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CRS Report for Congress

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The Organization for Economic Cooperation and Development

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Summary

The Organization for Economic Cooperation and Development (OECD) is an intergovernmental economic organization in which the 30 member countries[1] discuss, develop and analyze economic and social policy. While all of the member countries are considered to be economically advanced and collectively produce two-thirds of the world's goods and services, membership is limited only by a country's commitment to a market economy and a pluralistic democracy. The member countries rely on the OECD Secretariat in Paris to collect data, monitor trends, analyze and forecast economic developments, research social changes and patterns in trade, environment, agriculture, technology, taxation, and other areas to inform their discussions and to assist them in pursuing their efforts to develop common policies and practices. The U.S. has sparred periodically with other OECD member countries over various issues, including U.S. antidumping laws. Since September 11, the OECD has altered its agenda to pursue terrorist financing. Key issues for Congress include OECD work on coordinating national approaches to curtailing bribery and the illicit use of tax havens. The Bush administration has proposed appropriating $92 million to the OECD in FY2006, an increase from the FY2005 budget. This report will be updated as events warrant.

Background

The United States, along with a number of European countries, formed the predecessor organization to the OECD, the Organization for European Economic Cooperation (OEEC) in order to administer aid under the Marshall Plan for the reconstruction of Europe after WW II. In 1961, the OECD was formed to take over from the OEEC with a mandate to build strong economies in its member countries, improve efficiency, hone market systems, expand free trade, and contribute to development in

[1] The member countries include Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

industrialized as well as developing countries. Presently, the 30 member countries of the OECD are focusing an increased amount of their attention on developing and newly emerging economies that adopt free market systems. As a result of this broader perspective, the OECD is shifting its emphasis from focusing exclusively on the members of the OECD to assessing the manner in which various policy issues affect a broad range of countries, including the impact globalization is having on world trade, wages, and industrial development.

The OECD is organized around three main bodies: the Council, the Committees, and the Secretariat. Committees are comprised of representatives of all the member countries. The overriding committee is the Council, which has decision-making power. It is composed of one representative for each member country, generally at the level of Ambassador, gives guidance to the OECD, and directs its work. Since the work agenda is set by unanimous consent by the Council, a veto by a Council member removes an item from the agenda. The Council meets at the ministerial level once a year, when foreign, finance and other ministers from member countries raise issues and set the priorities for OECD work for the coming year. About 200 committees, comprised of some 40,000 senior government officials from the member countries meet to review and contribute to work that is conducted by the Secretariat. In many cases, these committees serve as conduits for providing information on work that is being conducted by officials among the OECD member countries on economic issues. Furthermore, the Council determines the OECD's budget, which presently amounts to $200 million. The United States, which appropriated $77 million in FY2004 and $67 million in FY2005, is the largest contributor to the OECD's budget.

The Secretariat is comprised of a staff of about 2,000, mostly economists, scientists, lawyers, and other professionals, who work to support the efforts of the Committees to deliver the work program approved by the Council. As a result, the Secretariat is organized along substantive areas to mirror the work of the Committees, although the structure is flexible enough to handle cross-disciplinary studies. Some of the major areas include employment and labor; environment and economics; trade and investment; biotechnology, agriculture and science; public management; and globalization and development. Parts of the Secretariat collect data, monitor trends, analyze and forecast economic developments, while other parts research social changes or evolving patterns in trade, environment, agriculture, technology, taxation, and more.

In the 1990s, the OECD, under the direction of its member countries, spearheaded an international agreement to outlaw crimes of bribery and it continues to coordinate efforts that are aimed at reducing the occurrence of money laundering and corruption. Also, the OECD is a pivotal player in promoting corporate codes of conduct that attempt to develop a set of standards for multinational firms that can be applied across national borders. In addition, the OECD provides a vast amount of statistical information and data on the member countries that are made comparable to facilitate comparison and analysis. These data include national accounts, economic indicators, labor force and employment, migration, education, energy, taxation, tourism, and environment.

OECD Issues

The OECD is a strong proponent of the view that increasing world economic growth and welfare is best supported by a free and open flow of goods, services, and capital. As a result, it views its own role in this process as that of a leading proponent of the benefits of globalization and as a force for developing institutions and regulatory structures that can make these benefits available to the OECD members and to developing countries. The core work of the OECD Committees and Working Groups is organized around five main areas in order to provide the members with studies, technical knowledge and expertise, and to help develop guidelines and codes. These areas include:

> ***Trade and Investment Liberalization***. Work in this area includes promoting the benefits of open markets and analyzing trade as it relates to competition policy, the environment, labor standards, and foreign investment. Work is also being conducted on the areas of export credit policies, electronic commerce, corporate governance and codes of conduct, international taxation principles and the linkages between trade, investment and economic development.
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> ***Policy Reform and Development***. This work focuses on the newly emerging economies of Russia and South Eastern Europe where the OECD is attempting to promote peace, stability, and economic and social progress by achieving economic integration. The OECD is attempting to establish standards for fair and non-discriminatory treatment for domestic and foreign investors, with the full protection of property rights.
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> ***Managing New and Evolving Technologies***. This area focuses on developing the necessary ground-work for the approval, adoption, and dissemination of new technologies to non-members. Such technologies include biotechnology and related food safety issues.
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> ***Public Governance***. National governments face increased challenges coordinating trade and economic issues. The OECD is working with national governments to find ways to include a broader representation of groups and viewpoints to satisfy public expectations for input into policy issues.
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> ***Social Protection***. Globalization has created fears that segments of national economies will be permanently displaced. The OECD is working with national governments to address the needs of individuals and the member countries to utilize the human resources in each member country.

Issues for Congress

Among some consumer groups, there is growing concern over the economic impact of globalization. These concerns, in turn, are spurring some groups to single out the OECD for criticism as a result of the OECD's leading role as a proponent of free trade, open markets, and globalization. One criticism, in particular, that is expressed by some groups, is the view that the OECD represents a danger to national sovereignty because they claim it is one among a number of international bodies that exceeds the authority of national governments, yet is accountable to no one. Others view the OECD as an economic cartel dominated by the United States and serving mainly the economic and political interests of the United States.[2] These groups also argue that the OECD is pursuing free trade and open markets at the expense of the poorest and least developed countries; that the pursuit of free market economics worsens further the disparity of income between the richest and the poorest countries; and that the OECD is promoting the expansion of multinational corporations at the expense of national governments and national economic interests.

The OECD is independent from any other international organization, but it is the creation of its member countries and, therefore, reflects their interests and views. As such, it contends that it has no hidden or independent agenda of its own, but that its agenda is set by its members. It also argues that free trade and open markets have proven to be the best route to economic development and to higher national incomes. There is little doubt, however, that the United States plays a leading, but not a commanding, role within the OECD. This means that, at times, the United States carries a larger than average portion of the burden for determining the agenda of the OECD and in helping to direct the course of policy developments. This also means that the United States is the most obvious target for criticism from groups that object to the policies or the performance of the OECD.

The United States plays an active role in the full array of OECD activities. In support of the needs of developed countries in the WTO negotiations, the OECD has pursued analytical research into: the impact regional trade agreements are having on the multilateral trading system; the agricultural policies of OECD countries; the issue of labor mobility; the impact of barriers to trade in services; and the trade policy implications of changes in the structure of national economies. U.S. delegates actively participated in efforts to strengthen competition and antitrust policies within OECD countries, and to extend and strengthen the OECD's anti-bribery convention. In addition, U.S. delegates have supported efforts within the OECD to review national regulatory reform efforts, because they argued that targeted regulatory reform, especially transparency, can benefit domestic and foreign stakeholders alike by improving the quality of regulation and enhancing market openness.

In 2002, U.S. delegates pressed for greater support for the OECD's Arrangement on Guidelines for Officially Supported Export Credits, which restricts the use of tied aid financing in promoting exports. They gained support in 2002 for a U.S. proposal to merge and update two agreements that banned tied aid in Central and Eastern Europe and key countries of the former Soviet Union, respectively, and formally incorporated the new agreement into the Arrangement. The United States also proposed applying the rules governing the use of tied aid to untied aid and a formal review of the use of "market windows," or quasi-government financial institutions that support national exports, but are not subject to multilateral rules. U.S. negotiators oppose the efforts by some OECD members to shift the issue of export credit controls to the World Trade Organization (WTO), because U.S. negotiators believe that a consensus favoring controls on export financing would be unlikely since the WTO forum would include those very developing countries that benefit the most from export credit subsidies.

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[2] See *The OECD's Crocodile Tears* at [http://www.flyingfish.org.uk/articles/oecd/tears.htm]

U.S. delegates have also placed a high priority on international investment issues in the OECD. As part of the OECD's Declaration on International Investment and Multinational Enterprises, each OECD member has designated national contact points (NCPs), or the government agencies designated by each country to monitor implementation of the Guidelines within their territory. The U.S. national contact point is the Director of the Office of Investment Affairs, the Department of State. At the annual meeting of NCPs in 2002, the participants agreed to study a number of issues including the scope and application of the Guidelines. The United States also pressed for and contributed to a working paper on the general treatment and expropriation obligations in international investment agreements in order to clarify the content of those obligations for arbitrators, investors, and the international community. U. S. efforts also focused on the OECD's High Level Process on Steel to address overcapacity in the global steel market and any market-distorting practices that contribute to excessive and inefficient steel capacity. In December 2002, participants agreed to develop the elements of an agreement for reducing or eliminating trade-distorting subsidies in steel and to explore developing a voluntary commitment to refrain from introducing new subsidy programs that may maintain or enhance steel capacity. The United States also supported efforts to establish a joint trade capacity building database to assist trade negotiators from developing countries.

Another area of concern for U.S. delegates has been the issue of tax havens. During the last half of the 1990's, the OECD member countries initiated efforts to curtail the use of tax havens for illicit tax purposes as part of their efforts to curb "harmful tax competition."[3] The OECD member countries defined harmful tax competition as attempts to attract foreign investment in financial and other mobile services by providing preferential tax treatment to such investment through a regime that excludes local residents from benefitting from the regime or that limits access to the local market, thereby protecting the local market from foreign competition, coupled with a lack of transparency and a lack of effective exchange of information for tax purposes. OECD member countries initiated these efforts because they were concerned that certain kinds of tax competition for internationally mobile capital were anticompetitive. This project has evolved over time. The main focus now has shifted to improving the transparency of tax and regulatory regimes and to establishing effective exchange of information for tax purposes. U.S. delegates led the efforts to refocus the project on advancing the longstanding policy of promoting the exchange of information for tax purposes.

The issues of bribery and tax havens have been major concerns among the OECD's members and have prompted certain changes in U.S. laws. International flows of capital and goods and services around the world, a phenomenon referred to as globalization, have grown dramatically over the last decade and are producing significant challenges for the OECD member countries, including the United States. International flows of capital are the prime mover behind exchange rates and global flows of goods and services, and represent the heightened growth of foreign investment and cross-border business transactions. One outcome of this global expansion of business transactions, however, has been the increased use by multinational corporations and nations of voluntary, legally enforceable, and industry-specific codes of conduct. One such code promoted by the

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[3] *Harmful Tax Competition: An Emerging Global Issue*. Organization for Economic Cooperation and Development, Paris, 1998. [http://www.oecd.org/daf/fa/harm_tax/harmfultax_eng.pdf]

OECD is the Convention on Bribery, which focuses on a narrow set of issues related to the bribing of public officials. Since the Convention entered into force on February 15, 1999, 23 countries, including the United States,[4] have passed national legislation implementing the Convention.

Since the terrorist attacks of September 11, the Financial Action Task Force on Money Laundering (FATF), the body within the OECD that has pursued improvements in the anti-money laundering mechanisms in tax havens and among its own member countries, has redirected its efforts to focus on terrorist financing. On October 31, 2001, the FATF issued a new set of guidelines and a set of Special Recommendations on terrorist financing.[5] In the accompanying statement, the FATF indicated that it had broadened its mission beyond the issue of money laundering to focus on combating terrorist financing and that it was encouraging all countries to abide by the new set of guidelines. The Special Recommendations agreed to by the FATF are:

- Take immediate steps to ratify and implement the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism and Security Council Resolution 1373 dealing with the prevention and suppression of the financing of terrorist acts;

- Criminalize the financing of terrorism, terrorist acts and terrorist organizations;

- Freeze and confiscate funds or other assets of terrorists, adopt measures which allow authorities to seize and confiscate property;

- Report funds they believed are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organizations;

- Provide the widest possible range of assistance to other countries' law enforcement and regulatory authorities in connection with criminal, civil enforcement, and administrative investigations;

- Impose anti-money laundering requirements on alternative remittance systems;

- Strengthen customer identification requirements on financial institutions for domestic and international wire transfers of funds;

- Ensure that entities such as non-profit organizations cannot be misused to finance terrorism.

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[4] P.L. 105-366, November 10, 1998.

[5] *FATF Cracks Down on Terrorist Financing*. Washington, FATF, October 31, 2001, p. 1.