

CHAIR'S SUMMARY

1. Spain was honoured to chair the 2007 Ministerial Council Meeting, which focused on the theme *Innovation: Advancing the OECD Agenda for Growth and Equity*.

Enlargement and Enhanced Engagement

2. Recognising the need to further expand the OECD's global reach, policy impact and relevance, Ministers welcomed the report on Enlargement and Enhanced Engagement. They underlined the importance of Brazil, India, Indonesia, China and South Africa in the world economy, noting how their policies and activities have global impact and affect the issues addressed by the OECD. They also considered that the OECD experience of good policy practices could be of interest to these countries. They invited the Secretary-General to strengthen OECD's cooperation with these major players through a process of enhanced engagement or as full members.
3. Ministers decided to open accession discussions with Chile, Estonia, Israel, the Russian Federation, and Slovenia. Russia was regarded as a special case because of its historical relationship with the OECD. They considered that the accession process would help foster their reform agenda and ensure its implementation and sustainability. Chile, Estonia, Israel and Slovenia have been actively engaged in OECD work for some time and benefited from OECD good practices. They have confirmed their wish to become Members.
4. Ministers supported a strengthening of OECD's engagement with other selected countries and regions of strategic interest to the Organisation. Countries of South East Asia were regarded as having highly dynamic and influential economies, and therefore deserving further attention with a view to identifying possible members.
5. Ministers stressed the importance of a financing reform to take into account the implications of an enlarged Organisation. Council shall reach an agreement on this reform, which will ensure that the Organisation has a strong and sustainable financial foundation, before the Ministerial Council Meeting in 2008.
6. Ministers recognised that the OECD's agenda is full of opportunities to advance its fundamental mission of promoting peace, stability, prosperity, and democratic values through sound economic policies and good governance. They invited the Organisation to remain true to its founding vision and high standards - confident that real partnership will achieve real success – around the globe.
7. During the discussions of an enlarged membership, and therefore of a stronger institution, additional avenues to increase OECD's relevance through an enhanced relationship with G8, or by supporting developing countries on service delivery were suggested. Mention was also made of the support of the OECD to the Chair of the G8, in particular regarding its relationship with the larger emerging economies.
8. Ministers commended the Secretary-General's leadership in delivering the first mandate of the 2006 Ministerial Council Meeting.

Statement by the Secretary-General

9. The Secretary-General reported on the progress made on the 2006 Ministerial mandates. He outlined a strategic vision for a more inclusive Organisation that can play a role as a hub for dialogue on global economic issues.
10. The process of globalisation is inexorable. To maximise the benefits, and ensure that gains from globalisation are shared equitably, good policies must be in place. The OECD has an important role to

play. Its analysis and policy advice has helped to shape the world economy by building on its unique strengths in developing benchmarks, proposing good practices and monitoring results through peer reviews. The OECD needs to go further in promoting good policies and facilitating implementation. It must be prepared to explain the implications of inaction or delay, in an effort to advance on political economy issues and provide options for implementing reforms successfully.

11. In order to strengthen its capacity to develop concerted responses to global challenges, the OECD must be more proactive, open and representative. It must be increasingly sensitive to diversity, and display greater understanding for the many different paths that lead to growth and development. It must deepen its engagement with emerging economies who are playing an increasing role in the process of globalisation. The OECD must also be better connected, reaching out to a wide range of actors and institutions.

12. Ministers noted the 60th anniversary of the Marshall Plan, which led to the creation of the OECD, and expressed the wish for the OECD to continue its tradition of building successful partnerships on a global level. They called on the OECD to play a greater role in identifying policies which can help ensure that the benefits of globalisation are shared more widely, and in communicating its benefits.

Globalisation, Growth and Equity

13. Ministers agreed that globalisation is a major engine of economic growth. More open OECD economies have tended to grow faster than less open ones. And the increased international economic integration of populous non-OECD countries has been instrumental in promoting prosperity and reducing poverty.

14. Ministers acknowledged that adjustment difficulties may arise from globalisation. Open markets entail the creation of jobs in sectors where new opportunities arise, but also job losses in declining sectors and occupations. This may explain perceptions of job insecurity – especially in high-unemployment countries – and other threats perceived as coming from increased global integration. They also recognised that many countries continue to be bystanders in the process of globalisation and the benefits it brings.

15. It is crucial to provide effective responses to these concerns, in order to maximise the benefits of globalisation for all and maintain public support for freer trade and investment, and create an environment that enables all economic actors to benefit from the opportunities offered by globalisation. Investing in human capital and skills, including training and life-long learning, is critical in helping countries and citizens adjust and thrive in an environment driven by innovation.

16. Ministers agreed that it is urgent to provide information to the public as to the true nature of the issues at stake, based on sound data and analysis. They underlined the importance of assessing and communicating the benefits of globalisation. They agreed that the OECD is well placed to assist them in this task, drawing on its comparative advantage in addressing structural economic and social policy issues from an interdisciplinary perspective, and identifying and sharing best practices.

17. Ministers shared some national experiences in addressing the challenges and opportunities of globalisation. They noted that the quality of national policies and institutions affect the actual impact of globalisation. Ministers recognised that the *Restated OECD Jobs Strategy* provides an important benchmark encompassing reforms of product and labour markets so as to enhance the net benefits from globalisation, while also providing adequate job and income security to workers. They also stressed that there is no single recipe for achieving and sustaining good performance on this front.

18. Participants in the OECD Forum, and BIAC and TUAC in their consultations with the MCM Bureau of the Council, echoed many of these concerns. Discussions in the Forum stressed the importance of innovation in fields such as health care, energy, water and public services. They also highlighted the two

contrasting views of globalisation, as a threat to be feared, and as a force for change and opportunity. The BIAC-TUAC consultations also underlined these two aspects of the globalisation process, stressing both the potential for increasing living standards, and the adjustment costs globalisation can sometimes entail. There was also agreement on the need to encourage innovation and foster the development of human capital.

The Current Economic Situation

19. Ministers discussed the macroeconomic outlook. They welcomed the dynamism of the recovery and the fall in unemployment in Continental Europe, as well as the sustained momentum of the expansion in Asia. They noted that the US slowdown largely reflects adjustments in the housing market, which does not seem to be spilling over to the rest of the economy. Some concerns were voiced with respect to energy prices, the role of hedge funds, the rich valuation of some types of assets and the evolution of current account imbalances, notwithstanding the recent decline in the external deficit of the United States.

20. Ministers noted that despite the disinflationary effects of globalisation, inflation is close to or even somewhat above comfort levels in some OECD countries, partly owing to higher energy prices but also as a result of shrinking economic slack. The main exception is Japan, where the exit from deflation is slow despite sustained growth in activity. On the fiscal side, Ministers underlined the need to take advantage of revenue buoyancy to consolidate public finances, not least in view of the spending pressures that are building up as populations age.

21. They took note of the results of the IEA Governing Board at Ministerial Level.

Innovation and Growth

22. Ministers agreed that innovation performance is a crucial determinant of competitiveness, productivity and national progress, and that it is an important key to addressing global challenges such as climate change and sustainable development.

23. With productivity lagging or losing momentum in several OECD regions, they agreed that there is a need to improve the framework conditions for innovation through the further opening and integration of product and labour markets. They underlined the crosscutting nature of innovation, noting in particular the importance of education systems to ensure the supply of skills and of researchers, and the need to foster greater private investment in innovation, along with public investment. They also stressed its links to the environment and noted that eco-innovation can help countries address their environmental challenges. They noted that the concept of innovation is a broad one, encompassing both a technological and non-technological dimension. They also noted that the struggle against IPR infringements, notably counterfeiting and piracy, must continue; at the same time, tools and networks that promote open access to knowledge and innovative products and processes are needed to ensure that IP policies continue to encourage innovation and foster the diffusion of knowledge.

24. Ministers welcomed the studies *Moving up the Value Chain – Staying Competitive in the Global Economy and Globalisation* and *Innovation in the Business Services Sector*. They noted the role of information and communication technologies (ICTs) as a fundamental component of the global economic infrastructure and welcomed plans for a Ministerial meeting on the Future of the Internet Economy, to be held in Seoul, Korea, in June 2008.

An OECD Innovation Strategy

25. Ministers concluded that in order to strengthen innovation performance and its contribution to growth, a strategic and comprehensive cross-government policy approach is required. They recognised the

OECD's high-quality contributions in the area of innovation and requested that the OECD deepen its work in this domain. They welcomed plans for an *OECD Innovation Strategy*, along the lines of the *OECD Jobs Strategy*, which could make an important contribution to policymaking in OECD and non-OECD economies. The *Strategy* would be formulated around evidence-based analysis and benchmarking, a framework for dialogue and review, new indicators on the innovation-economic performance link, initiatives for innovation-friendly business environments, and the development of best practices and policy recommendations.

26. The strategy could draw on relevant OECD work on innovation, entrepreneurship and the broader business environment. Ministers particularly welcomed the incorporation of cross-cutting work on innovation to address global challenges, notably in the environmental and health domains, globalisation of innovation, evaluation of innovation policies and country-specific analysis. They asked the OECD to study the impact of innovation on the services sector. The OECD could also examine the functioning of the current IPR system in the context of the new, more open, business environment for innovation and propose ways to ensure an adequate balance between stimulating innovation and providing access to knowledge. The proposal to undertake a project on innovation in the software sector was welcomed as a useful contribution to this effort.

Climate Change

27. Ministers recognised that climate change is a huge challenge for both OECD and non-OECD economies, and that urgent policy action is needed to avoid the potentially large human and economic costs of severe climate change. As previous analysis by the OECD has shown, getting the policies right in this area is important to ensure that mitigation of and adaptation to climate change occurs at the lowest cost to economic development. Ministers look forward to further input from the OECD and the IEA to help build an environmentally and economically efficient framework to address climate change. To keep the costs of action low, such a framework will need to include the important emitters of greenhouse gases. It should integrate a range of different policy instruments in a way that provides private investors with a predictable environment for making long-term investments in emission reductions, and provide flanking measures to support the transition to a low-carbon economy.

The Political Economy of Reform

28. The Chair shared his experience on the implementation of reforms in Spain and how to tackle the associated difficulties drawing on two examples, pension reform and the reform of the regional financing system. Australia, Austria and Portugal also shared their experiences with the political economy of reform. Ministers noted that while reforms are rarely painless, the costs of inaction are high. A key challenge is therefore to communicate effectively the need for reform to the public. Countries have much to learn from each others' experiences with reform, both successes and failures. Ministers highlighted the importance of adjustment assistance, as well as the need to maintain conditions for economic growth and job creation during the reform process. They also emphasised the need to reach out to a wider range of stakeholders and involve the social partners in reform efforts.

29. They underlined the importance of the OECD's contribution to the design, implementation and political economy aspects of reform through its high-quality, evidence-based analysis and internationally comparable data. It is well placed to identify good practices based on the wealth of experiences contained in country and thematic reviews. They called on the OECD to intensify its work on the political economy of reform and increase its support to governments in their reform efforts.

Trade

30. As OECD work has clearly demonstrated, the Doha Development Agenda provides a welcome opportunity for more open trade to contribute to growth of the world economy, and in particular to improve economic prospects for developing countries. Ministers expressed their determination to exploit this opportunity and are conscious of the urgency to achieve results that is required at this juncture. A successful conclusion of the Doha negotiations will endorse the multilateral trading system, and contribute to global economic governance and sustainable growth based on mutually agreed rules and concerted action, avoiding the risk of trade conflicts. Ministers stressed the importance of providing aid for trade to developing countries, so trade can work as an engine of growth.

31. Even after the Doha round, there will be major challenges to an open global trading system. The benefits and the costs of trade liberalisation, and effective policy responses to facilitate adjustment to a more open trade environment, will need to be even more widely understood. Designing effective ways to liberalise rapidly growing services sectors will require new information and ground breaking analysis. Finding ways to achieve domestic policy goals without creating new obstacles to trade, including in the areas of regulations and standards, will be increasingly important. Information will be needed on how best to ensure bilateral, regional and preferential arrangements complement the multilateral system. Ministers indicated that they look to the OECD for analysis and advice on how best to respond to such challenges and opportunities.

32. They welcomed the suggestion from Sweden and the Netherlands for the OECD and the IEA to undertake further work on issues related to the production and use of biofuels, including the promotion of increased use of biofuels. The study would be presented prior to the 2008 OECD Ministerial Council. Representatives from Argentina, Brazil, Chile, China, Hong Kong, China, India, Russia and South Africa participated actively and enriched the deliberations of this session.