	5 1/2	
<u>Household saving ratio</u>								
	percent of disposable income							
United States	5.0	5 1/4	5 1/2	semi-annual figures not available				
Japan	17.2	17	16 3/4					
OECD Europe	13.0	12 3/4	12 3/4					
Total OECD	10.2	10 1/4	10 1/4					
<u>Business fixed investment</u>								
	percent of GDP							
United States	11.0	11 3/4	11 3/4	11 3/4	11 3/4	11 3/4	12	
Japan	17.0	17 1/4	17 3/4	17 1/4	17 1/2	17 3/4	18	
Germany	12.0	12 1/4	12 1/2	12 1/4	12 1/2	12 1/2	12 3/4	
OECD Europe	12.3	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2	12 3/4	
Total OECD	12.4	12 3/4	13	12 3/4	12 3/4	13	13	
<u>Unemployment</u>								
	per cent of labour force							
United States	9.6	7 1/2	7 1/4	7 3/4	7 1/2	7 1/4	7 1/4	
Japan	2.6	2 1/2	2 1/2	2 3/4	2 1/2	2 1/2	2 1/2	
OECD Europe	10.6	11	11 1/2	11	11 1/4	11 1/2	11 1/2	
Total OECD	9.0	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	
<u>Current balances</u>								
	\$ billion. Semi-annual figures are at annual rates							
United States	-40.8	-86	-110	-77	-95	-107	-113	
Japan	21.0	28 1/4	34 1/2	27	30	33	36	
Germany	3.9	5 1/4	10 4 1/4	6 1/4	8 1/2	11 1/4		
OECD Europe	0.8	8 1/4	25 1/4	3	13 1/2	22 1/2	28	
Total OECD	-24.1	-50	-52	-49	-53	-53	-51	

(a) Assumptions underlying the projections include: no change in actual and announced policies; unchanged exchange rates from 9th March 1984; unchanged dollar price for internationally traded oil.

(b) Excluding Iceland, Ireland, Luxembourg, Portugal, Switzerland and Turkey.

(c) Also excluding New Zealand.

(d) Greece, Iceland, Portugal, Turkey.

III. SUSTAINING ECONOMIC RECOVERY

15. OECD economies are on a much improved near-term path. Extending that to durable economic expansion requires perseverance with inflation control. It also requires meeting two further sets of challenges. First, there are imbalances that need correction lest, unchecked, they begin seriously to jeopardise recovery. Second, there are structural rigidities built up over the years which persist almost everywhere, contributing to poor performance and the weak climate for profitable job-creating investment, particularly in Europe. The rest of this note is concerned with policies to meet these challenges.

1. Economic Imbalances

16. The disinflation of the past several years has been associated with high real rates of interest internationally. Their persistence is an indication that patterns of indebtedness both within and among countries are keeping pressures on financial markets. Adjustments are in train. A number of developing countries are taking action to reduce their borrowing in the face of unsupportable external debt. Likewise, slowing the growth of government indebtedness is an important priority in most OECD countries (see Part IV below).

17. To the extent that governments succeed in reducing their borrowing, real interest rates should come down over time; even so, in a world committed to avoiding inflationary spirals, they can be expected to remain substantially positive. Lending and borrowing decisions will have to reflect this. For the indebted countries, continuing adjustment is therefore required, lest debt burdens become progressively more unmanageable under the pressure of mounting interest obligations. It is important that such adjustment take place in conditions of expanding trade and living standards.

18. The emergence of large fiscal and current account deficits in the United States needs to be seen in this context. Currently, the budget deficit is supporting recovery in the United States. Strong economic performance there is contributing to world recovery. These developments partly explain the widening current account deficit of the United States, but it also has roots in the adjustment efforts of other countries. Over the longer run the sustainability of this constellation of deficits is in doubt, as it seems likely to give rise to cumulatively worrying levels of indebtedness of the United States vis-à-vis both its own citizens and other countries.

19. "Correct" detailed patterns for international capital flows cannot be prescribed, but a continuation of flows into the United States on the scale foreseen in the period ahead would be anomalous. So too would be the counterpart large current-account surpluses within the OECD -- particularly that of Japan. It seems improbable that capital markets will sustain this pattern indefinitely; and even should they, it is not obviously desirable, not least because of the protectionist pressures it engenders. Similarly, the indefinite continuation of a large current-account deficit for the OECD as a whole would be anomalous (though the global statistical discrepancy makes assessment difficult). The general historical pattern has been for the more advanced countries to lend to those in the earlier stages of development -- particularly where prospects for development are good.

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20. Restoring balance has many aspects. North-South implications are explored in the companion note "Finance, Trade and Development: A Global and Medium-Term Perspective with Special Reference to Developing Countries" [C/MIN(84)2(Final)]. Implications of the United States' fiscal and current account deficits -- with emphasis on internal OECD pressures -- are analysed in "Economic Policy Committee: Main Issues for Discussion" [CPE(84)3]. One of the conclusions from the latter is that sustainability of recovery in the United States and worldwide would be importantly enhanced by progressive correction of fiscal imbalance in the United States. It is thus to be hoped that the Administration's intentions for the budget can be given early legislative effect.

21. OECD countries have made substantial progress since 1974 in achieving a better balance among energy sources and in using energy, particularly oil, more efficiently. The main need now is to maintain the momentum already achieved in more rational use of energy and diversification of supply, as well as continued readiness to handle potential interruptions in oil supplies.

2. Structural Problems and Rigidities

22. The second challenge is to create the conditions for profitable investment, and to reduce structural rigidities. It applies more strongly to countries other than the United States. Even if the imbalances discussed are resolved smoothly, growth will be inadequate -- especially in Europe -- unless structural problems are addressed. Policies are needed that will durably improve the ways economies function both individually and in relation to one another.

23. National economies, together with the system of international trade and investment, have become less resilient. More stable policies are required, with greater reliance on markets. Where markets function well, the damaging effects of shocks are much reduced and the benefits of change come through more fully. Economies will continue to have to adjust to rapid but uncertain changes in technology and international trading patterns. In order for the opportunities inherent in such changes to be seized there is a premium on effective investment in flexibility and adaptiveness. This means private and public investment in equipment and infrastructure; it also means investment in its less tangible forms, such as knowledge and workforce skills. It means the creation of an economic environment conducive to risk-taking and business expansion. Above all, it means the investment of sustained political effort in the reform of public policies. Each country will need to adapt its own social and institutional arrangements in accordance with its history and current situation.

24. More and more suitable investment seems to be a particularly important aspect of improving performance and sustaining recovery in Europe. A decade of slower growth has been accompanied by a marked slowing in the expansion of productive capacity, so that a return to higher levels of employment seems likely quickly to raise pressures on capacity. This argues the importance of raising the profitability of investment, and achieving a pattern of factor costs that encourages investment of a kind that is job-creating, rather than labour-substituting. Continuing wage moderation during the recovery is thus doubly important, to check inflationary pressures and to promote the appropriate amount and type of investment.

IV. POLICIES TO ENHANCE PERFORMANCE1. Monetary Policy

25. Inflation control is an essential component of a stable economic environment. Monetary policy is critical. It should be consistent with the medium-term objectives of greater price stability and sustainable real growth. Primary focus on the monetary aggregates is appropriate in some countries, and some have found a nominal income framework helpful in this respect. Others, especially the more interdependent economies, will properly place more weight on the exchange rate as an indicator.

26. In the early stages of past recoveries monetary support was often too strong for too long. Interest rates were held down, contributing to unsustainable economic upswings. Major central banks are conscious of this risk in the present phase; it is important that it be generally recognised.

27. Particular efforts should be made to have monetary policies less accommodating to inflation in Italy, New Zealand, Portugal and Turkey.

2. Public Sector Policy

28. Budget and "off-budget" policies should be set in a framework that is sustainable over time, provides desired public services efficiently at a supportable level, and contributes to lessening distortions and increasing adaptiveness in the private sector. Government calls on national savings should leave room for the requirements of private investment without capital market pressures, and for the transfer of savings from the developed to the developing world. Scope for policy change is conditioned by institutional rigidities and political and social pressures; they need to be recognised and tackled.

2a. Deficits and Debt

Large budget deficits have left a legacy of growing ratios of public debt to GDP, upward pressure on interest rates and reduced capital formation in the private sector. Elevated interest payments considerably constrain budgetary flexibility in many countries. Belgium, Denmark, Iceland, Ireland, Italy, Japan, the Netherlands, New Zealand, Portugal, Sweden and Turkey need to aim to control rising ratios of government debt to GDP through spending and tax measures.

Where present or future structural budget deficits pose problems, action is needed now, to permit interest rates to ease (see also Part III above). Beyond the preceding list, Australia, Canada and the United States are cases in point. Where government borrowing is well under control -- as in Germany and the United Kingdom -- it may prove possible to lighten the tax burden on the private sector.

2b. Government Spending and Taxation

Government spending should be controlled within nationally chosen medium-term limits on the share of national resources it takes up. Spending policy should provide the flexibility to meet changing

priorities by eliminating or scaling back other programmes, and by improved efficiency in the provision of public services. Social expenditure -- health, education, pensions and income maintenance programmes -- has been the largest and fastest-growing component. In countries still developing their social systems, such as Greece, Portugal, Spain and Turkey, expenditure can be expected over time to grow faster than GDP. By contrast, in some countries with extensively developed programmes -- including Austria, Belgium, Denmark, Finland, Ireland, Italy, the Netherlands, New Zealand, Norway and Sweden -- reform might aim for slower relative growth. Japan may face an acute problem from its ageing population. Many countries should re-examine the role of government in the provision of high levels of security for the middle and upper income groups as there are difficulties in finding resources for minimum security levels on a broad scale. If pension benefits must be curtailed, long lead-times are required.

Tax systems need to yield revenue consistent with the chosen limits on spending and the objective of containing government debt where that is necessary. Simplicity and stability in tax structures is important for private decision-making; they should preserve incentives, minimise evasion and not reward special interest groups. All Member countries could improve the efficiency of their taxation systems.

2c. Off-Budget Activities

29. "Off-budget" activities -- such as tax exemptions, import quotas, loan guarantees and interest rate regulation -- may appear attractive both to recipients and public agencies in search of less exposure to central surveillance and budgetary control. Such activities appear to have increased significantly over recent years. They provide a fertile field for narrow interest groups to benefit at the expense of the wider public interest. Governments themselves have sometimes seen cosmetic advantages in off-budget measures. True costs, though less apparent, are often high: import quotas, for example, involve direct transfers from consumers to importers and efficiency losses for the whole economy. Few Member countries monitor off-budget activities well enough, but most now appear concerned with the implications of their spread.

3. Adaptive Economic Structures

30. More flexible and resilient economic structures are needed to cope with change, inherent in economic growth. Policies should facilitate rather than impede the adjustment of industrial structures to changes in technology, changes in the availability of inputs, the emergence of new markets and the growth of some markets and the stagnation or decline of others. As the Economic Policy Committee emphasizes in its statement "Government Aid: The Positive Adjustment Perspective" [CPE/PAP(84)1(2nd Revision)], this calls for intensified implementation of market-conforming positive adjustment policies. Strengthening competition, improving regulation and promoting more open trade policies are of key importance. Industrial and technological policies and regulation of the private sector need to be guided by the principle of enlarging the scope and effectiveness of markets. The progress that has been made in freeing capital markets from constraints needs to be consolidated and generalised. Much more is required, however, to make labour markets more responsive.

3a. The International Trading System

31. Developments, problems and suggestions in the trade policy field are set out in the report by the Trade Committee [C/MIN(84)3(Final)] and in two notes by the Secretary-General dealing respectively with present and future challenges in the field of international trade [C/MIN(84)4(Final)] and with finance, trade and development in a global and medium-term perspective [C/MIN(84)2(Final)].

32. Trade policies offer a conspicuous test of governments' willingness to permit change rather than impede it, and to allow markets to function effectively. At present, countries are not adequately meeting this test. Their failure to do so impairs economic performance and makes recovery more fragile. This is not only a matter of protectionist tendencies arising from recession. Virtually every Member country now deploys an extensive armoury of discretionary measures, both formal and informal, which distort the pattern of trade. These measures, some of which are of long standing, have become more widespread and more intensive in recent years.

33. As part of this evolution, whole sectors of Member country economies -- for example, textiles, clothing, steel, vehicles, shipbuilding, consumer electronics, footwear, and most agricultural products -- are now substantially and deliberately insulated from competitive processes and world market prices. This raises costs and prices, weakens competition and innovation, shelters labour and product markets from the need to respond to change, and makes economic rewards dependent on the granting of official favours, rather than on competitiveness and performance. Internationally, these arrangements sour relations between Member countries and impair the resolution of global indebtedness problems in a trade-expansionary way. More generally, the OECD countries as a group are revealed as acting towards each other and the developing countries in ways that prejudice the restoration of conditions for sustained growth, trade expansion and financial stability.

34. Because of their size and influence in the trading world, a heavy responsibility for maintaining and extending market-conforming trade policies rests on the European Community, the United States and Japan, but it is a responsibility shared by all Member countries.

3b. Government Support Policies

35. Even with economic recovery, problems of structural adjustment resulting from rapid economic, social and technological change will persist. Intensified international competition, rising unemployment and the rapid emergence of new technologies have stepped up pressures on governments to assist industries, firms and regions. But there are significant risks inherent in these measures: maintenance of inefficient producers, undesirable international repercussions and accentuated inflationary pressures. More co-ordination and co-operation among OECD countries in formulating government support policies as well as a fuller understanding, both at national and international level, of the results and implications of the different policy approaches, could considerably improve the effectiveness of adjustment policies and help to reduce these risks.

36. The task facing all OECD governments is to implement policies which enhance economic efficiency, improve the climate for investment and facilitate the creation of viable new jobs. It is important to identify in all sectors (manufacturing, services and primary industries, including agriculture), those measures which impede economic performance, and to phase them out or, where this is not possible, replace them with better alternatives. This requires more focussed positive adjustment policy approach. In particular:

- adjustment policies should be reoriented towards achieving greater efficiency through increased flexibility and innovative use of resources and technologies;
- policies should minimise restrictions on the competitive supply of products from lowest cost sources to domestic markets, helping also to ensure that wages and profits do not grow excessively behind protective barriers;
- particularly in the case of structurally weak industries, state aid should be temporary, linked to plans for effective restructuring, and phased out according to a pre-determined timetable;
- governments should take international repercussions into account when designing their assistance policies. They should not shift adjustment burdens abroad, especially employment problems;
- governments should be more transparent in formulating and implementing assistance policies. Institutional mechanisms for reporting, consultation and co-operation on domestic assistance need to be strengthened.

37. With Member governments' agreement, there is considerable scope to strengthen the work of the Organisation in these directions, and to intensify positive adjustment policies. Ministers will be asked to endorse a proposed sharper focus on structural policies in the economic policy reviews of Member countries and an improved framework for reporting and reviewing industrial policies and practices.

3c. Labour Markets

38. Labour markets pose difficult but important issues. All Member governments wish to ensure that workers are treated fairly; they are also committed to mitigating the hardships of unemployment. At the same time, governments need to foster greater responsiveness in labour markets so that the new opportunities inherent in structural change are seized and not resisted. Collective bargaining can contribute to the needed flexibility. Industrial restructuring, technological and trade changes create the need for greater labour market responsiveness and manpower adjustment measures, but also provide new opportunities for job-creating investment. Policies to strengthen the capacity of economies to generate new jobs in the context of structural change should also provide job opportunities for youth and those suffering from prolonged unemployment.

39. The past decade's contrast between employment performance in the United States and Japan on the one hand, and many European economies on the other, seems to owe much to the greater degree of labour market flexibility in the first two countries. Significantly they have very different labour market arrangements and practices. In their search for greater labour market responsiveness, Member governments have to work with and through institutions and structures appropriate to their own national circumstances.

40. A large number of OECD economies would be well advised to pursue more adaptive and responsive labour markets. Points warranting close attention include:

- explicit or implicit wage indexation to the general rate of inflation reduces real and relative wage adjustment in both directions in response to changes in productivity and the terms of trade;
- wage relativities are often too rigid to play their proper role in the relocation of labour from less to more profitable activities as rapid industrial change takes place. Rigid wage structures also contribute to high relative unemployment among young and unskilled workers;
- the terms of employment contracts, whether via government regulation or collective bargaining agreements, can create disincentives to new job creation;
- labour contracts that relate a part of the remuneration of employees to the performance of the firm can provide more stability to employment.
- government labour market policies should put a premium on investment in the adaptive capacity of the work force. They should reduce obstacles to job mobility in the housing, pension, education, and training areas. Reducing taxes -- especially payroll taxes -- which contribute to non-wage labour costs can improve profitability, investment and employment, though it may imply change in the financing of social security systems; this is particularly important in Europe.

3d. Capital Markets

41. International and domestic financial markets have provided an exception to the general trend towards greater rigidity. Innovations and deregulation have brought impressive growth in financial sectors. New jobs have been created and consumers of financial services have had their needs better met at lower cost. Savings have been more effectively mobilised for productive use.

42. Some supervision and regulation of financial markets is, of course, necessary. Monetary control and the soundness of the financial system require appropriate regulation, and in the international banking area more effective supervision is being pursued. But in many countries further important steps of deregulation and reform are required. Government interventions in capital markets in the form of loan guarantees, credit directives, interest rate controls and subsidies, for example, should be reviewed in the light of the distortions they can introduce into the efficient allocation of savings. The more pressing requirements are in the newer industrialising Member countries and New Zealand, but liberalisation trends should be maintained elsewhere -- including Australia, France, Ireland, Italy, Japan, Norway and Sweden.

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43. The trend towards less regulated and more competitive financial markets has brought greater volatility of interest rates, exchange rates and financial flows. In part this may be transitional, associated with an uneven pace of deregulation across markets, and it also reflects disturbances in other sectors which can be magnified when they are beset with rigidities. The appropriate reaction is not to constrain financial markets more heavily but to make goods and labour markets less constrained. Wide swings in exchange rates in recent years point to the desirability of making the present regime work better. The main contribution governments can make is not by seeking to control these markets but by pursuing policies that are more compatible internationally, both in overall thrust and in the balance between fiscal and monetary settings. And they should foster expectations that an appropriate and sustainable configuration of policies will be maintained.

4. Policy Stability and Acceptability

44. Economic and social structures served OECD economies well in the post-World War II growth era. But social and microeconomic policies are in need of further changes if our societies are to prosper as they can. Social and microeconomic structures cannot be changed rapidly, while social consensus is a necessary underpinning of economic flexibility and political stability. Moreover, rapid changes in the rules of economic activity, especially where there is perceived risk of reversal, impair economic performance. Consistent policies to address fundamental causes of lack of resilience require fair sharing of the benefits and the costs of change. That requires, among other things, the maintenance of basic "safety net" policies and the preservation, in forms appropriate to national histories and current conditions, of broader social objectives of advanced industrial societies.

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Or. Eng.

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COUNCIL

PREPARATIONS FOR MEETING OF COUNCIL AT MINISTERIAL LEVEL

DRAFT COMMUNIQUE

(Note by the Secretary-General)

Attached hereto is a revised draft Communiqué for consideration by Ministers.

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COMMUNIQUE

1. The Council of the Organisation for Economic Co-operation and Development meeting on 17th-18th May at Ministerial level, agreed upon policies required to strengthen the international trading and financial system, and to extend economic recovery into durable employment-creating growth.

2. The meeting was chaired by Mr. Paavo Väyrynen, Minister for Foreign Affairs and Mr. Jermu Laine, Minister for Foreign Trade, of Finland. The Vice-Chairmen were Dr. Otto Graf Lambsdorff, Federal Minister of Economics, and Dr. Hans Werner Lautenschlager, State Secretary, Federal Foreign Office, of Germany; and Mr. Kaya Erdem, State Minister and Deputy Premier, and Mr. Vahit Halefoglu, Minister of Foreign Affairs, of Turkey.

3. Ministers agreed that a reduced level of inflation and the economic recovery provide conditions favourable to achieving the following objectives for OECD economic performance over the next several years:
 - sustained economic growth, with more convergence among OECD countries, making inroads into unemployment which remains high, especially in Europe;

 - lower inflation and reduced interest rates;

 - strong growth in investment taking advantage of new technologies and changing markets;

 - generalised expansion of world trade;

adequate
-- ~~increased~~ flows of resources to developing countries, strengthening their development potential through productive investment.

4. Accordingly, their governments intend to:

- provide a stable economic and financial environment which permits markets to function efficiently;
- promote flexibility and innovation: in private sectors, in public sectors and internationally, thereby fostering more resilient economic and social structures; *and improved employment prospects.*
- take due account in their policies of international economic interdependence;
- take steps to relax and dismantle trade restrictions and trade-distorting domestic measures, as well as further to strengthen the multilateral trading system;
- strengthen and improve trade, financial and investment relations with developing countries as a matter of mutual interest; and *(30)* provide *(increased and)* more effective help to the poorer developing countries in their difficult adjustment and development efforts.

5. Ministers agreed to work towards an economic and social environment in which change, inherent in the process of growth, is embraced for the new opportunities it brings and not resisted as a threat. [They recognised that the maintenance of policies which increase the resilience of economic

structures requires that the benefits and the costs of change be shared fairly. In meeting the challenges each country will need to adapt its institutional arrangements taking account of its history and current realities.

ACHIEVING DURABLE GROWTH

Macroeconomic Balance

6. Ministers reaffirmed that low inflation is an essential component of a stable economic environment.

7. Ministers agreed that monetary policy is critical. They acknowledged the lesson from the early stages of past recoveries *(that excessive monetary growth was to be avoided)* ~~that monetary support was often too strong and for too long.~~ While each country will follow methods of monetary control appropriate to its circumstances, policies should be consistent with the medium-term objectives of greater price stability and sustainable real growth. Particular focus on the monetary aggregates is appropriate, and some countries find a nominal income framework helpful in this respect. Some countries will properly place greater weight on other indicators, such as the exchange rate.

8. Ministers recognised that large budget deficits leave a legacy of high public debt, high interest rates and reduced capital formation in the private sector. *High A rising burden of debt interest adds to the problem.* ~~Elevated interest payments constrain budgetary flexibility.~~ In the few countries in which government borrowing has been brought sufficiently under control, and fiscal positions are sound, scope may be found to lower the general level of taxation. In many countries, including major economies, deficits are projected to remain high despite recovery; governments intend to

reduce these by lowering the share of spending in national income or enhancing revenues to the extent that spending cannot be lowered. Adjustment of fiscal policies in this way would contribute to a more balanced and therefore enduring recovery. In general, governments' claims on national savings should leave sufficient room for private investment and for the flow of savings from the developed to the developing world.

9. Government spending should be controlled within nationally chosen medium-term limits on the share of total resources it takes up. Within those limits spending should emphasize programmes and investments which promote flexibility. In many Member countries reform needs to bring slower growth in social expenditure programmes, and expenditure should be concentrated on those in greatest need. Simplicity, stability and the right incentives in tax structures are important for private decision-making.

10. Ministers agreed that wide swings in exchange rates in recent years point to the desirability of trying to make the present exchange-rate regime work better. The main contribution governments can make is to pursue monetary and fiscal policies that are sound and sustainable in themselves and more compatible internationally. Authorities should stand ready to intervene to calm disorderly exchange market conditions.

11. Ministers considered that energy policy remains an important element in economic performance. The principal need is to maintain the momentum already achieved in more rational use of energy and diversification of supply, as well as continued readiness to handle potential interruptions in oil supplies.

Adaptive Economic Structures

12. Ministers agreed on the need to implement positive adjustment policies across the whole range of economic activities. Such policies would facilitate rather than impede the adjustment of production structures to new technologies, changing market conditions and shifts in international competitiveness. The task facing governments is to phase out those measures which impede economic performance or, where this is not possible, to replace them with better, market-conforming alternatives. Strengthening competition, improving regulation and promoting more open trade policies are of key importance. The progress that has been made in freeing capital markets from constraints needs to be consolidated and generalised. Ministers called upon the Organisation to strengthen its processes of review and appraisal of adjustment policies in an overall economic perspective.

13. Ministers agreed that unemployment could be lastingly reduced by sustained non-inflationary growth if accompanied by improved labour market performance. Labour market and related policies should encourage structural change in ways which create job opportunities and help workers and affected communities to adjust. Improved labour market performance requires the modification of policies that impede structural change and job creation, as well as the strengthening of policies which promote labour mobility and the acquisition of new skills. It also requires more responsiveness in the level of real wages and non-wage labour costs, as well as appropriate wage differentials, consistent with the maintenance of social standards. Where appropriate, specific action to influence the development of incomes may also play a positive role in mastering inflation and fostering employment. Ministers recognized that there was a continuing role for carefully targeted

measures to secure work experience and training for youth and the long-term unemployed. Bearing in mind the contribution that collective bargaining and consensus building can make, Ministers requested the Organisation, in consultation with BIAC and TUAC, to pursue the above orientations.

THE GLOBAL CONTEXT: CO-OPERATION WITH DEVELOPING COUNTRIES

14. Ministers agreed that OECD countries should further strengthen co-operation with developing countries, contributing to their economic recovery and renewed development progress.

The Debt Problem

15. Ministers noted with satisfaction that progress was being made in managing and containing the problems of international indebtedness. Nevertheless, the debt problems of some developing countries remain serious and high interest rates add to the debt-servicing burden. Ministers saw commitment to continued co-operation by creditor governments, international financial institutions, and the banking community as essential in support of effective adjustment efforts by debtor countries and to the continued effective functioning of the international financial system.

Policies for Improved Resource Flows

16. Ministers agreed that it was important to focus on the fundamental task of ensuring that financial flows to developing countries respond to development needs and investment opportunities, contributing to efficient resource use and avoiding unsustainable patterns of debt accumulation.

17. Ministers stressed that achieving satisfactory resource flows to developing countries requires effective policies and international co-operation in three central areas:

- i) adequate savings by the industrialised countries;
- ii) efficient use of capital by developing countries;
- iii) effective channels of intermediation -- the private capital markets, the international financial institutions, and aid.

Ministers agreed on the need for improved policies as well as action in these areas as outlined below.

Non-Concessional Resource Flows

18. Recent experience has shown that sustainable private capital flows to developing countries depend on more effective, market-oriented policies.

Ministers were of the view that the international financial institutions could further develop their roles in this respect. The role of the IMF in support of effective adjustment was considered critical. Against this background, Ministers urged the Fund and the World Bank to strengthen their co-operation.

Official Development Assistance

19. Ministers renewed their pledge to maintain and, as far as possible, to increase their countries' aid with a view to realising their commitments to

the international aid objectives especially for the poorer developing countries. They expressed special concern over the trends and prospects in the low-income countries of Sub-Saharan Africa, and urged a concerted effort by DAC donors to adapt their aid efforts and policies to the particularly difficult conditions and requirements of these countries. Ministers welcomed the conclusions reached by the last DAC High-Level Meeting on increasing aid effectiveness through strengthened aid co-ordination. They agreed that the multilateral institutions have an important role in providing financial and technical assistance and in helping developing countries to pursue more effective policies. These institutions must have adequate support. The role of IDA is crucial and replenishment of its resources is a high priority.

Aid and Trade Related Concessional Finance

20. Ministers affirmed their commitment to avoid financing practices which give rise to trade distortions and to diversion of aid flows from development objectives. They enjoined the competent bodies of the Organisation to take prompt action to improve existing arrangements so as to strengthen transparency and discipline in this area by all appropriate means, including increases in established minimum grant elements.

Direct Investment

21. Ministers noted the important contribution foreign direct investment can make to efficient production, trade and technology transfers, and to achieving a better balance between debt and equity financing for capital importing countries. They asked the Organisation to improve the monitoring of direct investment flows and the identification of the main policies and

conditions in host and investor countries most conducive to promoting direct investment, including strengthened investor/host country confidence and security, and to help Member governments prepare for constructive discussions with developing countries. They encouraged the Organisation to develop further contacts between interested parties and experts from developed and developing countries on these issues in which the OECD has a special competence and can bring to bear an interdisciplinary approach.

Trade Policy in an Economic and Development Context

22. Ministers recognised the common interest of all trading partners in the effective functioning of the open international trading system. They underlined the special responsibility of developed countries in this regard, but also the importance of a gradual integration of the developing countries into the system. Ministers stressed that trade liberalisation should also be pursued more systematically as an aspect of each country's economic and development policies. The international financial institutions should be encouraged to intensify their analysis, advice and technical assistance on trade policy aspects of national economic development.

The Dialogue with Developing Countries

23. Ministers gave their full support to current efforts to improve the dialogue with developing countries, in order to allow for substantive discussions aimed at pragmatic solutions. Moreover, they were committed to making a positive contribution to the review and appraisal of the International Development Strategy for the Third United Nations Development Decade and to the major forthcoming United Nations conferences, i.e. UNIDO IV and the International Conference on Population.

EAST-WEST ECONOMIC RELATIONS

24. Ministers expressed satisfaction with the work programme on East-West trade and financial relations carried out by the Organisation. They noted that, although there had been an improvement in the short-term financial situation of most East European countries, the structural characteristics of the economies of these countries and the practices of their state trading systems remain important factors affecting the longer-term development of East-West economic relations. In the light of these considerations Ministers agreed that governments should continue to exercise financial prudence without granting preferential treatment, and that the Organisation should pursue its examination of problems and developments in East-West economic relations on the basis of last year's guidance.

INTERNATIONAL TRADEReducing Trade Barriers and Distortions

25. Ministers recalled their agreement of last year to make use of the favourable conditions provided by economic recovery to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade-distorting domestic measures. As a first step governments have agreed, subject to completion of requisite domestic procedures, to advance by one year, to early 1985, all tariff cuts scheduled for 1986 pursuant to the Multilateral Trade Negotiations. Ministers also agreed on the objective of implementing the remaining scheduled MTN tariff reductions at the beginning of 1986, one year ahead of time. Member countries which do not already provide duty and quota free access for all imports from the least developed countries will seek to move further in that direction, in particular through their schemes for generalised preferences.

26. Ministers also agreed on the following programme of work to develop specific proposals for individual and collective action:

- i) identification by sector of the scope for action on trade-distorting measures, in particular those measures which are most harmful to the adjustment process and the restoration of flexibility in Member States' economies;
- ii) identification of the scope for specific actions with regard to impediments and restrictions on imports from developing countries;

A progress report on these two matters is to be submitted to the Council by the end of the year, and a further report for consideration by Ministers in 1985.

- iii) improvement in the OECD arrangements for dealing with domestic measures which have trade-distorting effects, including an improved information system on industry-related policies and an evaluation of countries' adjustment policies in an overall economic perspective;
- iv) initiation of country reviews of trade policy, with initial focus on policies and measures relevant to the dismantlement process;
- v) strengthening transparency and discipline in the field of trade and aid financing practices as set out in paragraph 20;

- vi) encouraging each Member country to assess the full economic consequences of any new restrictive measures it envisages and to identify any offsetting liberalisation measures;
- vii) renewed efforts to achieve an early agreement on safeguards as part of the GATT work programme.

Strengthening the Multilateral Trading System

27. Ministers agreed that a new round of multilateral trade negotiations would contribute significantly to a strengthening of the world trading system and to promoting further liberalisation. They agreed on the importance of an early start to thorough preparations for such a new round, including definition of its content and timing. They stressed the importance of actively pursuing the work initiated by the 1982 GATT Ministerial Meeting. They noted that work in the Organisation would be directly relevant for the preparation of a new round of multilateral trade negotiations.

28. Recognising the importance of the issues raised by international trade in services, Ministers noted that as further analysis proceeds, the Organisation would increasingly focus its efforts on ways to remove unjustified impediments and improve international co-operation. They expressed support for the efforts, under the aegis of the Trade Committee, to relate broad concepts relevant to trade in services to the problems identified in specific sectors. They also encouraged continued work to strengthen existing OECD agreements applicable to services. Ministers requested the Secretary-General to submit a report including action proposals to Council within two years.

29. Having reviewed progress to date, Ministers asked the Organisation to continue its analysis of trade in high technology products, to examine specific problems which may arise in trade in these products and, where such problems are identified, to examine possible solutions. Means to strengthen the contribution of technological developments to economic growth, and to facilitate international flows of technology should also be examined. A report will be considered at the next meeting of the Council at Ministerial level.

30. Ministers expressed concern about the existence of serious international market disequilibria in a number of agricultural products due, to a large extent, to domestic support policies. They recognised the need to ease measures which hinder the requisite long-term adjustments, and to persevere with current efforts aimed at reducing protectionism and trade distortions, and at improving the functioning of international markets. They confirmed their support for the Organisation's work programme on these issues. Ministers requested the Organisation to pursue its work on trade and adjustment issues in fisheries seeking, in a multilateral framework, further liberalisation of trade and resolution of problems arising from the 200-mile limits, from overfishing and from increases in fuel prices.

31. Ministers acknowledged the importance of issues arising in relation to both competition and trade policies, such as cartels and voluntary export restraints, which have the effect of inhibiting competition and the proper functioning of markets. They called for continued work and improved international co-operation in this area. Ministers also underlined the need to give greater weight to the consumer interest in trade policy formation.

INTERNATIONAL INVESTMENT

32. Ministers undertook a Review of the 1976 Declaration on International Investment and Multinational Enterprises and the related Decisions. They expressed satisfaction that the three related instruments approved in 1976 and revised in 1979, dealing respectively with Guidelines for Multinational Enterprises, National Treatment for enterprises under foreign control and incentives and disincentives for international investment, are making an important contribution to the international investment climate, and to strengthening mutual confidence between multinational enterprises and governments.

33. Noting the growing importance and scope of problems arising from the imposition by Member countries of conflicting requirements on multinational enterprises, Ministers agreed to strengthen bilateral and multilateral co-operation in this area in order to avoid or limit the scope of such conflicts. Accordingly they endorsed a set of general considerations and practical approaches to these problems as set out in the Review Report. Ministers also noted the concern over the impact of unitary taxation on international investment and the importance of achieving an early resolution of the problem.

34. Underlining the important role of foreign direct investment between Member countries, Ministers agreed to reinforce the application of the Declaration on International Investment and Multinational Enterprises, including notably the national treatment instrument. They endorsed the recent decision to amend the Code for Liberalisation of Capital Movements in order to cover certain right of establishment measures related to direct investment. They called upon the Organisation to continue to work towards further liberalisation of restrictions on direct investment.

FROM: M L TAIT, ERD
DATE: 11 May 1984

BRIEF
TAIT
→ TICKELL
115

Sir Crispin Tickell
Private Secretary

cc: Mr Jeremy Thomas
Mr Blatherwick, ESSD
Mr Richards, ECD(E)
Mr Littler, HM Treasury
Mr Morphet, Dept of Energy

OECD SECRETARY GENERAL

PROBLEM

1. A decision on the succession to Van Lennep as Secretary General of the OECD could well be taken during the course of next week's Ministerial meeting. What attitude should the Secretary of State (and the Chancellor of the Exchequer) take in view of the fact that Sir K Couzens' candidature has received only limited support?

RECOMMENDATION

2. I recommend that the Secretary of State continue to support Sir K Couzens in informal contacts both at the FAC and at the OECD but use the opportunity of his visits to assess the strength of the other two candidates, M. Paye (France, Economics Director at the Quai d'Orsay) and Mr Lalonde (Canada, Minister of Finance).
3. Both M. Paye and Mr Lalonde already have more support than Sir K Couzens. It is unlikely now that he will be able to catch up and his best hope of winning lies in the possibility of M. Paye's and Mr Lalonde's candidatures cancelling each other out.
4. If it should become clear that Sir K Couzens was out of the running, we would need to choose between M. Paye and Mr Lalonde. The Chancellor's preference would be for Mr Lalonde but in the last resort we would not wish to stand in the way of a consensus for either candidate.
5. The Treasury concur.

BACKGROUND

Qualifications

6. None of the candidates can be ruled out for lack of qualification. In technical terms Sir K Couzens is the best qualified. As the ^{ex} Second Permanent Secretary in the Treasury responsible for overseas finance he has wide experience of the economic issues dealt with in the OECD. He is also well versed in energy matters. Mr Lalonde has extensive Ministerial experience in the economic field. M. Paye is more of a generalist. Qualifications by themselves are however unlikely to settle the question of succession.

/Support

Support7. (a) M. Paye

M. Paye has the advantage of being well known in the OECD where he has attended regularly as Chairman of the Executive Committee in Special Session, which deals with a wide range of international economic issues. Furthermore M. Paye has been proposed, not so much by his own government who did not at first put him forward as their official candidate, but by the US. He has also received the support of the FRG through the efforts of Herr Genscher and Count Lambsdorff.

(b) Sir K Couzens

Although Sir K Couzens has attended quite a number of OECD meetings he is less well known than M. Paye and his candidature, notwithstanding lobbying efforts on his behalf by the Secretary of State and the Chancellor of the Exchequer, has not made a lot of progress. The Americans, who originally supported him, changed their minds and switched to M. Paye. The FRG claimed to think that it would be inappropriate to have British Secretaries General in both NATO and the OECD. This overlooks the fact that the Dutch have held the two posts for many years and that a Frenchman is already Managing Director of the IMF. So far only the Turks seem inclined to come out in favour of Sir K Couzens, but the Netherlands appear well disposed and he is second choice for many countries.

(c) Mr Lalonde

The Canadian Government is lobbying actively at Ministerial level to promote Mr Lalonde and claim to have had indications of personal support from Ministers. Australia and Austria may decide to support Canada as a non-European candidate. The US is probably against him.

The present position

8. With US, German and French backing M. Paye looks well placed. The task of turning round the positions of these three countries is formidable. Denmark has already declared support for M. Paye. Many of the smaller countries such as Luxembourg, Belgium and Greece are likely to follow the herd. The Italians may do likewise.

9. Mr Lalonde has the open support of Norway and Sweden and the covert support of one other country.

10. Sir K Couzens has the support, as second choice, of three unidentified countries.

11. Although many countries have still to declare, the tide is flowing in favour of M. Paye and it is in our interest that the successor to Van Lennep be chosen without delay or rancour. While we should not abandon Sir K Couzens, we need realistically to accept the fact that at the moment he does not seem likely to win. However the course of elections in international organisations is unpredictable and while Sir K Couzens remains a candidate he is still in with a chance, albeit a slim one.

A & B 12. I attach the latest OECD telegrams No 72 and 74 of 10 May.

Michael Tait

11 May 1984

M L Tait
Economic Relations Department

IMMEDIATE

TOKYO

H2/ERS

PP UKREP BRUSSELS

ADVANCE COPY

S. C. TICKELL

GRS 300

MY LITTLER - TSY

CONFIDENTIAL

FM UKDEL OECD 101230Z MAY 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 72 OF 10 MAY

INFO PRIORITY BONN, COPENHAGEN, OTTAWA, WASHINGTON, TOKYO

AND UKREP BRUSSELS

INFO SAVING PARIS AND OTHER OECD POSTS.

MY TELNO. 69 (SAVING TO SOME); OECD SECRETARY-GENERAL.

1. A FURTHER RESTRICTED MEETING OF OECD PERMREPS TODAY CONSIDERED THE SWEDISH DEAN'S LATEST REPORT AS FOLLOWS.
2. DENMARK HAS JOINED THE US AND FRANCE IN OPEN SUPPORT OF PAYE. THE JAPANESE REPRESENTATIVE AWAITS INSTRUCTIONS BUT GAVE HIS PERSONAL OPINION THAT JAPAN MIGHT SUPPORT PAYE.
3. THREE OTHER COUNTRIES NOT WISHING TO REVEAL THEIR IDENTITY HAVE DECLARED: OF THESE TWO FAVOUR PAYE AND ONE LALONDE. TWO OF THE THREE FAVOUR SIR K COUZENS AS SECOND CHOICE.
4. NORWAY HAS DECLARED FOR LALONDE (MAKING TWO INCLUDING THE OTHER FROM PARA. 3 ABOVE). THE NETHERLANDS WILL SUPPORT EITHER EUROPEAN CANDIDATE.
5. THE CANADIAN REPRESENTATIVE REPORTED THAT AN EMISSARY WAS VISITING SELECTED CAPITALS SEEKING SUPPORT FOR LALONDE WHO HAD BEEN ENCOURAGED BY INDICATIONS OF PERSONAL SUPPORT FROM COLLEAGUES AND HOPED TO FIND THESE TRANSLATED INTO FULL OFFICIAL SUPPORT.
6. I REAFFIRMED THE CANDIDATURE OF SIR K COUZENS.
7. WE MEET FOR A FURTHER REVIEW ON 14 MAY WHEN THE DEAN, AFTER CONSULTATION WITH OUR FINNISH COLLEAGUE, MAY SUGGEST PROCEDURES WHICH MINISTERS MIGHT WISH TO FOLLOW ON 17-18 MAY SHOULD IT NOT BE POSSIBLE TO SELECT THE SUCCESSOR BEFOREHAND.

FCO PLEASE ADVANCE TO:

FCO - TICKELL, TAIT (ERD)

TSY - LITTLER

FCO PLEASE PASS TO SAVING ADDRESSEES (EXCEPT PARIS).

CONFIDENTIAL

FM UKDEL OECD 101530Z MAY 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 74 OF 10 MAY

FOLLOWING PERSONAL FOR SIR CRISPIN TICKELL, TAIT (ERD)
AND LITTLER (TREASURY).

OECD : SECRETARY-GENERAL

1. AS YOU WILL HAVE SEEN FROM TELEGRAMS ENDING WITH MY NUMBER 72, IT LOOKS AS THOUGH THE LOG IS ROLLING FOR PAYE. CONFIRMATION OF JAPANESE SUPPORT (IF IT IS FORTHCOMING) AND ITALIAN ALIGNMENT WOULD SEE 5 OF THE 7 SUMMIT COUNTRIES COMMITTED. THAT IS BOUND TO HAVE A CONSIDERABLE IMPACT UPON THE REMAINING MEDIUM AND SMALLER COUNTRIES WHO HAVE YET TO DECLARE A POSITION. IT WILL ALSO INCREASE THE EXPECTATION, NOTABLY IN WASHINGTON, BUT ALSO IN PARIS AND BONN, THAT WITHDRAWAL OF MARC LALONDE AND SIR K COUZENS IS ONLY A MATTER OF TIME.

2. ASSUMING THAT I HAVE NOT MISJUDGED THE SITUATION I FIND IT EXTRAORDINARY. THERE IS A WIDESPREAD FEELING AMONG DELEGATIONS TO THE OECD THAT WHATEVER THE ATTRACTIVENESS OF PAYE AS A PERSON, HIS QUALIFICATIONS ARE NOT OPTIMUM FOR THIS JOB AND THAT WERE HE TO SUCCEED THIS COULD PORTEND A CHANGE AT THE OECD NOT NECESSARILY FOR THE BETTER. EVEN SO WHATEVER RECOMMENDATIONS HAVE GONE TO CAPITALS FROM PERMANENT REPRESENTATIVES HERE (AND I AM AWARE OF SEVERAL IN FAVOUR OF SIR K COUZENS AND OTHERS SPECIFICALLY AGAINST PAYE) THERE IS SO FAR NO SIGN OF A 'STOP PAYE MOVEMENT' - A DEVELOPMENT WHICH, ACCORDING TO SUCH INDICATIONS AS REACH ME, WOULD BE WELCOME IN THE SECRETARIAT ITSELF. THERE ARE SIGNS THAT VAN LENNEP CONSIDERS PAYE TO BE ILL-EQUIPPED TO TAKE ON THE JOB.

3. MY CANADIAN COLLEAGUE EVIDENTLY HOPES THAT THE CURRENT ACTIVITIES IN CAPITALS ON LALONDE'S BEHALF COULD BY THE BEGINNING OF NEXT WEEK GIVE HIM THE CONFIDENCE AND JUSTIFICATION TO REMAIN IN THE FIELD. MEANWHILE, REGRETTABLY, AS YOU WILL HAVE SEEN FROM MY TELEGRAMS, I HAVE IDENTIFIED LITTLE CONCRETE SUPPORT FOR SIR K COUZENS. I CAN ONLY GLOSS THAT BY SAYING THAT, IN THE VIEW OF A MINORITY BUT SIGNIFICANT NUMBER OF DELEGATIONS HERE, THERE IS A RECOGNITION THAT, WERE HE TO BE APPOINTED, IT WOULD IMPLY A WELCOME CONTINUATION OF THE GENERAL DIRECTION OF THE ORGANISATION UNDER VAN LENNEP'S LEADERSHIP.

4. I DOUBT THAT THERE WILL BE MUCH CHANGE IN THE GENERAL PICTURE EVEN AFTER THE DEAN'S NEXT MEETING ON 14 MAY. IF WE ARE TO MAINTAIN OUR POSITION THAT A DECISION ON THE SUCCESSION SHOULD, IF AT ALL POSSIBLE, BE TAKEN NOT LATER THAN AT THE 17-18 MAY MINISTERIAL COUNCIL, THE SECRETARY OF STATE AND THE CHANCELLOR OF THE EXCHEQUER MAY WISH TO PROPOSE TO THE PRIME MINISTER A HAND TO BE PLAYED IF NOT AT THE FOREIGN AFFAIRS COUNCIL IN BRUSSELS AT ANY RATE AT THE COUNCIL HERE. AS I SEE IT, IF WE ARE TO AVOID SOME SORT OF VOTING PROCEDURE (FOR WHICH NO PREPARATION HAS BEEN MADE), WE SHALL NEED TO CONSIDER OTHER MEANS AND TACTICS. WE HAVE YET TO DISCOVER WHETHER SIR K COUZENS OR LALONDE WILL EMERGE IN SECOND PLACE. INDEED THAT MAY NOT BECOME CLEAR UNTIL MINISTERS ARE GATHERED HERE ON 17 MAY. IF IT WERE SIR K COUZENS THAT WOULD PUT ON OUR SHOULDERS THE RESPONSIBILITY FOR ATTRACTING ANY SUPPORTERS LALONDE MAY HAVE PICKED UP AND FOR MAKING A STAND AGAINST PAYE IF MINISTERS WISHED TO FOLLOW THAT COURSE. ALTERNATIVELY, IF CANADIAN ACTIVITY IN CAPITALS IS REWARDED WITH MORE SUPPORT FOR LALONDE THAN WE CAN COUNT FOR SIR K COUZENS, WE COULD FIND OURSELVES WITH THE CHOICE OF SWITCHING TO LALONDE OR ACCEPTING PAYE.

UFFEN

NNNN

SENT AT 101603Z GS

FROM: M L TAIT, ERD
DATE: 11 May 1984

Sir Crispin Tickell
Private Secretary

cc: Mr Jeremy Thomas
SPD
WED
ECD(E)
Mr Littler, HM Treasury

OECD SECRETARY GENERALSHIP

1. Since submitting earlier today I have heard that the Australians have declared for Mr Lalonde, who now has the open support of three countries: Australia, Norway and Sweden.

A
B
2. The French Permanent Representative at the OECD has told us that when M. Cheysson raises the OECD succession with the Secretary of State at the FAC next week, he will repeat the line taken in his letter of 29 March to the Secretary of State and in the French Embassy's subsequent aide memoire. In these it is claimed that the Secretary General should, "in accordance with tradition", be a European and that M. Paye's experience of the EC makes him particularly well qualified to be Secretary General.

C
3. If these were indeed the criteria M. Paye would be well qualified and Mr Lalonde would be disqualified. They are however not as important as qualifications as is technical expertise. In his reply to M. Cheysson's letter the Secretary of State said that he thought that the best qualified candidate should be chosen. Technically Sir K Couzens is the best qualified and I would recommend that the Secretary of State say so to M. Cheysson.

M L Tait

11 May 1984

M L Tait
Economic Relations Department

MESSAGE DE M. CLAUDE CHEYSSON, MINISTRE DES RELATIONS EXTERIEURES

A

THE RT. HON. SIR GOEFFREY HOWE, Q.C., M.P.
SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

Paris, le 29 mars 1984

"Mon Cher Geoffrey,

A plusieurs reprises, nos huit collègues, toi et moi avons marqué l'importance que la C.E.E. doit évidemment attacher au rôle et à la personne du Secrétaire Général de l'O.C.D.E.

Aussi ai-je appris avec une grande satisfaction que plusieurs délégations extérieures à la Communauté évoquaient actuellement, au Château de la Muette, l'idée de mettre en avant le nom d'un de mes plus remarquables collaborateurs, Jean-Claude Paye. Tu sais qu'il est depuis plusieurs années le Directeur Général des affaires économiques de mon Département, après avoir été pendant tout le gouvernement Barre, le Conseiller le plus écouté du Premier Ministre, qu'il avait d'ailleurs connu en sa qualité de Directeur du Cabinet du Vice-Président de la Commission Européenne pendant la période où Raymond Barre était à Bruxelles.

La France ne présente pas formellement un candidat à ce poste. Mais elle appuie cette excellente suggestion, convaincue que l'intéressé, par sa connaissance des problèmes communautaires,

.../...

par sa longue expérience dans le domaine économique international, par son étroite relation avec nos amis d'Outre-Atlantique (notamment dans le cadre du COCOM, mais de bien d'autres manières aussi), par son intimité avec les questions débattues à l'O.C.D.E., a la stature, l'autorité, les contacts souhaitables.

J'ai tenu, comme il se doit, à t'en informer aussitôt, puisque je sais que le nom d'un britannique a été également avancé.

Je t'assure de mes sentiments amicaux et fidèles!"

Signé : Claude

AIDE - MEMOIRE

1. CC. K.J. Uffren Esq., WIDE/OECD
2. BACKCO me

SAC
12-4

→ CC. A.R.H. Botwin Esq., HMT
✓ 304

Le Gouvernement français attache la plus grande importance aux travaux menés à l'OCDE et au rôle irremplaçable que cette organisation joue -et peut jouer plus encore- pour la coopération, la compréhension mutuelle et la coordination de l'action que mènent, en matière économique au sens large, les pays industrialisés occidentaux qu'unissent tant de valeurs communes, notamment une foi identique dans l'économie de marché.

La tradition veut que les fonctions de Secrétaire général soient confiées à un Européen. Il est hautement souhaitable, à de multiples égards, que cette tradition soit respectée. Constituant de loin la majorité des participants à l'Organisation, les pays européens l'enrichissent de leur diversité historique, culturelle et politique. Il est important que cette diversité soit clairement perçue et dûment prise en compte par le Secrétaire général.

Le poids économique de la Communauté, l'importance historique de l'entreprise d'unification européenne qu'elle symbolise, la pratique, qu'elle incarne, d'une coopération entre Etats multiforme et approfondie, justifient que le poste de Secrétaire général soit confié non seulement à un ressortissant d'un Etat-membre de la Communauté mais encore à un bon connaisseur des affaires communautaires.

Monsieur Jean-Claude Paye, Ministre plénipotentiaire de première classe
né le 26 août 1934 à Longue (Maine et Loire).

ETUDES

- Lycée Bugeaud à Alger, Lycée Carnot et Faculté de droit de Tunis.

DIPLOMES

- Licencié en droit et sciences économiques
- diplômé de l'Institut d'Etudes politiques de Paris.

CARRIERE

- Elève à l'Ecole Nationale d'Administration - 1959 - 1961
- Directeur du Cabinet du Maire de Constantine - 1961 - 1962
- Secrétaire d'Ambassade à Alger - 1962 - 1963.
- A l'Administration politique (Pactes et affaires spatiales)
du Ministère des Affaires Etrangères - 1963 - 1965
- Conseiller technique au Cabinet du Secrétaire d'Etat à la Recherche
scientifique - 1965, puis du Ministre des Affaires sociales - 1966 -
- Directeur du Cabinet de Raymond Barre (Vice-Président de la Commission
des Communautés européennes chargé des Affaires économiques et finan-
cières) - 1967 - 1973 -
- Conseiller d'Ambassade à Bonn - 1973 - 1974 -
- Directeur adjoint du Cabinet du Ministre des Affaires étrangères
(M. Jean Sauvagnargues) - 1974 - 1976 -
- Conseiller auprès du Premier Ministre pour les questions internationa-
les (M. Raymond Barre) - 1974 - 1979 -
- Secrétaire Général du Comité interministériel pour les questions de
coopération économique européenne - 1977 - 1979 -
- Directeur des Affaires économiques et financières au Ministère des
Affaires étrangères - depuis 1979 -

- . Administrateur de l'Entreprise de Recherche et d'activités pétrolières - depuis 1979 -
- . Administrateur de Pechiney - depuis 1982 -
- . Administrateur de la Banque Indosuez - depuis 1982 -
- . Administrateur du Centre français de Commerce extérieur - depuis 1979.
- . Administrateur du Centre d'études prospectives et d'informations internationales.

(Revised)

DRAFT: ~~minute~~/letter/~~teletype~~/~~despatch~~/note

TYPE: Draft/Final 1+

FROM:

Reference

SECRETARY OF STATE

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

M. Claude Cheysson
Minister of External Relations

Top Secret

Secret

Confidential

Restricted

Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

A ✓
Thank you for your message of 29 March in which you kindly let me know of the proposal that Jean Claude Paye's name should be put forward for the Secretary Generalship of the OECD and that France supports this idea. As you know there is already a strong British candidate, Sir Kenneth Couzens, in the field and we are giving his candidature our full support. I am sure however that we would both agree that the person who is appointed to the Secretary Generalship should be the best qualified for that responsible position and that this should be the criterion against which the French, British and any other candidates should be judged.

CAUTION.....

✓ B

.....sures—flag(s).....



FROM: I R SPENCE

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

11 May 1984

BRIEF
I. SPENCE
→ CH/EX
11/5

PS/CHANCELLOR

UNITARY TAX - ECONFIN

.... I attach a brief.

The significant development of the past few days is the information that the Administration plans to get the President's endorsement of the Working Group's report before the Summit and without any substantial discussion with trading partners (see Washington telegram 1438 of 8 May - the US representative gave the same message at an OECD meeting on 9 May).

This clearly strengthens the case for an early marker to the Administration that unitary will be on the agenda for the Summit. We also want to get over the message that the President may have a difficult time at the Summit if he has already declared the Administration's position, without clearing it with us first.

The ECOFIN briefing concentrates on this issue. From our discussions with the Europeans (9 May) it seems [unlikely] that the French and Dutch will take a robust attitude - perhaps also the Belgians. The rest (including the Germans, may be rather tepid). The OECD Ministerial on 17/18 May will be a useful occasion for following through on this - there will be separate briefing on this.

The Chancellor will not, I think, need any background briefing for ECOFIN, apart perhaps from my 4 May note and the Washington telegram 1438 of 8 May.

I R SPENCE

COPY LIST ATTACHED.

Copy List:

PS/Financial Secretary
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Littler
Mr Monger
Mr Lavelle
Mr R I G Allen
Mr Lord
Mr Bottrill
Mr Ingham

Mr Evans (IDT)
Ms Copnel (FCO)
Mr Snoxell (FCO)
Mr Healey (DTI)
Mr Stow (DTI)
Mr Walsh (Washington)
Mr Butt (Brussels)
Mr Davis (OECD)

Sir L Airey
Mr Green
Mr Taylor Thompson
Mr Crawley
Mr Spence
Miss Hill
Mr Linford
Mr Cleave
Mr J Hall
PS/IR

UNITARY TAX - INFORMAL ECOFIN (12/13 MARCH)

UK OBJECTIVE AT ECOFIN MEETING

- (a) To get agreement to our line on the response to the Working Group Report - viz water's edge is only a first step: implementation is what matters.
- (b) To get agreement on strategy/tactics in the next few weeks, up to the Summit.
- (c) To get an agreed basis for lobbying the States.

POINTS FOR DISCUSSION

I. REACTION TO WORKING GROUP REPORT - a significant break-through on principle. But the problem will not be solved until it is implemented by the States. The chances of early implementation of water's edge by the States are not good unless we get more push from the Administration, particularly with the dividends issue unresolved. [There is some encouragement from reports that Deukmajian is backing a water's edge/unitary option Bill - but scepticism about whether it will get anywhere.]

II. WHAT WE WANT FROM THE ADMINISTRATION

- (a) At a minimum we want a strong public endorsement by the President for the implementation of water's edge, and a strong push from the Administration on the States to achieve implementation in the coming months - if there is no Presidential steam behind the campaign, it is not likely to get anywhere;
- (b) [less likely, but worth trying for] we want progress on the dividends issue before Presidential endorsement of the Report (behind the scenes pressure from White House). If the President endorses the present multi-option report, the chances of States implementation of water's edge are much reduced;
- (c) we want Federal action if the scheme for voluntary implementation fails (unrealistic to expect public pronouncements at this stage). But our posture should be that if the States fail to deliver, we will expect the Administration to impose a solution - either by direct legislation or by amending Double Tax Treaties;
- (d) we want consultation on the definition of water's edge and how it will work in practice.

III. US ADMINISTRATION'S STANCE

On present plans, the Administration intend to present the Working Group report to the President for his endorsement without any substantial change. There is no intention to

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consult trading partners before the President endorses it. And they intend that the President should declare his position before the Summit, and thus produce a fait accompli at the Summit.

IV. HANDLING OVER THE NEXT FEW WEEKS

Tactically, the main aim must be to secure that USA talk to trading partners, and give us a chance to influence the Administration's public stance, before the President endorses the Working Group Report. Proposals -

- (a) put unitary on the agenda for the London Summit (6/7 June):
- (b) OECD (17/18 May) - press Secretary Regan (points at II above) difficulties at Summit if we are presented with a fait accompli;
- (c) Pressure in Washington
 - (i) US Treasury Chancellor has already written to Secretary Regan - hope other countries will follow suit. Should EC Finance Ministers produce a joint demarche (?immediately after OECD);
 - (ii) contacts with State Department (best source of support in the Administration);
 - (iii) pressure on White House - early marker that unitary will be on the agenda. Letters from Heads of Government to President before the Summit?

V. PRESSURES ON INDIVIDUAL STATES

Action by Governments. We need co-ordinated pressure at States level by EC Governments, and co-ordinate with other OECD countries - we already have a base for this: the Washington co-ordinating group on unitary, California clearly our major target (and Mr Tebbit will be discussing unitary with California Governor), Florida a promising target - because the Governor may move quickly to implement his Working Group's recommendation for abolition of unitary. [The Dutch are likely to suggest a joint letter to Florida and other Governors - which we would support.]

Action by Industry. European based multi-nationals need to get their act together, with each other, and with US companies

VI. ALLOWING INFORMATION UNDER TREATIES TO BE PASSED TO INDIVIDUAL STATES.

This is a major part of the package, though we have not yet had formal approaches from the Administration on it.

Suggested posture: sympathetic in principle, but the necessary changes to treaties (and for UK enabling legislation) cannot sensibly be done until water's edge is implemented by the States.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 77 OF 11 MAY

INFO IMMEDIATE UKREP BRUSSELS

INFO PRIORITY WASHINGTON, BONN, ROME, TOKYO, OTTAWA.

INFO SAVING EC POSTS AND UKMIS GENEVA

PROSPECTS FOR THE OECD MINISTERIAL: 17-18 MAY

1. THIS IS VAN LENNEP'S LAST MINISTERIAL, AND THE SUCCESSION, WHICH MAY BE SETTLED IN THE COURSE OF IT, WILL BE IN EVERYONE'S MIND. THE PROSPECT OF OTHER CHANGES AT SENIOR LEVEL IN THE SECRETARIAT (AND THE INTERNATIONAL ENERGY AGENCY), VACANCIES IN A NUMBER OF IMPORTANT COMMITTEE CHAIRMANSHIPS AND, ABOVE ALL, A SENSE OF CHANGE AND OPPORTUNITY IN OECD WILL ADD SPICE TO THE OCCASION.
2. THE SECRETARY GENERAL HAS PREPARED FOR THE MEETING IN HIS USUAL STYLE, ATTEMPTING, PARTICULARLY ON THE EXTERNAL SIDE, TO PUSH THE CONSENSUS FURTHER THAN HAS BEEN ACHIEVED BY OFFICIALS. THAT IS HIS PEROGATIVE AND DUTY. BUT IT MEANS DELICATE DRAFTING OF THE COMMUNIQUE, WHICH WILL BE SCANNED CLOSELY FOR POINTERS TO THE LONDON SUMMIT. NON-SUMMIT COUNTRIES WILL REGARD THIS MEETING AS AN OPPORTUNITY TO INFLUENCE THE OUTCOME THERE.
3. THE DISCUSSION ON ECONOMIC POLICY TAKES PLACE ON THE SECOND DAY AND SHOULD NOT PROVE TOO CONTENTIOUS. THE SECRETARIAT HAS SHOWN WELCOME REALISM ON THE NEED TO CONTINUE DISCIPLINE IN SECURING NON-INFLATIONARY GROWTH, TO PROMOTE FLEXIBILITY AND INNOVATION, TO ENCOURAGE STRUCTURAL CHANGE AND LABOUR MOBILITY, AND TO CONTROL GOVERNMENT SPENDING AND BEGIN TACKLING THE GROWTH OF SOCIAL EXPENDITURE PROGRAMMES. FOLLOWING THE MINISTERIAL CONFERENCE IN FEBRUARY THERE IS GREATER STRESS HERE, AS IN ALL OECD WORK, ON THE MEDIUM RATHER THAN THE SHORT TERM. THE DOMINANT ISSUE WILL PROBABLY BE THE GLOBAL EFFECTS OF THE US BUDGETARY AND CURRENT ACCOUNT DEFICITS AND OF HIGH INTEREST RATES. BUT SOME DELEGATIONS (NOT ONLY THE NORDICS) WILL NO DOUBT SEEK TO PUSH THE MEETING TOWARDS ADVOCATING JOB CREATION WITHOUT ADEQUATE REGARD FOR REAL ECONOMIC COSTS. FR OUR PART WE HOPE THAT THE MEETING WILL ENDORSE THE NEED FOR POSITIVE ADJUSTMENT POLICIES AND FOR MORE INTENSIVE WORK ON THEM.
4. ON THE FIRST DAY THE DISCUSSION WILL TOUCH MAINLY ON RELATIONS WITH DEVELOPING COUNTRIES AND TRADE POLICIES. THE SECRETARY GENERAL'S PAPER ON THE FORMER IS GENERALLY SENSIBLE. HOWEVER HIS BELIEF IN THE NEED FOR INVESTMENT IS FOCUSED THIS YEAR PARTICULARLY ON INVESTMENT IN DEVELOPING COUNTRIES, WITH BOTH THE PAPER AND THE COMMUNIQUE POINTING UP AN AMBITIOUS WORK PROGRAMME. VAN LENNEP WOULD LIKE TO SEE OECD HAVE WIDER CONTACTS WITH DEVELOPING COUNTRIES GENERALLY, AND HAS USED INVESTMENT AS A CASE IN POINT. WE SHOULD BE PRAGMATIC ABOUT THIS, WITHOUT NECESSARILY CONCEDEDING THE GENERAL ARGUMENT.

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5. ON TRADE THE ROLLBACK OF PROTECTIONISM SHOULD PROVIDE THE SET PIECE. THE ECONOMIC RECOVERY REMAINS PATCHY, AND PROGRESS HAS BEEN MODEST. THERE SHOULD HOWEVER BE AGREEMENT ON THE FIRST PHASE, TO TAKE PLACE NEXT SPRING. BUT FOR THE SECOND PHASE THE SECRETARY GENERAL HAS TRIED TO GUIDE THE DEBATE BEYOND THE TRADE COMMITTEE CONSENSUS, WHICH LOOKED TOWARDS DECISIONS NEXT YEAR, AND TO BRING IN A NUMBER OF OTHER ITEMS. THE BATTLE WILL BE OVER WHICH ITEMS TO INCLUDE (E.G. COUNTRY STUDIES) AND HOW ANY PACKAGE IS TO BE PRESENTED. WE SHOULD BE ABLE TO SUBSCRIBE TO A CONSENSUS WITHOUT HAVING ANY OF OUR MORE SENSITIVE CONCERNS UNDULY EXPOSED. IN ADDITION WE SHOULD BE ABLE TO PUSH FOR A GREATER IMPETUS FOR WORK ON LIBERALISING TRADE IN SERVICES: OECD CAN PLAY AN IMPORTANT PART HERE, WHILE PROGRESS IN GATT REMAINS VERY SLOW.

6. THE DISCUSSION OF ROLLBACK MAY BE SOMEWHAT UPSTAGED HOWEVER BY THE QUESTION OF MULTILATERAL TRADE NEGOTIATIONS, WITH THE US AND JAPAN PRESSING FOR THE FORMAL ENDORSEMENT NOW OF A NEW ROUND. THE COMMUNITY'S POSITION WILL BE DETERMINED AT THE FAC ON 14-15 MAY. THE CONSENSUS ACHIEVED IN BRUSSELS AND SUBSEQUENTLY HERE WILL BE IMPORTANT FOR DISCUSSION AT THE SUMMIT.

7. A SEPARATE AGENDA ITEM (LIKELY TO BE TAKEN WITH THE TRADE ITEM) COVERS THE REVIEW OF OECD'S INSTRUMENTS ON INTERNATIONAL INVESTMENT. WE CAN ENDORSE THE CONCLUSIONS ON CONFLICTING REQUIREMENTS (EXTRATERRITORIALITY). CONSIDERABLE PRESSURE HAS BEEN PUT ON THE US OVER THIS, WHICH CAN USEFULLY SUPPORT OUR BILATERAL NEGOTIATIONS ON THE SAME ISSUE. THE ITEM OFFERS THE PEG ALSO FOR A UK STATEMENT ON UNITARY TAXATION IN SUPPORT OF THE DRAFT COMMUNIQUE.

8. A NUMBER OF PROPOSALS COULD SURFACE AT THE MEETING. I HOPE THAT ANY IDEA OF A STUDY ON THE FUTURE OF OECD WILL BE MUTED FOR THE MOMENT. THE JAPANESE MAY HOWEVER PROPOSE A STUDY ON LIFE IN INDUSTRIALISED COUNTRIES IN THE YEAR 2000, BUILDING UPON PAST WORK ON INTERFUTURES AND INTERDEPENDENCE. (ON THIS PLEASE SEE MIFT, NOT TO ALL).

9. ON NONE OF THE MAIN ISSUES SHOULD WE FIND OURSELVES IN TOO EXPOSED A POSITION, ALTHOUGH THE US WILL PUT UP RESISTANCE ON CONFLICTING REQUIREMENTS (AND UNITARY TAXATION) OVER WHICH WE WILL BE EXPECTED TO TAKE A LEAD. MOST OF THE IDEA PUT FORWARD ARE ONES TO WHICH WE CAN SUBSCRIBE OR, AS WITH ASSOCIATED FINANCE (MIXED CREDITS), WE ARE NOT ALONE IN SEEKING SUBSTANTIAL PROGRESS. HOWEVER SOME OF THE PROPOSALS DO ENTAIL ADDITIONAL WORK BY THE ORGANISATION. THIS MEANS RESOURCES. MINISTERS WILL NO DOUBT BEAR IN MIND THAT WE SHALL WANT THESE

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TO BE FOUND BY REALLOCATION AND BETTER PRIORITIES WITHIN A
TIGHTLY CONTROLLED BUDGET. THERE IS MUCH TO BE SAID FOR UK
MINISTERS MAKING THIS POINT IN THEIR STATEMENTS.

FCO PLEASE ADVANCE TO:

FCO - TICKELL, TAIT (ERD)

DTI - WILLIAMS

ODA - IRETON

TSY - LITTLER AND BOTTRILL

FCO PLEASE PASS TO SAVING ADDRESSEES (EXCEPT PARIS).

UFFEN

REPEATED AS REQUESTED

ADVANCED AS REQUESTED

LIMITED

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PS

PS/MRRIFKIND

PS/PUS

SIR J BULLARD

SIR C TICKELL

MR RENWICK

MR J THOMAS

COPIES TO

MR STOW

PS/MR CHANNON

MR WILLIAMS

MR BOTTRILL

MR LITTLER

PS/CHANCELLOR

MR IRETON ODA

DTI

TREASURY

OECD MINISTERIAL COUNCIL, 17/18 MAY 1984

11/5/84

STEERING BRIEF

Objectives

1. The UK's objectives are:

(i) to sound a note of cautious optimism on the prospects for world economic recovery, whilst drawing attention to the risks still posed by continuing protectionism, the rising trend in US interest rates and US budgetary problems;

(ii) to reach an agreed formula on future work on trade negotiations;

(iii) to encourage the smaller OECD countries to express their views on the world economy and to reassure them that these will be taken into account at the London Economic Summit.

(iv) to endorse firmly the conclusions on conflicting requirements (extraterritoriality) reached by the OECD's Committee on International Investment and Multinational Enterprises (CIME); also to register concern at the impact on international investment of unitary taxation.

Agenda

2. The Agenda contains four substantive items:

(a) Finance, Trade and Development: Relations with Developing Countries in a Global and Medium-Term Perspective

Paper: C/MIN(84)2

(b) International Trade

- Dismantling Barriers to Trade
- Strengthening the Multilateral System

Papers: C/MIN(84) 3 and 4

(c) The 1984 Review of the OECD 1976 Declaration on International Investment and Multinational Enterprises

Papers: C/MIN(84) 5 and 6

(d) Achieving Durable Economic Growth: Flexible Adjustment in a Changing World

Paper: C/MIN(84) 7

/ The attached telegram from UKDel OECD reports the atmosphere at the OECD in anticipation of the meeting.

Structure of Meeting

3. The proceedings on both days will begin at 9.30 am with ten-minute photocalls. On the first day, 17 May, this will be followed by introductory remarks by the Secretary-General and the Finnish Chairman. The morning will then be taken up by discussions on finance, trade and development. A working lunch will take place at 1.15 pm to enable Ministers to exchange views on the communiqué. The afternoon will continue with the discussions on international trade and the CIME report. These may not finish until relatively late since the following morning's session will be curtailed by the French Government's lunchtime reception.

10 Friday

4. It is hoped to arrange bilateral meetings during the afternoon of 17 May between the Secretary of State for Foreign and Commonwealth Affairs and the Prime Minister of New Zealand, the Foreign Ministers of Australia and Finland and Mr Dam, US Deputy Secretary of State. In the evening there will be a dinner hosted by the Finnish Foreign and Trade Ministers, where the UK will be represented by the Chancellor and the Minister of Trade.

Thursday
17 May

5. Apart from any spillover from the investment item, the second day will be devoted exclusively to the final, macro-economic item. M. Cheysson will host a reception at the Quai d'Orsay at 12.00 to be followed by another working lunch to discuss the communiqué. The final press conference will be given by the Chairman and the Secretary General at 6.00 pm.

6. Many member countries, including ourselves, are hoping to resolve the question of the successor to Mr van Lennep in the course of the Ministerial Council. There is likely to be much discussion in the margins of the meetings. The state of play and our approach to the advancement of the UK candidate, Sir Kenneth Couzens, is given in the attached submission of 11 May.

Finance, Trade and Development: Relations with Developing Countries in a Global and Medium-Term Perspective (Sir G Howe and Mr Channon will represent the UK; Sir G Howe will speak).

Paper: C/MIN(84)2

7. After a preliminary and generally sound description of the current economic climate, the paper focusses on three specific but interrelated areas: resource flows, trade policy and dialogue. On the whole, we welcome the emphasis the paper places on the need for stronger links between policies and financial flows and for a coherent medium-term policy framework featuring an enhanced role for the IMF and World Bank. We will wish to stress the need for adequate resources for IDA; to argue strongly for the phased reduction of concessional export financing; and to urge caution on the Secretary General's suggestion of increased contacts between the OECD and developing countries.

International Trade (Sir G Howe and Mr Channon will represent the UK; Mr Channon will speak)

Papers: C/MIN(84)3 and 4

8. The OECD Council needs to agree a satisfactory and realistic formulation on Phase II of rollback. This will involve balancing a number of ambitious ideas formulated by the Secretary-General against the experience of implementing Phase I. What is agreed should include encouraging the OECD to continue its useful work on trade in services, trade-related concessional finance, domestic industrial and adjustment policies etc, and of course a continuing standstill of protectionist measures.

The 1984 Review of the OECD 1976 Declaration on International Investment and Multinational Enterprises (Sir G Howe and Mr Channon will represent the UK)

Papers: C/MIN(84) 5 and 6

9. The Review of the international investment instruments is low-key and can be welcomed. It does contain one point of particular concern to the UK, namely the agreement on procedures for dealing with conflicting requirements, a euphemism for extraterritoriality. This was a UK initiative and our objective is to draw attention to it at the Ministerial and to give impetus to further OECD work.

Achieving Durable Economic Growth: Flexible Adjustment in a Changing World (Mr Lawson and Mr Channon will represent the UK; Mr Lawson will speak).

Paper: C/MIN(84)7

10. Output and world trade recovered over the past year. Economic outlook improved considerably. OECD revised upwards growth and trade forecasts for this year with inflation remaining moderate. But concern over weak European recovery and poor growth ahead, persists. Prospects still affected by a number of risks; the rising trend in US interest rates, uncertainties over the budget and structural impediments. Continued prudent macro-policies and structural adjustment currently identified as necessary to foster sustained growth. Welcome medium term orientation. Should have argued that countries should aim for further reductions in inflation over the

medium term, but addresses squarely need for lower budget deficits, particularly in the US. Greater emphasis on structural adjustment more appropriate now recovery underway. UK has chaired OECD work on positive adjustment policies. Support call for sharper focus on industrial policies in OECD surveys of members' economies.

Communiqué

11. The communiqué has already been revised in discussion among officials. The latest version is attached at Flag G (FCO recipients). It will be further redrafted by officials during the course of the meeting and the relevant sections submitted to Ministers at the close of each day's proceedings. Ministers will be advised separately if any difficulties remain for resolution during the Ministerial sessions.

Other Background Material

12. Apart from the papers already mentioned, the following papers are attached:

- (i) The draft agenda C/MIN(84)1
- (ii) Administrative Arrangements for UK delegation
- (iii) an OECD information note on administrative arrangements
- (iv) an OECD information note on social functions

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ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

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C/MIN(84)8(2nd Revision)

Plenary Session
Working Document

Or Eng.

14/8/84 -

COUNCIL

PREPARATIONS FOR MEETING OF COUNCIL AT MINISTERIAL LEVEL

DRAFT COMMUNIQUE

(Note by the Secretary-General)

Ministers will find herein the Communiqué as revised during their lunches and the drafting session.

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Organisation, in consultation with BIAC and TUAC, to pursue the above orientations.

15. Bearing in mind the importance of the social, economic and technological changes underway, Ministers underlined the importance for the Organisation to deal with all these issues in a medium and long-term perspective.

THE GLOBAL CONTEXT: CO-OPERATION WITH DEVELOPING COUNTRIES

16. Ministers agreed that OECD countries should further strengthen co-operation with developing countries, contributing to their economic recovery and renewed development progress.

The Debt Problem

17. Ministers noted that progress was being made in managing and containing the problems of international indebtedness. Nevertheless, the debt problems of some developing countries remain serious and high interest rates [and the continuing misalignment of major reserve currencies] [as well as some exchange rate developments] [among other factors] add to the debt-servicing burden. Ministers saw commitment to continued co-operation by governments, international financial institutions, and the banking community as essential to achieve effective adjustment efforts by debtor countries and to the continued effective functioning of the international financial system.

Policies for Improved Resource Flows

18. Ministers agreed that it was important to focus on the fundamental task of ensuring that financial flows to developing countries respond to development needs and investment opportunities, contributing to efficient resource use and avoiding unsustainable patterns of debt accumulation.

19. Ministers stressed that achieving satisfactory resource flows to developing countries requires effective policies and international co-operation in three central areas:

- i) adequate savings by the industrialised countries;
- ii) efficient use of capital by developing countries;
- iii) effective channels of intermediation -- the private capital markets, the international financial institutions, and aid.

Ministers agreed on the need for improved policies as well as action in these areas as outlined below.

Non-Concessional Resource Flows

20. Recent experience has shown that more effective, market-oriented policies are important for mobilising sustainable private capital flows to developing countries. Ministers were of the view that the international

financial institutions could further develop their roles in this respect. The role of the IMF in support of effective adjustment was considered critical, as well as the World Bank's emphasis on medium and long-term development. Against this background, Ministers urged strengthened co-operation between the IMF and the World Bank in fulfilling their complementary responsibilities.

Official Development Assistance

21. Ministers renewed their pledge to maintain and, as far as possible, to increase their countries' aid with a view to realising their commitments to the international aid objectives, especially for the poorer developing countries. They expressed special concern over the trends and prospects in the low-income countries, particularly of Sub-Saharan Africa, and urged a concerted effort by DAC donors to adapt their aid efforts and policies to the particularly difficult conditions and requirements of these countries. Ministers welcomed the conclusions reached by the last DAC High-Level Meeting on increasing aid effectiveness through strengthened aid co-ordination. They agreed that the multilateral institutions have an important role in providing financial and technical assistance and in helping developing countries to pursue more effective policies. These institutions must have adequate support. The role of IDA is crucial and replenishment of its resources [at a substantial level] [at an adequate level] is a high priority. [They agreed that attention must be given soon to a general capital increase of the World Bank].

Aid and Trade Related Concessional Finance

22. Ministers affirmed their commitment to avoid any de jure and de facto financing practices which give rise to trade distortions and to diversion of aid flows from development objectives and to apply fully the guiding principles they have agreed upon. They enjoined the competent bodies of the Organisation to take prompt action to improve existing arrangements so as to strengthen transparency and discipline in this area by all appropriate means. Differing views were expressed with respect to the desirability of including increases in established minimum grant elements in such action. They requested these bodies to report on progress made toward these ends by the next Ministerial Council.

Direct Investment

23. Ministers noted the important contribution foreign direct investment can make to efficient production, trade, including export potential, and technology transfers, and to achieving a better balance between debt and equity financing for capital importing countries. They asked the Organisation to improve the monitoring of direct investment flows and the identification of the main policies and conditions in host and investor countries most conducive to promoting direct investment, including strengthened investor/host country confidence and security, and to help Member governments prepare for constructive discussions with developing countries.

Trade Policy in an Economic and Development Context

24. Ministers recognised the common interest of all trading partners in the effective functioning of the open international trading system. They underlined the special responsibility of developed countries in this regard,

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

Paris, 17th May 1984

MEETING OF COUNCIL AT MINISTERIAL LEVEL

17th-18th May 1984

AGENDA ITEM 5

JAPAN

Statement by

H.E. Mr. Toshio KOHMOTO

Minister of
State for Economic Planning

(written statement)

No.68

Statement by His Excellency, Mr. Toshio KOMOTO,
Minister of State for Economic Planning of
Japan, at the OECD Meeting of the Council
at Ministerial Level

Item 5 -- Achieving Durable Economic Growth:
Flexible Adjustment in a Changing World

Paris, 18th May 1984

Mr. Chairman, Distinguished Ministers,

1. The world economy is at last emerging from the three-year recession which followed the second oil crisis.

The current recovery is particularly encouraging for the following two reasons.

First, since this recovery has been achieved through stabilization of prices, it is being confirmed, in many countries, that price stability and economic recovery are in fact compatible.

Second, these favorable developments can be considered to be a result of the economic policy efforts by the individual countries, as well as of such outside factors as the falling oil prices.

2. We must not, however, overlook some causes for concern.

First, despite the ongoing recovery, the European countries are still suffering from high unemployment, chiefly owing to structural factors.

Second, high interest rates associated with the huge budget deficits in the United States are seriously affecting the level of interest rates and exchange rates throughout the world.

Third, due to these factors, there is an imbalance in the world-wide pattern of current accounts.

Further, protectionist trend still has considerable momentum, to our disappointment, and we have yet to find any solution to the problem of indebtedness of developing countries.

3. The common and most important challenge now facing Member countries is to ensure recovery with stable prices and to consolidate that recovery on a medium- and long-term basis. Such favorable macro-economic conditions should make it possible for us to reduce protectionist trends and to achieve expansion of world trade. I am convinced that this, in turn, will contribute importantly to solving the developing countries' economic difficulties, particularly that of accumulated debt.

4. I should like to emphasize that in order to accomplish these tasks, we must make sincere efforts in the following three areas.

First, it is essential to work on the factors that stand in the way of sustained growth. We must reduce budget deficits, promote the reduction of overall interest rate level and so on.

At the same time, I should like to stress the need to establish stable and sustained economic growth, led by domestic demand, by implementing appropriate policies on the foundation of what has been achieved so far. This will raise the credibility of the policy management by the government and remove uncertainties in the private sector, thus contributing to restoring confidence in the market economy.

Second, in order to further strengthen the free trade system, we must make determined and cooperative efforts to roll back various protectionist measures. The Japanese Government believes that the policy reviews proposed by the Secretariat are timely as a part of such efforts.

Furthermore, we must now take another step forward by vigorously promoting the preparations for the commencement of new multilateral trade negotiations.

Third, in order that rational allocation of resources may be attained so as to enable us to respond flexibly to changes, such as rapid technological innovation brought about by emerging high

will be necessary to positively accelerate implementation, in a medium- and long-term perspective, of the structural adjustment policy appropriate for each country's circumstances. Those policies will necessarily include reduction of excessive government intervention, which prevents the market mechanism from functioning effectively, restoration of the flexibility of the labor market and bold reforms of existing institutions and practices. In this connection, I believe we should remind ourselves once again of the General Orientation of Positive Adjustment Policy, one of the Organization's most pioneering achievements.

Mr. Chairman,

5. The Japanese economy is now on a path of moderate but steady recovery. Fortunately, our economy is blessed with fundamental conditions for sustained growth, such as stable prices, high saving rate, sound industrial relations.

In addition, in Japan the share of the public sector in the economy has always been relatively low, leaving ample room for market competition encouraging the initiatives and ingenuity of the private sector.

We have, moreover, in recent years been doing our utmost in the areas of administrative and budgetary reforms to further rationalize our public sector and to

relax regulations to make better use of the private sector's vitality. With this background, we are determined to make continued efforts to assure recovery and consolidate sustained recovery led by internal demand through appropriate and flexible management of policies, taking advantage of the potential strength of our economy.

6. With regard to the international aspects, we desire to strive ceaselessly to open up our economy and our society yet further, and to promote international cooperation for the maintenance and strengthening of the free trade system.

Japan has to date implemented a series of external economic measures. Most recently, in April, we decided upon a new policy package from a global viewpoint while taking into account requests made by other Member countries. These include further opening of Japan's market, promotion of import of manufactured goods, liberalization of our domestic financial and capital markets, and promotion of international investment. We are determined to implement these measures in good faith as has been the case before. I hope most sincerely that Japan's determined efforts will be appreciated for what they are, a sincere and constructive cooperative contribution, and that they

will encourage other efforts to reverse protectionist trends. We also hope that economic growth led by domestic demand and further opening of our markets, combined with the improved functioning of adjustment mechanism of exchange rates through appropriate levels of interest rate abroad, will lead to the improvement of our balance of payments position. At the same time, we believe that Japan, with its high saving rate, should contribute to the further development of the world economy. As a part of that contribution, we intend to make further efforts to promote technology exchange and industrial cooperation. We also endeavor to expand official development aid under the new medium-term target to further assist the developing countries' development.

Mr. Chairman,

7. If one looks closely at the world we live in today, one cannot help noticing areas that are left behind the level of affluence so far achieved. In the developed countries, there is a great deal of unemployment, the existence of which threatens to undermine economic and social stability. In the developing countries, many still lack the basic requirements for a decent minimum standard of living.

Fortunately, however, general confidence in the free market economy and in our economic policy is being

restored with the ongoing recovery.

8. Under such circumstances, we, representing free economies, who gather here should implement policies, always bearing in mind their international implications, so as to achieve sustained, non-inflationary growth by means of structural reforms, making more positive use of the market mechanism. We must also ensure that this growth will spread to the rest of the world through expansion of trade, thus contributing to the revitalization of the world economy.

Let us Member countries join hands to build a new era of growth.

Thank you.

14/5/84

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ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

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C/MIN(84)8(2nd Revision)

Plenary Session
Working Document

Or Eng.

COUNCIL

PREPARATIONS FOR MEETING OF COUNCIL AT MINISTERIAL LEVEL

DRAFT COMMUNIQUE

(Note by the Secretary-General)

Ministers will find herein the Communiqué as revised during their lunches and the drafting session.

W/0444c

Organisation, in consultation with BIAC and TUAC, to pursue the above orientations.

15. Bearing in mind the importance of the social, economic and technological changes underway, Ministers underlined the importance for the Organisation to deal with all these issues in a medium and long-term perspective.

THE GLOBAL CONTEXT: CO-OPERATION WITH DEVELOPING COUNTRIES

16. Ministers agreed that OECD countries should further strengthen co-operation with developing countries, contributing to their economic recovery and renewed development progress.

The Debt Problem

17. Ministers noted that progress was being made in managing and containing the problems of international indebtedness. Nevertheless, the debt problems of some developing countries remain serious and high interest rates [and the continuing misalignment of major reserve currencies] [as well as some exchange rate developments] [among other factors] add to the debt-servicing burden. Ministers saw commitment to continued co-operation by governments, international financial institutions, and the banking community as essential to achieve effective adjustment efforts by debtor countries and to the continued effective functioning of the international financial system.

Policies for Improved Resource Flows

18. Ministers agreed that it was important to focus on the fundamental task of ensuring that financial flows to developing countries respond to development needs and investment opportunities, contributing to efficient resource use and avoiding unsustainable patterns of debt accumulation.

19. Ministers stressed that achieving satisfactory resource flows to developing countries requires effective policies and international co-operation in three central areas:

- i) adequate savings by the industrialised countries;
- ii) efficient use of capital by developing countries;
- iii) effective channels of intermediation -- the private capital markets, the international financial institutions, and aid.

Ministers agreed on the need for improved policies as well as action in these areas as outlined below.

Non-Concessional Resource Flows

20. Recent experience has shown that more effective, market-oriented policies are important for mobilising sustainable private capital flows to developing countries. Ministers were of the view that the international

financial institutions could further develop their roles in this respect. The role of the IMF in support of effective adjustment was considered critical, as well as the World Bank's emphasis on medium and long-term development. Against this background, Ministers urged strengthened co-operation between the IMF and the World Bank in fulfilling their complementary responsibilities.

Official Development Assistance

21. Ministers renewed their pledge to maintain and, as far as possible, to increase their countries' aid with a view to realising their commitments to the international aid objectives, especially for the poorer developing countries. They expressed special concern over the trends and prospects in the low-income countries, particularly of Sub-Saharan Africa, and urged a concerted effort by DAC donors to adapt their aid efforts and policies to the particularly difficult conditions and requirements of these countries. Ministers welcomed the conclusions reached by the last DAC High-Level Meeting on increasing aid effectiveness through strengthened aid co-ordination. They agreed that the multilateral institutions have an important role in providing financial and technical assistance and in helping developing countries to pursue more effective policies. These institutions must have adequate support. The role of IDA is crucial and replenishment of its resources [at a substantial level] [at an adequate level] is a high priority. [They agreed that attention must be given soon to a general capital increase of the World Bank].

Aid and Trade Related Concessional Finance

22. Ministers affirmed their commitment to avoid any de jure and de facto financing practices which give rise to trade distortions and to diversion of aid flows from development objectives and to apply fully the guiding principles they have agreed upon. They enjoined the competent bodies of the Organisation to take prompt action to improve existing arrangements so as to strengthen transparency and discipline in this area by all appropriate means. Differing views were expressed with respect to the desirability of including increases in established minimum grant elements in such action. They requested these bodies to report on progress made toward these ends by the next Ministerial Council.

Direct Investment

23. Ministers noted the important contribution foreign direct investment can make to efficient production, trade, including export potential, and technology transfers, and to achieving a better balance between debt and equity financing for capital importing countries. They asked the Organisation to improve the monitoring of direct investment flows and the identification of the main policies and conditions in host and investor countries most conducive to promoting direct investment, including strengthened investor/host country confidence and security, and to help Member governments prepare for constructive discussions with developing countries.

Trade Policy in an Economic and Development Context

24. Ministers recognised the common interest of all trading partners in the effective functioning of the open international trading system. They underlined the special responsibility of developed countries in this regard,

14/5/84 -

OECD MINISTERIAL COUNCIL, 17-18 MAY

STATEMENT BY CHANCELLOR OF THE EXCHEQUER

Recovery in the world economy is proving stronger than many expected at the time of last year's meeting. The task now is to sustain it.

2. The foundation for recovery has been the rapid fall in the rate of inflation. It is therefore a cause for concern that on the Secretariat forecasts no further slowdown in inflation is envisaged. The present average rate of 5 per cent is clearly an improvement on the 1970s but is still not as good as earlier experience, and falls well short of the achievement of stable prices.

3. This suggests that in those countries where growth is particularly strong and labour markets are tightening, special care should be taken to avoid rekindling inflation. In those where inflation is still rapid, efforts to reduce it need to be given the highest priority. In the UK, where inflation is currently around 5 per cent, the OECD average, we are aiming for a further gradual reduction in inflation over the next few years.

4. This means, in particular, that there is no case for relaxing monetary policy. I agree strongly with the Secretary-General that we must not repeat the mistakes of past cycles by allowing excessive monetary growth.

5. Another obvious cause for concern is the high and rising level of both real and nominal interest rates in the US, not least because international capital markets quickly transmit the

/effects

effects of high US rates to other countries. They contribute to an unsustainable pattern of current external balances and - above all at the present time - they impose a heavy additional burden on the debtor countries with all that that implies.

6. The key to lower interest rates is budgetary policy, in other words less Government borrowing. There is a striking contrast between the rising US structural deficit and the efforts that the vast majority of OECD countries are making to reduce their (structural) deficits.

7. The American budget deficit already exceeds the total savings of US households, implicitly leaving nothing for them to invest on their own behalf or to lend to companies. The US Government's excessive borrowing requirement is thus inevitably financed by a massive net capital inflow which in turn is equally inevitably offset - since the books have to balance - by a \$100 billion current account external deficit. This is equivalent to about a quarter of household savings in all the other major OECD countries put together. It is also twice as large as the total deficits of non-oil developing countries who might normally have looked to the US as a supplier of funds.

8. So I warmly welcome the US Administration's effort to secure agreement on a substantial 'down payment' as a start to reducing the deficit. I hope that the further measures which are needed - on either the spending or revenue sides - will be pursued equally vigorously before too long. [Meanwhile, outside the US, firm efforts to reduce both inflation and budget deficits offer the best prospect for being able to de-couple from US rates. In the UK, public sector borrowing has already been reduced from five and a half per cent of GDP to three and a quarter per cent in the past five years, and we intend to reduce it to two and a quarter per cent this year and still less in the years ahead.]

*Ref
to Regn*

9. If growth is to be sustained and job prospects improved we need not only a stable macro-economic framework. We also need, domestically, greater flexibility in markets, *in p^o* in industry, and in labour. And we need a more efficient working of the open trade and payments system.

10. There is a clear link here with the level of state spending. I was unable to attend February's meeting of OECD Ministers, since I was busy preparing my Budget, but I echo the concern that was expressed there about the rising scale of government spending in industrial countries - up from 30 per cent of GDP in 1960 to around 50 per cent now. Social spending has risen particularly rapidly. I am encouraged that despite the short-term political difficulties of which we are all keenly aware, more than half of OECD countries are now reducing overall spending plans. (In the UK, we are also looking at the long-term implications of present trends. We are determined that Government spending will be limited to what can be afforded, so that it represents a steadily smaller share of GDP.)

11. The firmer the control of public spending, of course, the greater the scope for lower taxes. Governments have a particular responsibility to eliminate measures which reduce incentives, interfere with relative costs and prices and distort savings and investment decisions. In the UK we have been able in recent years to reduce marginal tax rates, abolish the employers' supplementary payroll tax and undertake a major reform of company taxes, but

There is more to be done.

12. Greater flexibility and freedom for the market to work better is no mere academic theorising. It is of central practical importance to our success or failure in tackling the challenge of the present appallingly high level of unemployment. The US example of creating almost 25 million jobs in the past 15 years is a powerful lesson on the virtues of flexible labour markets.

13. I therefore welcome the Secretary-General's stress on micro-economic issues and I strongly support his suggestion that the Economic Development and Review Committee should cover these more fully in future in its annual examinations of members' economies.

14. I also welcome the emphasis on trade in the Secretary-General's paper, and I hope in particular that we can agree on a positive approach to both phases of rollback. Among other issues, I hope we can tackle the serious problem of non-tariff barriers to trade.

15. We need further work to identify how this can best be carried forward. I welcome in particular the proposal that the Secretariat should undertake specific reviews designed to identify the key rollback actions required in the immediate future.

16. In recent years there has been a disturbing growth in mixed credit and similar practices, which are another example of distortion of trade. I hope that at this meeting we can agree on practical steps to limit them, and phase them out as soon as possible.

17. An open trading system is of particular importance to developing countries who need to earn export revenues to service their debts. (The halving of developing countries' current deficits from \$80 billion in 1981 to \$40 billion last year is a measure of the scale of the adjustment they have already undertaken. This was accomplished at first largely by a reduction in their imports. But rising export volumes and firmer commodity prices are now permitting them once more to increase imports and improve their financial position.)

18. Sustained recovery in the OECD area coupled with more open markets for their exports will allow this process to continue. But the situation of many debtors could remain precarious for many years to come, and close co-operation between the debtor countries, the international financial institutions, creditor governments and commercial banks will continue to be needed.

19. Lastly, a word about capital markets. We are moving through a period of rapid change with interest rate deregulation in the US and the removal of exchange controls in Japan, and most recently Australia. In the UK, where there are no exchange controls whatever, we are also embarking on a significant liberalisation of our stock exchange and securities market. Although such changes may cause transitional problems, they encourage better investment decisions both domestically and internationally. In a number of countries further progress on the liberalisation of capital markets is urgently needed.

20. My colleague, Geoffrey Howe, referred yesterday to our concern about the effects of unitary taxation in the United States on international businesses. I welcomed the news that Secretary Regan's Working Group had agreed that unitary taxation should be confined to the water's edge. I trust that this agreement will be fully ratified, speedily implemented, and consistently applied. I have to say that in my own country Parliamentary pressures for retaliatory action are bound to persist so long as the prospects for implementation remain in doubt.

21. We have seen in recent weeks how quickly world financial markets respond to changing monetary conditions, interest rates and expectations. Only when markets are convinced that credible, consistent and sustainable medium-term policies are being pursued will both exchange rates and interest rates be less volatile. Prudent monetary policies, supported by firm budgetary policies, remain essential.

22. Finally, Mr Chairman, my country has the privilege of hosting the Economic Summit in a few weeks time, and I shall listen with particular care to the views of members here with that in mind.

From A R H Bottrill
Date 14 May 1984

1. MR LITTLER
2. CHANCELLOR OF THE EXCHEQUER

cc Mr Unwin
Mr Lavelle
Mr Sedgwick
Mr Mountfield
Mr Graham

OECD MINISTERIAL COUNCIL, 17-18 MAY, PARIS

... I attach a draft speaking note for the Chancellor's use at the OECD Ministers' meeting later this week.

2. I have included a fairly blunt passage on US interest rates and budgetary problems on the grounds that it will be easier to say this at OECD than at the Summit. The Americans' room for manoeuvre is strictly limited at this stage on fiscal policy, but it is not clear that the markets will wait for the Presidential election.

3. A section on trade has still to be inserted in the light of the outcome of current discussions with DTI. It would also be possible to add a note on the need for further capital market liberalisation, eg Japan, France, etc., if thought useful.

4. A full set of inter-departmental briefs will be submitted separately.

A R H Bottrill

A R H BOTTRILL

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with good margins

OECD MINISTERIAL COUNCIL, 17-18 MAY, PARIS

Agenda item No. 5 - Achieving durable growth:

Flexible adjustment in a changing world

*Our task now
is to sustain it.*

Speaking Note

Recovery in the world economy is proving more rapid than many expected at the time of last year's meeting. [I believe that three main factors lie behind this better performance. First, inflation came down more rapidly than expected last year. Second, interest rates were generally lower as inflation slowed. Third, moderate wage increases and rising productivity have improved profits.

2. Of course, different countries' experiences have varied, depending partly on the timing of their progress in these areas. But I believe these factors help to explain the rise in consumer spending in many OECD countries, the turnaround in residential construction and in companies' stockbuilding. Now, they are helping to encourage rising business investment.]

It is to
23. ~~If the present recovery is to be sustained, I suggest that we need to continue to focus our attention in these areas. A first cause for concern, therefore, is that on the forecasts put before us by the Secretariat no further slowdown in inflation is envisaged. The present position where consumer prices are rising at an average rate of 5 per cent marks an improvement on the 1970s but is still well above previous experience, let alone stable prices.~~
We have been helped by the rapid fall in the rate of inflation, and a first cause for concern, therefore, is that on the forecasts put before us by the Secretariat no further slowdown in inflation is envisaged. The present position where consumer prices are rising at an average rate of 5 per cent is an improvement on the 1970s but is still well above previous experience, let alone stable prices.
not as good as
and falls well short of the achievement of
earlier

3. This suggests that in those countries where growth is particularly strong and labour markets are tightening, special care should be taken to avoid rekindling inflation. In those where inflation is still rapid, efforts to reduce it need to continue. In the UK, where inflation is currently close to the OECD average, we are aiming for a slow but steady further reduction in inflation over a run of years.

There is no case for relaxing

5. ~~Monetary policy (of course) has a major role to play in the control of inflation. I agree strongly with the Secretary-General that we ^{must} not repeat the mistakes of past cycles with an ^{by allowing} excessively rapid rise in monetary growth at this stage. I welcome instead the fact that target rates for monetary growth have been reduced this year in the US, Germany, France and the UK. This seems to me consistent with continued downward pressure on inflation and further real recovery. In the UK, we have revised down our target growth for the broad aggregates to 6-10 per cent and introduced a 4-8 per cent range for the new Mo aggregate. Our objective over the medium-term is to reduce these ranges further.~~

4. The high and rising real interest rates in the US are another cause for concern

~~6. Turning to interest rates, the recent ^{rise in US rates} tendency for rates to rise sharply in the US is particularly worrying. (The integrated nature of international capital markets transmits ^{such tensions} these tensions quickly to other countries, even if at least part of the strain can be reflected in exchange rate changes. These, however, create their own problems if they contribute to an unsustainable pattern of current balances.~~

International capital markets ~~to~~ quickly transmit the effects of these to other countries. They create further problems where

Above all, at the present time, they impose a heavy burden additional ~~burden~~ on debtor countries

7. The key to lower real interest rates, ~~of course,~~ ^{budgetary} is fiscal policy, ^{in other words lower less Government borrowings} ~~[Others have already referred to the potential problems for the US recovery and the implications for the rest of the world of the increasing American budget deficit, and I do not want to labour the point.]~~ ^{There is a striking} I am struck, however, ~~by the contrast between the rising US structural deficit and the efforts that the vast majority of OECD countries are making to reduce their structural deficits. [It would be tragic if the rising US demand for credit were to negate other countries' efforts. [It is particularly regrettable that owing to the nature of the US tax system borrowers in the US bear less than the full cost of these high interest rates.]~~

8. The American deficit already exceeds the total savings of US households, implicitly leaving nothing for them to invest on their own behalf or to lend to companies. The US economy's need for credit is of course being reflected in net capital inflows to offset the burgeoning \$100 billion external current deficit. This last is equivalent in turn to about a ^{quarter} ~~fifth~~ of households' savings in all the other major OECD countries. It is also twice as large as the deficits of non-oil developing countries who might normally have looked to the US as a supplier of funds.

9. I welcome the US Administration's effort to secure agreement on a substantial "down payment" as a start to reducing the deficit. I hope that ^{the} ~~whatever~~ further measures ^{which} are needed - on either the spending or revenue sides - will be pursued vigorously as soon as possible after the election. In other countries, firm efforts to reduce both inflation and budget deficits offer the best

prospects for being able to decouple from US rates. In the UK, public sector borrowing has already been reduced from more than 5 per cent of GDP to 3 per cent in the past five years, and we intend to reduce it to 2 per cent or less in the years ahead.

If growth is to be sustained and job prospects improved
10. ~~A stable macro-economic framework is an essential precondition for recovery, but improved supply performance is necessary if growth is to be sustained. We need both increased flexibility domestically as well as a more efficient working of the open trade and payments system.~~
we need not only a stable macro-economic framework, and job prospects improved.
we also need greater flexibility in markets, in industry, and in labour, we
And we also need a more efficient working of

11. I was unable to attend February's meeting of OECD Ministers, but I echo the concern that was expressed there about the rising ^{scale} share of ^{government} public spending in industrial countries - up from 30 per cent ^{of GDP} in 1960 to around 50 per cent now. Social spending has risen particularly rapidly. I am encouraged that more than half of OECD countries are now reducing overall spending plans. In the UK, we ^{are} ~~have~~ also ^{been looking} ~~to look~~ at the long-term implications of present trends. We are determined that spending will be limited to what can be afforded, ~~while~~ releasing resources for the private sector. ~~(We are also reviewing our social security system.)~~

12. The firmer the control of public spending, of course, the greater the scope for lower taxes. Governments have a particular responsibility to eliminate measures which ^{reduce} ~~hinder~~ incentives, and distort ^{relative costs and} ~~factor~~ prices and ~~hamper~~ efficient saving and investment decisions. In the UK we have been able in recent years to reduce marginal tax rates, abolish the employers' supplementary payroll tax and ^{undertake} ~~initiate~~ a major

SPEAKING NOTE: CONTRIBUTION ON TRADE ISSUES

15. ~~As the Secretary General points out, trade policies are a conspicuous test of a Government's willingness to pursue positive adjustment policies.~~ ^{also} I endorse the analysis of trade issues in the Secretary General's paper, and his ~~general~~ ^{should} approach to phase 2 of rollback. It is important that we do not allow the prospect of a new GATT round to inhibit progress on rollback, ^{and} If progress on rollback is to be made, further carefully targeted work is required. Non-tariff barriers must be a major, though not exclusive, focus for phase

^{2.} ~~16.~~ We need further work to identify how this can best be carried

[Sectoral reviews will contribute to this. But they will only cover the obvious sectors. There are many other undesirable practices outside these sectors which need to be tackled. Any worthwhile package for phase 2 will involve concessions by OECD members which cut across sectoral boundaries. Scope for action needs to be identified country by country.]

^{forward a} ~~Either~~ We should ^{I welcome} adopt the Secretary General's proposal and ^{should} invite ~~the Secretariat to undertake trade reviews concentrating on policies and measures to include in potential rollback actions.~~ ^{that}

Or This could conveniently be done in the next round of EDRC reviews, as part of the sharper focus on positive adjustment policies, and the Secretariat could be asked to concentrate on this area in next years round.]

17. ~~There has been a growth in recent years of~~

~~Export subsidies, and mixed credits in particular, should not be used as a means of delaying adjustment - they have the same trade distorting impact as conventional import barriers. Welcome proposal for Ministerial commitment to action in this field; must make every effort to control these self-defeating subsidies. Increased discipline and transparency will be beneficial, and must be extended to transactions similar to associated financing in their trade distorting effect, but the UK would go further. We want international agreement to limit and phase out over a specified time period the use of associated financing and similar transactions. We should ask the competent bodies of the organisation to report back with firm proposals to the DAC High Level Meeting.~~

And I hope that at this meeting we can agree on a practical steps to limit them, and indeed phase them out.

reform of company taxes.

13. ^{It is for} ~~Even if~~ governments ^{to} ~~both~~ control their own demands on the economy and collect the necessary revenues fairly and efficiently, ^{But we must look to} ~~a substantial burden still rests on~~ the private sector - both employees and management - if our economies are to adapt flexibly ^{and grow}. The US example of creating almost 25 million jobs in the past 15 years is a powerful lesson on the virtues of flexible labour markets. ~~We in Europe would do well to copy.~~

^{therefore}
14. I welcome the Secretary-General's stress on micro-economic issues and I support his suggestion that the Economic Development and Review Committee should cover these more fully in future in its annual examinations of Members' economies. ~~Improved structural adjustment is essential not only for the working of our domestic economies but also because measures that seek either to delay adjustment or to favour particular activities are also likely to affect trading partners.~~

15-17 opposite ~~15. Insert passage on trade issues.~~

18 ~~16.~~ An open trading system is of particular importance to developing countries who need to earn export revenues to service their debts. The halving of developing countries' current deficits from \$80 billion in 1981 to \$40 billion last year is a measure of the strong adjustment that they have already undertaken. This was accomplished ^{at first} ~~initially~~ largely by a reduction in their imports. ^{But} ~~rising~~ export volumes and ^{firmer} commodity prices, ~~however,~~ are now permitting them ^{improve their financial positions} ~~once more to increase imports and begin to rebuild their reserves.~~

UNITARY TAX - DRAFT PASSAGE FOR CHANCELLOR'S
STATEMENT ON DAY 2 AT OECD

Na Geoffrey Howe referred yesterday to our concern about the effects of unitary taxation in the United States on international businesses. This concern is reflected in the communique. We are all glad that Secretary Regan's Working Group has agreed that unitary taxation should be confined to the water's edge. Now there has been this major step forward on the principle, our concern is that it should be speedily implemented, and be consistently applied. We trust that discussions will take place very soon on the practical effects of this solution for the UK and other trading partners, and the timetable for its implementation. The UK will certainly respond as quickly and positively as possible, so as to enable the US Administration to maintain the momentum for a resolution of this issue.

17. Sustained recovery in the OECD area ^{will} allow this process to continue. But the situation of many debtors could remain precarious for some years to come, ^{and} ~~We must therefore consider ways of ensuring a more stable flow of funds. Continued prudent policies by debtors will be essential to ensure credit-worthiness, but I would hope that we can also see increased private direct investment.~~ We might perhaps also look for greater reliance on structural lending by the World Bank. ~~Certainly, sustained~~ ^{the debtor countries themselves} ~~co-operation between~~ the international financial institutions, creditor governments and commercial banks will ^{continue to be} ~~be~~ needed, to cope with the debt "hump" over the next few years.

-> Unitary tax? Ha

20 18. Lastly, I want to ^{a word about} turn for a few moments to the working of capital markets. We are moving through a period of rapid change with interest rate deregulation in the US and the ^{removal} ~~reduction~~ of exchange controls in Japan, the UK and most recently Australia. In the UK we are also embarking upon significant liberalisation of our stock markets. I am sure that, although such changes may cause ^{difficulties} ~~temporary adjustment~~ ^{transitional} problems, they ^{encourage better} ~~can contribute~~ ^{prode} significantly to the efficiency of investment decisions both domestically and internationally.

We must also avoid

19. For the latter, of course, we need also agreement on tax systems ^{which distort investment}. Geoffrey Howe referred yesterday to our concern about the effects of unitary taxation in the United States on international businesses. ~~This concern is reflected in the communique.~~ ^{I am} We are ^{welcomed the news that} all glad that Secretary Regan's Working Group had agreed that unitary taxation should be confined to the water's edge. Now ~~there has been this major step forward on the principle,~~ ^{My} our concern ^{now} is that it should be speedily implemented, and be

consistently applied. (We trust that discussions will take place very soon on the practical effects of this solution for the UK and other trading partners, and the timetable for its implementation. The UK will certainly respond as quickly and positively as possible, so as to enable the US Administration to maintain the momentum for a resolution of this issue.)

20. We have seen in recent weeks how ^{quickly world financial} integrated capital markets respond ~~quickly~~ to changing monetary conditions, interest rates and expectations, ~~in major countries~~. The dollar fell by some 7-8 per cent against the DM between January and March, but virtually all this fall has now been reversed. Such movements clearly do not reflect changes in fundamentals. They reflect uncertainty about policy.)

21. Only when markets are convinced that credible, consistent and sustainable medium-term policies are being pursued ~~in the major countries~~ will both exchange rates and interest rates be less volatile. Prudent monetary policies, supported by firm ^{budgetary} fiscal policies, are essential.

22. Finally, Mr Chairman, my country has the privilege to be host to the Economic Summit in a few weeks' time, and I shall listen with particular care to the views of Members here with that in mind.

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SAVING TELEGRAM

14/5/84

BY BAG
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FM FCO

TO CANBERRA TELNO 1 SAVING OF 15 MAY 1984
AND SAVING TO VIENNA, BRUSSELS, OTTAWA, COPENHAGEN, HELSINKI, PARIS,
BONN, ATHENS, REYKJAVIK, DUBLIN, ROME, TOKYO, LUXEMBOURG, THE HAGUE,
WELLINGTON, OSLO, LISBON, MADRID, STOCKHOLM, BERNE, ANKARZ, WASHINGTON,
UKDEL IMF/IBRD WASHINGTON, UKREP BRUSSELS

POLY
COMMITTEE
2-3 MAY

OECD ECONOMIC POLICY COMMITTEE, 2-3 MAY, PARIS

Summary

The OECD Economic Policy Committee discussed macro-economic issues, structural adjustment and trade. The macro-economic discussion focussed on the prospects for US inflation and interest rates, and on the prospects for recovery in Europe. The Committee agreed to recommend Ministers to ask the Secretariat to place greater emphasis on structural adjustment policies, in particular by including them in the usual EDRC examination of countries' economies. Discussion of trade issues was disjointed with concern about both the lack of progress in rolling back protectionism and the risk that the present exchange rate pattern was leading to misallocation of resources.

Macro-economic developments and policies

2. Henderson (Secretariat) reporting on the short-term forecasters' meeting, said that the only major difference between country forecasts and those of the Secretariat was that the US was expecting GDP growth of 4 per cent next year compared to the Secretariat's projection of 3 per cent. Countries were generally finding exports turning out higher than expected, reflecting the US current account deficit. The US was expecting higher imports next year in line with its higher growth forecast. The short-term forecasters had been concerned about the effects of high interest rates on the recovery. The Secretariat had suggested that the sustainability of the recovery depended on tackling major imbalances in the OECD economy - especially the US budget deficit.

3. Feldstein (US) said that the Administration had been surprised by the 8 per cent GDP growth rate in the first quarter

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but much of this had reflected higher stockbuilding. Demand excluding stockbuilding had been rising at a rate of 4 per cent. He was among those who expected slower growth in future. Inflation would be around 5 per cent this year but wage settlements were still around 3 per cent and unemployment more than 1 per cent above the natural rate of $6\frac{1}{2}$ per cent, so that he believed that there was still room for GDP growth of around 5 per cent without any further acceleration of inflation.

4. Monetary growth was consistent with a 10 per cent increase in nominal income this year. Velocity had returned to normal and the Administration was 'comfortable' with the Fed's policy. He claimed that substantial progress was being made in meeting the budget deficit. The President's proposed \$150 billion 'downpayment' - although worth only \$25 billion in 1984/85 - was designed to reduce the deficit by \$90 billion a year by 1988/89. In addition, a larger package would be introduced next year to bring the budget closer to balance by the end of the decade.

5. Axilrod (Fed) suggested that part of the recent rise in M1 velocity might have reflected a catch-up on last year. The 1 per cent rise in interest rates in the first quarter had been modest for such a steep rise in velocity. Korp suggested the US current deficit would be \$80 billion this year and \$100 billion next. He did not expect the recent strength of the dollar to be permanent. The US would not be concerned about an orderly dollar depreciation as other countries' growth and inflation improved.

6. The Japanese, Canadians and several smaller countries were concerned about US interest rates. The French, Dutch and Swiss were concerned about US inflation prospects. The Swedes were concerned about the sustainability of the US current deficit. The Germans mentioned the dollar's strength.

7. Feldstein argued that once the markets gave credit for the 'downpayment' reduction in the budget deficit, long-term interest rates should fall, although short-rate could rise over the next year or two. He denied that the Administration was accommodating 5 per cent inflation. Its goal was to reduce inflation to less than 3 per cent. He acknowledged that the current deficit of \$80-100 billion was not sustainable and the exchange rate would

have to adjust. The CEA had calculated that a 10 per cent depreciation in the dollar would improve the current account by about \$20 billion at an annual rate after eighteen months.

8. Molitor (Germany) claimed that the Secretariat was too pessimistic about the recovery in Europe. German GDP growth would be greater than 3 per cent this year compared to the Secretariat's forecast of 2½ per cent. He denied that German budgetary policy had been too restrictive. The lower budget deficit had encouraged investment. The proposed income tax reforms would add 1½ per cent to GDP from 1986 onwards and avert any risks to medium-term growth.

9. The Greeks, Italians and Scandinavians argued that the recovery of domestic demand in Europe was not strong enough to sustain growth and reduce unemployment. Structural measures alone would not be enough to solve the unemployment problem. Joergensen (Denmark), in particular, claimed that Germany and the UK had room for fiscal relaxation.

10. Sir Terence Burns (UK) said that in the recent past inflation had been lower than expected and growth faster. In Europe, the growth of nominal GDP had been reduced to 9 per cent in 1983 and was forecast to remain at this rate in both 1984 and 1985. Within this, lower inflation might well improve the prospects for output. European unemployment had risen over recent cycles as a result of structural factors - irrespective of macro-economic policies. Now was not the time, therefore, to change macro-economic policies.

Structural adjustment policy

11. Stone (Australia) drew attention to the rise in budget deficits in OECD countries and to the increased share of GDP taken by public spending since his last visit to EPC in 1978. These have contributed to the steep rise in real interest rates. He blamed labour market rigidities and the distortions due to high social security and tax rates, for the increase in unemployment. Governments had also intervened too much in industry through subsidies and protection, etc. EPC should become more concerned with micro-economic issues than in the past.

12. The Italians and Scandinavians argued the case for budget deficits to mop up excess ex ante private savings. The Greeks argued the case for public spending on infrastructure. The

Irish wanted to keep industrial subsidies. The French also argued against making normative judgements about public spending per se.

13. The Scandinavians, also in unison, suggested that the Secretariat should do more work on medium-term employment scenarios, along the lines of that recently discussed at Working Party 1. Henderson responded cautiously. The Secretariat hoped to continue WP1-type work as a baseline projection but was not ready to put forward medium-term forecasts.

14. Sir Peter Middleton (UK) said that budget deficits should be reduced by low spending and low taxes. Low spending would release resources for the private sector. Low taxes would allow desirable reforms to the tax system. He accepted that it was difficult to control public spending. The UK, therefore, had set out 10-year public spending trends showing that if these were unchecked, the opportunities for tax reduction would be lost.

15. Molitor argued that positive adjustment policies were best implemented when economies were recovering, as now. He argued for privatisation, a reduction in industrial support measures, greater progress on 'grey areas' measures, more generosity on MFA quotas and a need for a strengthening of capital markets in Europe.

16. Sir Peter Middleton reporting on the Committee's ad hoc meeting on positive adjustment policy in March, said there had been general agreement on the need to make progress on positive adjustment policies. These should be interpreted broadly. They could include removing government measures which impeded the working of markets. Some restrictions eg for health and safety were needed, but these should be examined carefully for benefits and disbenefits. Government actions, both on subsidies and more widely, eg on tax concessions, should be more transparent. It was important to stress the trade implications.

17. The ad hoc meeting had suggested that positive adjustment policies should be examined as part of the annual EDRC reviews of countries' economies. Specialist committees should also have their attention directed to this area. WP1 might participate later but was currently overloaded. EPC should discuss positive adjustment each autumn. Ministers should receive an amended version of the ad hoc group's report. No-one disagreed with the view that Ministers should be asked to endorse this work programme. The Japanese, however, drew attention to the difference of views between countries on the EDRC examining trade policies. The Canadians argued for more Secretariat resources in this area and for informal contact with other international institutions dealing with non-OECD countries.

18. Huet, chairman of EDRC, said he was ready to accept the extended mandate. He suggested that national delegations to examinations would need strengthening. Additional expertise might also be needed among examiners. He was pessimistic about how much might be published.

19. The Secretary-General said that Ministerial endorsement would give more operational urgency to this work across OECD committees as well as in the EDRC. He recognised the delicacy of EDRC country reviews. Issues would need to be carefully selected. Specialist committees' work would need to be integrated with the EDRC. He would create a Secretariat task force to see that this was done. But he would not seek more resources.

20. Feldstein agreed that Ministers should be asked to endorse EDRC examination of positive adjustment policies. He would seek agreement on a revised text of the ad hoc group's report so that it could be put to Ministers.

Global trade and investments

21. The Japanese regretted the lack of progress in reducing protection since last year's OECD Ministers' meeting but described the unilateral action that Japan had taken to lower tariffs. They also repeated their determination to liberalise the Tokyo

financial markets and encourage the international role of the Yen. They stressed the need to liberalise the Tokyo markets first with liberalisation of Euro-Yen markets following. At least some more new measures are apparently expected to be announced by the end of this month, but they did not elaborate.

22. Milleron (France) claimed that the present pattern of exchange rates was leading to current imbalances and misallocation of resources. He called on OECD countries to meet their responsibilities to LDCs by reducing interest rates and sustaining growth. He spoilt the effect, however, by insisting that protection in OECD countries had had little effect on LDC exports.

23. On this last, he was swiftly challenged by Canadians and New Zealanders.

24. Next meeting. The next meeting was fixed provisionally for 15-16 November, although the Germans will be seeking a change because it clashes with a Bundesbank meeting.

HOWE

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COPIES TO:-

MR A R H BOTTRILL

TREASURY

MR J GRAHAM

TREASURY

14/5/84

OECD MINISTERIAL COUNCIL MEETING, 17-18 MAY 1984

AGENDA ITEM NO 4: THE 1984 REVIEW OF THE OECD 1976 DECLARATION
ON INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES

DISCUSSION DOCUMENTS C/MIN(84)5, C/MIN(84)6

OBJECTIVES

1. To draw attention to the successful conclusion of agreements on 'conflicting requirements' on multinational companies, and to give impetus to further work on the subject in OECD.

POINTS TO MAKE

1. Welcome Review of international investment instruments. The outcome strikes the right balance. It is important to maintain stability in the international framework for investment and we are therefore pleased that few changes are to be made in the OECD Guidelines for Multinational Enterprises. On the other hand, we have to keep abreast of new developments.

2. In this context, we particularly welcome the agreement in the Committee on International Investment and Multinational Enterprises (CIME) on some new approaches to international co-operation to deal with problems raised by the imposition of conflicting requirements on multinational enterprises. It is no secret that my government has been very concerned about the effects on international economic relations of exercises of extraterritorial jurisdiction. I believe that this concern is shared by all of us. Solutions to these problems have become increasingly urgent. Very often, they will be found most appropriately at a bilateral level, and my government is actively pursuing this avenue. But it is important that there should also be opportunity for multilateral discussion of these issues, which will often have an impact - for example, on the overall investment climate - beyond the parties most directly concerned. The procedures and general considerations agreed in the CIME provide an excellent first step towards an international framework for dealing with these issues, at both levels.

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3. We now look forward to effective operation of these new procedures. As I have said, they are a first step . More multilateral work needs to be done to improve international understanding and the OECD is clearly the right place to do it. We therefore strongly support the proposal that the CIME should act as a forum for further consideration of the issue.

AGENDA ITEM NO 4: THE 1984 REVIEW OF THE OECD 1976 DECLARATION
ON INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES

ESSENTIAL FACTS

1. The 1976 Declaration is a package of three related instruments, the OECD Guidelines on Multinational Enterprises (MNEs), and Decisions on National Treatment and Investment Incentives and Disincentives. The OECD Guidelines were the first governmentally agreed code of behaviour for MNEs, and have always attracted the most publicity. In recent years, however, the National Treatment instrument has received increasing prominence, with the US and UK, in particular, emphasising its importance in an improved investment climate in OECD countries.

2. The Declaration was reviewed in 1979, and Ministers then agreed on a further review in 1984. That review has been carried out by the Committee on International Investment and Multinational Enterprises (CIME). It concludes that the Declaration has made an important contribution to the international investment climate, and that the various texts remain relevant and are sufficiently flexible to deal with new situations. Very few amendments are therefore proposed. The UK has been prominent in arguing for stability in the text of the Guidelines, and for further toughening up of procedures on National Treatment. Both these results have been achieved.

3. As far as we are concerned, however, the most important aspect of the Review is the agreement on conflicting requirements. This agreement, reached in almost record time for OECD, results from a UK initiative in early 1983. As part of our overall strategy on the problem of extraterritoriality, we decided to raise the issue in OECD to try to build a further international consensus against the US. We pushed strongly for work to concentrate initially on practical approaches and procedures for handling problems and to avoid lengthy debate on general principles. The US were reluctantly dragged along and finally agreed to a number of new arrangements.

4. The main elements of the CIME agreements are:-

- i) A list of 'general considerations' to be taken into account when contemplating new measures with a potential to create conflicting requirements. These cover important principles like respect for others' sovereignty and for international law.

ii) A firm commitment to bilateral agreements and bilateral consultation and notification.

iii) A general commitment to inform all member states of new legislation or regulations with significant potential for conflict.

iv) Strengthening existing multilateral consultation procedures.

v) A continuing role for OECD.

5. This agreement now has to be effectively used. Those who stand to benefit most from it are the smaller countries like Sweden and Switzerland who have problems with the US but lack the resources to negotiate full bilateral agreements. If they use the procedures, it will however fulfil our main objective in OECD of increasing international pressure on the US. For this reason, we need to ensure that OECD Ministers are aware of the agreements and their potential. There is a reference in the Communique but this could usefully be backed up by a statement by UK Ministers in the plenary session.

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FROM UKREP BRUSSELS 142148Z MAY 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 1655 OF 14 MAY 1984
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INFO PRIORITY COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS UKMIS GENEVA WASHINGTON OTTAWA TOKYO
INFO SAVING BRUSSELS

MIPT

FOREIGN AFFAIRS COUNCIL 14 MAY

PREPARATION FOR LONDON ECONOMIC SUMMIT AND OECD MINISTERIAL MEETING

1. FOLLOWING IS THE TEXT OF THE TWO COUNCIL DECLARATIONS REFERRED
TO IN MIPT:

(A) NEW GATT ROUND

THE COUNCIL HAS NOTED THE SUGGESTION THAT A NEW ROUND OF
MULTILATERAL TRADE NEGOTIATIONS WOULD CONTRIBUTE SIGNIFICANTLY TO A
STRENGTHENING OF THE WORLD TRADE SYSTEM.

THE COMMUNITY DEPENDS ON FREE TRADE FOR ITS PROSPERITY AND WANTS
TO EXPAND TRADE, BOTH IN GOODS AND SERVICES. IT THEREFORE SUPPORTS
ANY EFFECTIVE ACTION TO REINFORCE THE INTERNATIONAL LIBERAL TRADING
SYSTEM IN THE SECOND HALF OF THE 80'S. THE COUNCIL CONSIDERS THAT
A FIRST PRIORITY MUST BE TO REINFORCE RESISTANCE AGAINST PROTECTIONIS
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PRESSURES AND TO ROLLBACK RESTRICTIVE ACTIONS AND TO EXECUT THE
CURRENT GATT WORK PROGRAMME WHICH NEEDS TO BE SEEN AS A WHOLE.
IN THIS WAY CREDIBILITY WOULD HAVE BEEN ESTABLISHED SUFFICIENT TO
PERMIT A FUTURE FIRM COMMITMENT TO A NEW NEGOTIATION IN THE GATT.

THE COUNCIL CONSIDERS FURTHERMORE THAT THE PROSPECTS FOR A
SUCCESSFUL NEW ROUND WOULD BE ENHANCED BY A BROADER AND MORE
SOLIDLY BASED ECONOMIC RECOVERY, SUSTAINED IN THE MEDIUM TERM: AND
IT RECALLS THE IMPORTANCE WHICH EQUALLY ATTACHES TO THE NEED FOR
FURTHER PROGRESS INTERNATIONALLY IN IMPROVING THE OPERATION OF THE
FINANCIAL AND MONETARY SYSTEM.

TO OPEN THE WAY TO A FIRM COMMITMENT TO THE PRINCIPLE OF A NEW
ROUND OF NEGOTIATIONS, THE COUNCIL WOULD EXPECT THAT EXTENSIVE PRIOR
CONSULTATIONS SHOULD TAKE PLACE AMONG ALL GATT PARTNERS SO AS TO
ENSURE THAT A BROAD CONSENSUS EXISTED ON OBJECTIVES PARTICIPATION
AND TIMING.

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THE COUNCIL BELIEVES THAT THIS IS A PRAGMATIC AND REALISTIC APPROACH TO AN INITIATIVE WHICH IT RECOGNISES WOULD BE OF THE UTMOST IMPORTANCE FOR THE FUTURE OF THE LIBERAL TRADE SYSTEM. IT CONSIDERS THAT, IN THE LIGHT OF THESE FURTHER CONSULTATIONS, AN AD HOC GATT MEETING PREFERABLY AT SENIOR OFFICIAL LEVEL SHOULD BE HELD AS SOON AS APPROPRIATE AND BEFORE THE END OF NEXT YEAR TO CONSIDER THE VARIOUS POSSIBILITIES FOR FUTURE ACTION, INCLUDING IN PARTICULAR THE ROLE THAT A NEW ROUND MIGHT PLAY.

B. TARIFF CUTS

THE COUNCIL NOTES THAT THE FORECASTS OF ECONOMIC GROWTH IN THE COMMUNITY IN 1985 CONTINUE TO BE FAVOURABLE (MORE THAN 2 PER CENT) AND WELCOMES THE FACT THAT THE PRINCIPAL TRADING COUNTRIES IN OECD AGREE, SUBJECT TO COMPLETION OF DOMESTIC PROCEDURES, TO ADVANCE THE TOKYO ROUND TARIFF CUTS FORESEEN IN 1986, TO A DATE EARLY IN 1985. THE COUNCIL CONFIRMS ITS DECISION OF 19 DECEMBER 1983 IN FAVOUR OF SIMILAR ACTION BY THE COMMUNITY PROVIDED THAT ITS MAJOR TRADING PARTNERS ARE ABLE TO ACT ALONG THESE LINES.

THE COUNCIL NOTES FURTHER THE SUGGESTION TO BE PUT BEFORE MINISTERS IN OECD FOR A SIMILAR ACCELERATION OF THE CUTS FORESEEN IN 1987 WHICH WOULD THUS BE MADE ON 1.1.86. THE COUNCIL IS PREPARED TO CONSIDER THIS SUGGESTION FAVOURABLY AT THE APPROPRIATE TIME IN THE LIGHT OF THE GENERAL APPLICATION OF THE TOKYO ROUND RESULTS AND THEIR IMPLICATIONS.

STATEMENTS FOR THE COUNCIL MINUTES:

LA DELEGATION GRECQUE SOULIGNE LES CONSEQUENCES BUDGETAIRES D'UNE EVENTUELLE ACCELERATION TARIFAIRE ET ESTIME QU'ELLES DEVRAIENT ETRE PRISES EN CONSIDERATION LORS D'UN DEBAT FINAL DU CONSEIL. LE DELEGATION FRANCAISE APPUIE CETTE POSITION.

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FROM UKREP BRUSSELS 142145Z MAY 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1654 OF 14 MAY 1984

INFO IMMEDIATE UKDEL OECD

INFO PRIORITY COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN

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FOREIGN AFFAIRS COUNCIL 14 MAY

PREPARATIONS FOR LONDON ECONOMIC SUMMIT AND OECD MINISTERIAL MEETING.

SUMMARY

1. THE COUNCIL AGREED CAUTIOUS DECLARATIONS ON THE EC'S POSITION ON THE PROPOSED NEW GATT ROUND AND ON BRINGING FORWARD BY A YEAR THE TOKYO ROUND TARIFF CUTS PLANNED FOR 1986 AND 1987.

2. FURTHER PREPARATION OF THE EC'S POSITION IN THE OECD MINISTERIAL AT CO-ORDINATION IN PARIS FROM THURSDAY MORNING 17 MAY.

3. COMMISSION TO REPORT TO COREPER NEXT WEEK ON DETAILED PREPARATION FOR THE LONDON SUMMIT.

4. TEXT OF THE TWO DECLARATIONS IN MIFT.

DETAIL

5. DISCUSSION WAS PREPARED BY THE ARTICLE 113 COMMITTEE (FULL MEMBERS) MEETING IN THE MARGINS. THE COMMISSION CIRCULATED DRAFT COUNCIL DECLARATIONS ON THE NEW GATT ROUND AND ON ADVANCE IMPLEMENTATION OF TARIFF CUTS.

(A) NEW GATT ROUND

6. MEMBER STATES EXPRESSED DIVERGENT VIEWS ON ALMOST EVERY LINE. IN A LONG DRAFTING SESSION THE MAIN POINTS OF SUBSTANCE WERE AS FOLLOWS:

(A) GREECE AND FRANCE WERE FIRMLY OPPOSED TO ANY STATEMENT AT THIS STAGE (AS IN THE COMMISSION'S ORIGINAL DRAFT) THAT THE NEW NEGOTIATION WOULD BE INTENDED TO COVER TRADE IN SERVICES AS WELL AS IN GOODS. BUT THEY WERE ABLE TO ACCEPT STATEMENT ON THE EC'S DESIRE TO EXPAND TRADE 'BOTH IN GOODS AND IN SERVICES' :

(B) DENMARK AND THE FRG HAD DIFFICULTIES WITH THE COMMISSION'S PROPOSAL FOR AN AD HOC GATT MEETING OF SENIOR OFFICIALS BEFORE THE END OF NEXT YEAR. THIS SUGGESTED THAT SUCH A MEETING WOULD NOT TAKE PLACE UNTIL THE END OF 1985. THE COMMUNITY SHOULD NOT EXCLUDE A MEETING EARLIER IN THE YEAR:

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(C) THE UK, BELGIUM AND THE NETHERLANDS THOUGHT THAT THE COMMISSION'S FIRST DRAFT GAVE TOO NEGATIVE AN IMPRESSION, SUGGESTING THAT THE EC WAS DRAGGING ITS FEET. FOR THE UK THIS APPLIED IN PARTICULAR TO THE PROPOSAL FOR A SENIOR OFFICIAL LEVEL MEETING. A MORE FLEXIBLE FORMULA WAS NEEDED (TO LEAVE OPEN THE POSSIBILITY OF AN EARLIER OFFICIAL MEETING OR IF APPROPRIATE OF A MINISTERIAL MEETING IN 1985 TO CONSIDER THE ROLE THAT A NEW ROUND MIGHT PLAY). BUT THE UK SECURED ON SUPPORT ON THIS FROM OTHER MEMBER STATES IN THE FACE OF A STRONG APPEAL BY THE PRESIDENCY NOT TO CHANGE THE ORIGINAL COMMISSION TEXT.

(D) THE FRG AND DENMARK WANTED A FIRM AND GENERALLY UNCONDITIONAL COMMITMENT TO THE PRINCIPLE OF A NEW GATT ROUND, SUBJECT TO CAREFUL PRIOR CONSULTATIONS BEFORE IT WAS FORMALLY LAUNCHED. THE FRG WAS PARTICULARLY INSISTENT STRESSING THE IMPORTANCE OF AVOIDING THE IMPRESSION AT THE OECD MINISTERIAL THAT THE EC WAS TRYING TO WRIGGLE OUT OF ANY AGREEMENT TO MAKE PROGRESS ON THIS POINT. THEY COULD NOT THEREFORE ACCEPT ANYTHING IN THE PROPOSED DECLARATION WHICH SUGGESTED IMPOSING ADDITIONAL CONDITIONS, FOR EXAMPLE, AS SUGGESTED IN THE FIRST DRAFT, A STATEMENT THAT A NEW ROUND WOULD BE MORE JUSTIFIED IF ECONOMIC GROWTH WAS CLEARLY AND MORE SOLIDLY BASED IN THE MEDIUM TERM:

(E) FRANCE TOOK THE OPPOSITE VIEW. AGREEMENT ON A NEW ROUND MUST BE CONDITIONAL ON PARALLEL PROGRESS IN IMPROVING THE OPERATION OF THE INTERNATIONAL FINANCIAL AND MONETARY SYSTEM. THIS WAS ESSENTIAL BOTH FOR THE OVERALL BALANCE OF THE EC'S POLICY AND TO MAKE THE NEW ROUND CREDIBLE FOR DEVELOPING COUNTRIES. A NEW ROUND SHOULD ALSO DEPEND ON CLEARLY SUSTAINED GROWTH FAIRLY SHARED AMONG ALL COUNTRIES. MORE GENERALLY FRANCE ALSO QUESTIONED WHETHER THE OECD WAS THE RIGHT PLACE TO SIGNAL OFFICIAL AGREEMENT ON THE NEW ROUND. THIS WOULD BE PROVOCATIVE TO DEVELOPING COUNTRIES. IDEALLY THERE SHOULD BE NO REFERENCE AT ALL TO THE NEW ROUND IN THE OECD MINISTERIAL COMMUNIQUE. WHILE FRANCE DID NOT OPPOSE COUNCIL AGREEMENT TO A GENERAL ORIENTATION ON THE EC'S POSITION ON THIS POINT THIS WAS WITHOUT PREJUDICE TO THE PRECISE TACTICS AT THE OECD MINISTERIAL.

7. AT THE PRESIDENCY'S REQUEST THE COMMISSION EVENTUALLY PREPARED A REVISED TEXT INTENDED TO DO JUSTICE TO THE CONFLICTING POINTS OF VIEW. THE FRG (OPPOSED BY FRANCE) CONTINUED TO INSIST ON THE FIRMIEST POSSIBLE FORMAL COMMITMENT TO THE NEW ROUND AND TO RESIST ANY LINKAGE WITH ECONOMIC GROWTH. AGREEMENT WAS FINALLY REACHED ON THE TEXT IN THE THIRD PARAGRAPH OF THE FIRST DECLARATION IN MIPT UNDER WHICH (TO MEET GERMAN CONCERNS) THE COUNCIL MERELY NOTED THAT THE PROSPECTS FOR A SUCCESSFUL NEW ROUND WOULD BE "ENHANCED" BY BROADER AND MORE SOLIDLY BASED ECONOMIC RECOVERY: IN RETURN FRANCE DROPPED HER INSISTENCE ON FURTHER PROGRESS INTERNATIONALLY "IN PARALLEL" ON IMPROVING THE FINANCIAL AND MONETARY SYSTEM.

B. TARIFF CUTS

8. DISCUSSION CONCENTRATED ON HOW FAR THE COMMUNITY SHOULD GO IN SUPPORTING THE IDEA OF A SECOND ADVANCE INSTALMENT OF TOKYO

ROUND TARIFF CUTS (1987 TO 1986).

9. GREECE SUPPORTED BY FRANCE DREW ATTENTION TO THE LOSS WHICH THIS WOULD ENTAIL FOR COMMUNITY REVENUE. IT MUST BE MADE CLEAR THAT THE FINANCIAL IMPLICATIONS WOULD HAVE TO BE CONSIDERED BEFORE ANY FINAL DECISION WAS TAKEN BY THE COUNCIL TO IMPLEMENT THE PROPOSED CUT AHEAD OF TIME. VARIOUS FORMULATIONS WERE PROPOSED FOR ACKNOWLEDGING THIS POINT IN THE SECOND DECLARATION ITSELF BUT THESE WERE UNACCEPTABLE TO OTHER MEMBER STATES (AS IMPLYING TOO STRONG A NEGATIVE CONDITION ON THE NEW ROUND). EVENTUALLY GREECE AND FRANCE ACCEPTED A SOLUTION UNDER WHICH THEIR CONCERNS SHOULD BE MADE CLEAR IN A STATEMENT IN THE COUNCIL MINUTES AS IN MIFT.

10. FRANCE WAS OPPOSED TO ANY DECISION IN PRINCIPLE BY THE COUNCIL FOR A SECOND ADVANCE CUT. IT WAS PARTICULARLY IMPORTANT FOR THEM THAT THERE SHOULD BE A CLEAR REFERENCE TO THE NEED FOR A PRIOR ASSESSMENT OF PROGRESS IN IMPLEMENTING ALL THE ELEMENTS AGREED IN THE TOKYO ROUND NOTABLY ON THE OPERATION OF THE GATT CODES. EVENTUALLY THEY WERE ABLE TO ACCEPT THE MORE GENERAL REFERENCE IN MIFT AND IN RETURN CONCEDED THAT THE COUNCIL SHOULD BE PREPARED TO CONSIDER THE SUGGESTION OF A SECOND CUT "FAVOURABLY".

11. IN THE COUNCIL HAFERKAMP SAID THAT THE COMMISSION'S MAIN PRIORITY HAD BEEN TO ENSURE A COMMON EC POSITION ON TRADE POLICY ISSUES AT THE OECD MINISTERIAL AND THE LONDON SUMMIT. THE COMMISSION WERE SATISFIED THAT THIS HAD BEEN AGREED IN THE TWO DECLARATIONS.

12. THE NETHERLANDS (VAN EEKELLEN) SUPPORTED BY BELGIUM (NOTERDAEME) EXPRESSED DISAPPOINTMENT BOTH AT THE ENTRY IN THE MINUTES ON THE SECOND ADVANCE TARIFF CUT (BUDGETARY CONSIDERATIONS HAD NOT DICTATED TRADE POLICY BEFORE); AND MORE GENERALLY AT THE NEGATIVE AND GRUDING TONE OF THE TWO DECLARATIONS. THE BENELUX HAD FORMULATED CLEAR AND POSITIVE IDEAS ON ROLLBACK AND THE NEW ROUND (PARA 5 OF MY TELNO 1550) AND THEY HOPED THAT IT WOULD BE POSSIBLE TO HAVE FURTHER CO-ORDINATION ON THE SPOT IN PARIS AS NEED AROSE.

13. MR CHANNON ALSO REGRETTED THE NEGATIVE TERMS OF THE DECLARATIONS. THE EC WAS LIKELY TO COME UNDER PRESSURE DURING THE OECD MINISTERIAL TO GO FURTHER. IT WAS IMPORTANT THAT COMMUNITY CO-ORDINATION COULD BE ARRANGED URGENTLY ON THE SPOT TO CONSIDER THIS IF NEED BE. THE FRG AGREED.

14. NOTERDAEME ALSO NOTED THAT THE DECLARATIONS WERE RELEVANT TO COMMERCIAL POLICY ASPECTS OF THE LONDON ECONOMIC SUMMIT. BUT THE COMMISSION SHOULD REPORT TO COREPER IN MORE DETAIL, ESPECIALLY ON OTHER ASPECTS, FOLLOWING THE DISCUSSION BY SHERPAS THIS WEEKEND.

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15. CHEYSSON SUMMED UP THAT THE COMMISSION SHOULD REPORT TO COREPER NEXT WEEK ON THE PREPARATIONS FOR THE SUMMIT IN ORDER TO KEEP THE EXCLUDED MEMBER STATES INFORMED AND GIVE THEM THE OPPORTUNITY TO COMMENT. OTHERWISE HE NOTED APPROVAL BY THE COUNCIL OF THE TWO DECLARATIONS AS THE BASIC GUIDELINES FOR COMMUNITY REPRESENTATIVES AT THE OECD MINISTERIAL AND THE SUMMIT. MORE DETAILED ASPECTS WOULD NEED TO BE THE SUBJECT OF CLOSE CO-ORDINATION DURING THE OECD MINISTERIAL.

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OECD MINISTERIAL COUNCIL MEETING 17-18 MAY 1984

AGENDA ITEM 3 : INTERNATIONAL TRADE

DISCUSSION DOCUMENTS:

Report by the Trade Committee C/MIN(84)3

Note by the Secretary General C/MIN(84)4

OBJECTIVES

- 1 A successful discussion of international trade issues which endorses OECD's continuing work to strengthen the multi-lateral trading system and resist protectionism.
- 2 To build on last year's undertakings by confirming commitment of all participants to Phase 1 and encouraging a positive outcome to Phase 2.
- 3 To secure as firm a commitment as possible to the reduction and phasing out of mixed credits.

POINTS TO MAKE

- 4 Progress on Phase 1 of rollback has demonstrated vital rôle^A of OECD in maintaining open trading system. Much due to personal efforts of Secretary General.
- 5 Phase 1 of rollback has proceeded satisfactorily but it must remain a reciprocal exercise with full participation by major trading nations. /Subject to outcome of FAC on 14/15 May 7 welcome further acceleration of tariff cuts as logical extension of Phase 1 and can accept Secretary General's formulation of strengthened commitment to standstill.
- 5 Must now make a start on Phase 2, where substantive rollback measures will be required from all. Trade Committee has made a useful contribution here, extending work on positive adjustment policies, carried out by the EPC, into the trade field. Secretary General's report contains number of very good ideas which may offer a way of making progress.
- 6 OECD members must also continue to play a full rôle^A in the work programme of the GATT which is complementary to and an extension of OECD activity. A new round of MTNs will be an important part of the trade liberalisation process and we should encourage work to prepare for this, but must obviously remain sensitive to interests of GATT members not represented at OECD. Concept of concessions to developing countries and greater integration of newly industrialising countries into the multilateral system is better suited to GATT negotiation rather than OECD decision, though it would certainly be useful

/to give

to give further thought to the issues in OECD. Also worth emphasising that any progress on rolling back protection benefits non-OECD members, including of course developing countries.

7 Welcome commitment to strengthen multilateral disciplines on mixed credits, but UK would go further, with multilateral undertaking to limit and progressively to reduce the volume of associated financing and similar transactions. Meanwhile we support a substantial increase in minimum grant elements, and extension of discipline to transactions similar to associated financing.

8 Welcome valuable work of OECD Committees in clarifying the issues involved in trade in services. Trade and other Committees should now go on to relate this to the problems faced by individual sectors. Endorse proposal for Secretary General to submit substantive report including action proposals within two years.

9 UK believes that the removal of artificial restrictions to trade in services is not only desirable in itself but would help to strengthen the multilateral trading system.

AGENDA ITEM 3 : INTERNATIONAL TRADE

ESSENTIAL FACTS

Of the two papers tabled for this item C/MIN(84)3, the report of the Trade Committee, is the result of multilateral discussion by officials. C/MIN(84)4 is the report of the Secretary General and is in essence his own, though delegations have commented on it.

2 The key issue under this heading is how to take forward the work on rollback initiated at last year's Ministerial Council and Economic Summit. Phase 1, consisting of accelerated Tokyo Round tariff cuts and some trade concessions to the least developed countries, was agreed, albeit slowly, and conditional on reciprocal action. The only problem is the possibility that the US Congress will not implement the agreement, which could jeopardise the whole exercise. For the moment, however, it seems desirable to assume all will be well, and that the condition of reciprocity will be met and remain for Phase 2. This is in line with the conclusions of E(S) Committee.

3 The EC may well be able to agree, at the FAC on 14-15 May, to a further acceleration of tariff cuts. Can also support continuing standstill on protectionist measures and further examination of protectionist practices. However the EC has not agreed to the suggestion that this examination should be on a country-by-country basis. The Community can however accept the Trade Committee's proposal for sectoral analysis.

4 The OECD needs also to consider its response to the Japanese proposal (with US concurrence) for a new GATT Round. The attitude of most OECD members is cautiously positive (with France and Italy the inevitable backpedallers in the EC). But the OECD communique, like the London Summit declaration, will have to balance the need for the developed countries to give a lead in getting the idea of a new round off the ground against the risk of damning it in the eyes of the developing countries by labelling it as a developed country initiative. There is any case no prospect of firm decisions on a new round before next year at the earliest, so it will be generally accepted even by the sponsors of the idea that it should be welcomed by the OECD only in restrained terms. Draft language so far is acceptable, and is compatible with the expected reaction of the London Economic Summit.

5 On services, OECD Committees have already done useful work (see paras 25-27 of C/MIN (84)4). The next step is for the Trade Committee's work on clarifying the broad concepts involved in trade in services to be related to the work of sectoral committees on the problems faced by specific sectors (banking, insurance etc). This should be done if possible under the aegis of the Trade Committee, rather than under the 'chairman's advisory group' suggested by the Secretary General.

6 While the US and UK are keen on liberalisation of trade in services, some other OECD members (notably France and Australia) are unenthusiastic. It is too early for major new initiatives;

See telegrams below.

but it would be helpful to secure some degree of acceptance that liberalisation is desirable for trade in services as well as goods. In the longer term, the removal of restrictions between OECD members may be a more realistic objective than action in GATT although we would prefer the latter in view of its wider membership and contractual nature. We can endorse the proposal that the Secretary General should submit a substantive report including proposals within two years.

Trade-related Concessional Finance

7 UK has sought a ministerial commitment at this meeting to freezing and phasing out, to an agreed timetable, all associated financing and similar transactions. This proposal has met some resistance, notably from the French, and at present the paper (and the draft communique) is more modestly worded than we would ideally wish, but nonetheless contains helpful indications of areas where worthwhile progress can be made. We should like, but may not achieve, a stronger commitment to phasing out these practices. The matter will arise at the London Summit, where the UK and US will be well placed to argue their case further. Meanwhile, and in the absence of agreement to phasing out, we should support proposals for greater discipline in the use of associated financing, for example American proposal to raise minimum grant elements, together with a commitment to extend existing disciplines to transactions similar to associated financing which at present avoid any international controls (notably German and Japanese schemes).

Agriculture

8 In 1982 Ministers invited the OECD Committees for Agriculture and Trade to undertake a 3-year study on trade in agricultural products. Community members originally saw the study as a threat to CAP, although most now seem more positively inclined. The UK's interests are equivocal; whilst it is important to maintain solidarity with our Community partners, an OECD report which questioned Community policies would not be altogether unwelcome. The UK objective of controlling CAP expenditure would be better served by a less detailed study issued in the next year exposing protectionism and surpluses, than by a more comprehensive report in the distant future.

9 The Fisheries Committee has not yet agreed a final text for the report commissioned by Ministers in 1982. The main problem is how to balance the interests of importers and exporters. A GATT study on Fish and Fisheries Products has recently been completed and a Working Party set up to report to the Council. We must be ready to resist any effort to persuade the OECD Council to adopt a specific position on the scope for trade liberalisation in the fisheries sector before either the OECD study is completed or the result of developments in GATT is known.

10 Van Lennep also proposes further concessions to developing

/countries

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countries and improved integration of newly industrialising countries into the multilateral trading system. The latter is an important UK objective, but better pursued in the GATT where it can be negotiated, rather than in the OECD where NICs are not represented. On the former the EC's record of concession is good, and scope for further offers is very limited. In the circumstances it seems rash to raise hopes that are unlikely to be fulfilled. But worth pointing out that any moves to rollback protection in OECD have by extension benefits for non-OECD members too.

11 The Secretary General has put forward a range of other proposals including trade in high technology, domestic industrial and adjustment policies, the language on which is all broadly acceptable.

ITP1
DTI
10 May 1984

14/5/84

OECD MINISTERIAL COUNCIL MEETING: 17-18 MAY 1984

AGENDA ITEM 2 : SUPPLEMENTARY BRIEFING - ASSOCIATED FINANCE

OBJECTIVES

Manoeuvring continues, and doubtless will until the last hour, to agree a form of words about Associated Finance, etc, for the Communique which combines acceptability with practical meaning. The Secretariat draft, para 20 of C/MIN(84)8 (first revision), is inadequate and possibly counterproductive.

ASSOCIATED FINANCE

Points to Make

We should commend the following text, based on a proposal from UKDel and agreed interdepartmentally:

"Ministers reaffirmed their commitment to avoiding financing practices which are trade or aid distorting and enjoined the competent bodies of the Organisation, including the DSC and the Export Credit Group, to continue their efforts to improve transparency and discipline in this area, and in particular to identify means of limiting and reducing, within an agreed timescale, the use of associated finance and similar practices. They requested that a report on possible action be submitted to next year's meeting of the Council at Ministerial level."

AGENDA ITEM : SUPPLEMENTARY BRIEFING - ASSOCIATED FINANCE

Essential Facts

There are three key points. One, the scope of action in this area must extend across the whole range of trade-related concessional finance; the current definition of Associated Finance is too narrow. Two, a declared commitment to a specific timescale for action will keep up the pressure on the French and others to wind down their activities in this area. And three, putative short-cut solutions - such as a US proposal to raise the grant element threshold for associated finance - are simplistic and likely to backfire unless incorporated into a considered package of measures.

PEP3/DTI

14/5/84

OECD MINISTERIAL COUNCIL MEETING - 17-18 MAY 1984

AGENDA ITEM 2 : COUNTERTRADE, SUPPLEMENTARY BRIEFING

COUNTER
TRADEObjectives

It is likely that the US will raise as an issue for concern the growth in countertrade demands from a number of developing countries. They are particularly concerned at what they term "mandated" (ie Statutory) countertrade, as demanded by Indonesia in particular. They would like to see collective action by Western Governments to resist this trend.

Points to make

We believe that the "trend to countertrade" has been greatly exaggerated. Even with Indonesia, the only market in which countertrade is a statutory requirement, less than 10% of non-oil trade has been affected. The global volume is, as GATT has noted, certainly much lower than this. Nor are we aware of increased countertrade causing major practical, as opposed to theoretical, trading difficulties or market distortions. If it is a problem, it is part of the wider problem of maintaining trade with developing countries affected by recession^{and}/_{debt}^{and} should be addressed constructively within that context. Since countertrade is essentially a matter of private entrepreneurship, it would be very difficult for governments to stop it even if they sought to.

AGENDA ITEM 2 : COUNTERTRADE, SUPPLEMENTARY BRIEFING

Essential facts

The US are worried that countertrade may develop from an occasional expedient to overcome particular short-term financing problems into an institutionalised and permanent feature of trade with developing markets. They observe that Malaysia and the Phillipines are preparing to follow Indonesia in making countertrade a mandatory requirement. They are also worried about Western bankers and traders - mostly American - actively encouraging developing countries to establish countertrade regimes. Since countertrade poses just as much practical difficulty for LDC 'demandeurs' as for Western exporters, the more relaxed response suggested above seems appropriate.

PEP3/DTI

May 1984

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14/5/84

OECD MINISTERIAL COUNCIL MEETING, 17-18 MAY 1984

AGENDA ITEM NO 2: Finance, Trade and Development: A Global and
Medium-Term Perspective with Special Reference to Developing
Countries

Discussion Document: C/MIN(84)2(Final)

Objectives: To confirm our support for a coherent medium-term policy framework featuring a strengthened role for the IMF and World Bank. To endorse the Secretary-General's call for stronger links between policies and resource flows. To stress the need for adequate resources for IDA, and for a phasing out of concessional export financing. To sound a note of caution on the suggestion for increased contacts between OECD and developing countries.

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Points to Make

SECTION II: WORLD ECONOMIC RECOVERY AND THE POLICY FRAMEWORK (PARAS 8-12)

1. In general accept this description of world economic situation. But does not highlight risks to recovery from higher interest rates and danger of increased protectionism.

SECTION III: FINANCIAL RESOURCE FLOWS AND RESUMED GROWTH

(a) Strengthening the Policy Framework for Private Market Financing
(Paras 18-22)

2. Pattern of financial flows to developing countries is changing. Significant volume of net lending to LDCs by commercial banks unlikely in near future; official aid constrained by budgetary considerations; some large Fund programmes due to end.
3. Scope for an enhanced role for the World Bank group to meet the differing needs of different developing countries. With the IMF, IBRD ^{should be} more active in longer term development. ~~It~~ Can act as catalyst in attracting more capital. Opportunities for further co-financing, perhaps through a World Bank ^{Bank}, should be explored. The IBRD can play a constructive role in promoting adjustment programmes. May be a case for further development of Structural Adjustment Lending. For these purposes IBRD requires adequate resources; concerned that present projections show a significant decline in net resource transfers after 1985. General Capital Increase needs to be high on agenda soon. Essential that Selective Capital Increase which has been agreed in principle should be approved by the Board forthwith.

(b) A Stronger Role for Foreign Direct Investment (Paras 23-25)

5. Welcome the attention being given by OECD to the role of foreign direct investment. There is a limit to what developed market economies can do to stimulate investment if host country conditions are not right.
6. Bilateral talks usually most realistic. But useful work can be done in OECD on the lines of the Secretary-General's suggestions.

(c) The Contribution of Official Development Assistance to More Effective Policy Cooperation for Resumed Growth (paras 26-30)

7. Initiatives to improve policy dialogue with aid recipients already underway in World Bank and EC. Need ^{to} pursue ~~at~~ in context of specific sector programmes, through informal contacts rather than creating new institutions. Greatest need in sub-Saharan Africa. To have effect may need more, and more relevant, technical assistance.

8. IDA has crucial role to play in this process. Remain willing to participate in supplementary fund^{for} IDA7 on basis of fair burden-sharing: hope United States will eventually join in.

(d) Aid and Trade Related Financing (para 31)

9. Welcome proposal for Ministerial commitment; must control these self-defeating subsidies. Increased discipline and transparency beneficial but it is desirable to go further and find means of limiting and progressively reducing the volume of associated financing and similar transactions to an agreed timetable. An increased minimum grant element is an important component of the mechanism by which this can be achieved, but should also be extended to similar transactions. Secretariat should ask the competent bodies of the Organisation to report with firm proposals to the DAC High Level meeting.

SECTION IV: TRADE POLICY IN AN ECONOMIC AND DEVELOPMENT CONTEXT
(PARAS 32-37)

10. Welcome emphasis on viable trade policies as an integral part of developing countries' development strategy. Much LDCs could do to improve policies both in self-interest and because perceptions about LDC protectionism are themselves a protectionist pressure. Multilateral approach best at present, aiming for negotiated improvements on a reciprocal basis, particularly with the more advanced developing countries.

SECTION V: INTERNATIONAL ECONOMIC COOPERATION AND THE DIALOGUE WITH DEVELOPING COUNTRIES

11. ↑ Interlocking interests of developed and developing countries To discuss ~~developing countries~~ in an over-simplified 'North-South' framework is to risk distorting them. Should be greater differentiation of treatment between individual LDCs. New structures would not help. Require greater awareness of the complexities of international economic problems and an improvement in procedures and climate in the existing negotiating fora. Support many of the recommendations in the Commonwealth Experts' report 'The North/South Dialogue: Making It Work'; also the US initiative on the reform of UNCTAD. Work of OECD North/South Group on this initiative will enable us all to contribute our own ideas for improvements

12. Will consider carefully suggestion by Secretary-General OECD of informal cooperation with interested developing countries. But OECD must not become another forum for confrontation. But agree that informal contacts on direct investment useful.

Essential Facts

SECTION III: FINANCIAL RESOURCE FLOWS AND RESUMED GROWTH

(b) A Stronger Role for Foreign Direct Investment (Paras 23-25)

1. The Secretary-General's paper emphasises the role of foreign direct investment in development, and suggests enhanced programme of work in OECD on these issues. Sensitivity in some OECD countries about references to improving policies in developing countries has led to only a very muted recognition in the paper that the main determinant of investment flows is the situation in the potential host country. Nevertheless, the work proposals are mainly directed to this point.

2. UK policy towards promoting private investment is currently under review, but like most OECD countries, we have a range of schemes and instruments aimed to facilitate investment in developing countries. Internationally, we lay greatest emphasis on the negotiation of bilateral investment protection agreements (IPPAs), but we have also been active in multilateral discussions on investment protection. At UNCTAD VI we took the initiative in trying to introduce a resolution on encouraging private investment. This failed for lack of time. We have also been looking at ways of raising the subject in the IDS Review and through the Lome III negotiations.

3. We see OECD's main role as being in the areas of exchange of information, improved statistics, and analysis. We would be unhappy with initiatives by OECD as a body as these are likely to be counter-productive. Informal contacts with interested parties from developing countries (and the business world) could be usefully held under the aegis of OECD. Again, if they are not to invite LDC suspicion and lead to a rhetorical rather than practical, debate, they will need to be well thought through and low key.

(c) The Contribution of Official Development Assistance to More Effective Policy Cooperation for Resumed Growth (Paras 26-30)

4. UK Gross Aid Programme for 1984/85 is £1174 million compared with £1108 million for 1983/84, an increase of nearly 6 per cent. In 1983/84 over £200 million was provided to the World Bank mainly for IDA.

5. Over 60 per cent of our bilateral aid programme goes to the poorest 50 countries. Regular bilateral aid programme expenditure to Sub-Saharan Africa in 1983/84 amounted to £150 million with a significant technical cooperation component of £60 million.

6. The IDA 7 Replenishment of \$9 billion negotiated this year still not approved by the Board of Executive Directors because of US - Japan disagreement. UK share is 6.7 per cent compared with 10.1 per cent for IDA 6. Progress on Supplementary Fund awaits approval of IDA 7 by Board. UK has stated willingness to see Supplementary Fund that would bring total to \$12 billion on the basis of agreed burden sharing with US participation.

(d) Aid and Trade Related Financing (Para 31)

7. Trade related concessional finance is on the OECD Ministerial agenda largely as a result of comments made by Count Lambsdorff and the Chief Secretary at the OECD Ministerial conference in February. Since then the UK has been pressing with US support, for a radical commitment to freezing and phasing out mixed credits and similar transactions to an agreed timetable over 2-3 years. There has been opposition to this proposal, mainly from the French and Italians, who would prefer a more modest commitment to increased transparency and discipline in the use of associated financing. At present the draft communique reflects their position. This paper, however, requests guidance on three further possibilities, all of which UK should seek specific endorsement for, and if possible, inclusion in the communique. Of these, the proposal to limit and progressively reduce the use of ODA for associated financing is closest to the UK position, but, unfortunately, does not include the idea of phasing

out to an agreed timetable which we should seek to include. The extension of discipline and transparency to transactions similar to associated financing is a necessary step if any of these proposals are to bite on all uses of trade related concessionary finance. An increase in the minimum grant element for associated finance would need to be accompanied by an increase in the minimum grant element in the definition of ODA.

8. It would be helpful to indicate the way in which decisions would be taken following the work by the OECD's relevant bodies which will be commissioned by the Ministerial meeting. One possibility is that DAC Ministers - at the High Level in November - could be specifically asked to reach agreement on the ODA role in AF. There may be some scope for Trade Ministers to play a part in their area, but no meetings are planned at present. If these other fora cannot be used we would have to wait a full year for decisions; a special Ministerial meeting for this purpose is unlikely to be on. If we are to press forward with the work Ministers might set a time limit for the work to be done by the relevant bodies, say 6 months.

9. This matter will arise again at the London Summit, where UK will be well placed to argue their case further.

SECTION IV: TRADE POLICY IN AN ECONOMIC AND DEVELOPMENT CONTEXT
(Paras 32-37)

10. Trade with developing countries is dealt with under this item and under Item 3. For this item, the Secretary General's paper concentrates on the self-evident rationality of more liberal trade policies for the developing countries themselves. It makes a clear link between the resolution of trade problems, and indebtedness, and puts the onus on both developing and developed countries to improve market access and market security, in their own self-interest.

11. These are mostly truisms, and the paper is short on ideas on how to coordinate autonomous improvements in trade policies with improvements in the multilateral trade system. This is not surprising - practical ideas on improved integration of developing countries in the trade system are in short supply. We are less optimistic than the OECD about the prospect of autonomous improvements. Progress is more likely through multilateral negotiation, and thinking on how these might be pursued is also not very far advanced - though clearly GATT is the right forum for such negotiations and not OECD. Nevertheless, further discussion in OECD would be useful.

SECTION V: INTERNATIONAL ECONOMIC COOPERATION AND THE DIALOGUE WITH DEVELOPING COUNTRIES (Paras 38-45)

12. The Secretary-General identifies (para 41) an emerging view that procedures in the dialogue should bring out the complexity of problems and the different interests among countries rather than tending to produce an over-simple dichotomy between two group positions. We fully agree. We have been arguing that the 'North/South' framework oversimplifies the problems.

13. The Secretary-General refers to 'the present hiatus in the North-South dialogue' (para 40). The dialogue does suffer from inertia, partly because of the effects of world recession. One key remains improvement of procedures in the existing fora. The Commonwealth Experts' report has made some useful suggestions, eg moving away from rigid 'North/South' framework; avoiding duplication and conflict in international fora; single issue conferences; shorter conference agendas; agreement on practical matters instead of on empty communiques etc. A start should be made with UNCTAD following the US initiative. The OECD North/South Group discussed this at length at its meetings in January and March and has set work in hand to come up with specific recommendations.

14. The Secretary-General argues (para 45) that in an interdependent world economy the OECD has a unique capacity for 'horizontal approaches' to particular issues. He suggests (para 48) informal and low-key efforts by OECD to carry forward cooperation with interested developing countries in certain areas such as direct investment and trade.

15. Mr van Lennep believes the OECD can be a vehicle for wider contacts with non-member countries, particularly in the third world. This in part reflects his view that developing countries are more important to the economies of the developed countries than generally realised. Already contacts eg DAC with OPEC Aid Agencies; Steel Committee with Mexico; Shipbuilding Committee with South Korea etc; and recent meeting with Gulf Cooperation Council. Secretary-General seems committed to using Development Centre as a forum for contacts. Does have remit but for contact at expert level only.

16. We should be reasonably positive and positive and pragmatic about future contacts as long as subjects for discussion are sensibly chosen, representation is right, and the political implications are taken into account. But we must avoid OECD contacts with developing countries being institutionalised in a way which might give rise to sterile 'North/South' confrontation within the Organisation.

17. When this was discussed at the ECSS (26-27 April) we and others (FRG, Switzerland, Canada, Norway, Australia) voiced caution about any new role for OECD in the dialogue with developing countries; but the UK was content with the idea of informal exchanges on investment. Switzerland added that any contacts would have to be transparent and properly directed.

SENIOR APPOINTMENTS IN CONFIDENCE

*also, acc. to
Lalonde, a
member of our - ne.
Hanson, Australia.*

From: J B UNWIN
14 May 1984

COPY FOR

MR LITTLE

cc Principal Private Secretary
Sir Peter Middleton

OECD SECRETARY GENERAL

To confirm my telephone call to you at the weekend, and to inform others, Mr John Cosgrove of the Australian High Commission telephoned me on Friday evening to say that he had had a message from Canberra that his Government would be supporting Mr Lalonde for the OECD post.

2. He expressed regret; said that he personally had commended the candidature of Ken Couzens; and promised to let us know if there were any change of heart.

3. I shared his regret; commended our man again; and poured a little poison on Paye, should any Australian thoughts turn in that direction.

4. Cosgrove expected a formal message also to be passed to our High Commissioner in Canberra.

J B UNWIN

copies to: Sir Robert Armstrong - Cabinet Office
Sir Crispin Tickell - FCO
Mr Uffen - OECD, Paris

UNWIN
→ LITTLE
19/5