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OUTREACH, REFORM AND THE ECONOMICS OF CLIMATE CHANGE

TRADE UNION STATEMENT TO THE OECD MINISTERIAL COUNCIL MEETING 4-5 JUNE 2008

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Executive summary

1 OECD Ministers are meeting as the impact on the global economy of the financial crisis that spread from the US credit and mortgage markets is still emerging. It is all too clear that the United States is facing the most serious financial crisis since the 1930s, a condition that is now dragging its economy into recession and slowing growth globally. This situation is compounded by the unprecedented rise in fuel and commodity prices and the resulting food crisis in developing countries.

2 The OECD must facilitate an effective response by global governance institutions to these interrelated crises. Unions have called for global action by finance ministers and central bankers that goes beyond the steps taken thus far. Unions are demanding a coordinated government response to the crisis including monetary easing backed by fiscal policy, a call that has been taken up by the IMF. Economic and finance ministers together with central banks must halt the contagion and ensure that measures taken have a specific focus on raising the quality and quantity of jobs, as well as addressing the lack of transparency and effective regulation of global capital markets.

3 In the US and some other OECD economies, this economic downturn begins with median wages still below their pre-recession levels. Wage stagnation and lack of purchasing power for working families is both a result of damaging policies and itself a major factor behind the fall in household savings and the emergence of unsustainable debt that led to the mortgage crisis. Financial deregulation allowed creditors to promote borrowing against home equity as a substitute for income. The long-term decline of wages as a share of national income and the growth of inequality within wages have become characteristic features of global growth. Financial bubbles in asset prices, stimulated by excessive leverage and lax rules, substituted for sustainable growth based on shared earnings.

4 Falling wage shares and growing inequality extends beyond the OECD countries and although forecasts for developing and emerging economies are stronger than those for the OECD the worsening economic situation will add to a deficit of decent work already identified by the ILO. Moreover, the explosion in food prices

over the past year – increases averaging 57% according to the UN – adds a new urgency to addressing the development agenda at international meetings. The human cost is being seen by the growth in world hunger and has now spilled over into food riots in the Caribbean and across Africa. We urge the OECD governments to both agree on emergency responses including action to counter speculative actions in food markets and extend emergency support to the poorest together with medium-term action to expand sustainable food production and rebuild buffer stocks. It is essential that the Doha Development Agenda actually delivers economic and social development. Beyond this, governments must use the meetings to identify what must be done so that the commitments made to increase development assistance and meet the Millennium Development Goals are lived up to.

5 Turning the challenges of countering climate change into an opportunity for job creation and sustainable development must be at the heart of OECD discussions on the economics of climate change. The creation of green jobs can be both a partial solution to economic problems and a way of advancing action to counter climate change. The OECD must encourage mechanisms for consultation and joint action with the Social Partners on national climate change strategies. They must also ensure the transfer of resources and clean technologies to developing countries.

6 The OECD itself is at a crossroads. It needs to show its relevance to societies that are dealing with challenges posed by globalisation has to put itself at the centre of global governance by multilateral institutions to manage globalisation. Decisions taken in 2007 to expand membership and enhance dialogue with major emerging countries also pose issues concerning the organisation's future mission and effectiveness. The Organisation is developing partnership relations with international intergovernmental organisations. The time is right to set out an updated memorandum of understanding with the International Labour Organisation covering joint work on labour rights, decent work, migration, ending discrimination, developing "green" jobs, corporate accountability and responsibility as well as respect for core labour rights in adhering countries.

7 In summary, we call on the Ministers to use their discussions to ensure:

- Coordinated government action to minimise the risk of rising unemployment and support decent work (§8-17);
- Effective regulation of financial markets, including private equity and sovereign wealth funds, the use of tax systems to re-apportion the costs and benefits of globalisation and strengthened international cooperation against money laundering and tax crimes (§18-25);
- Action to deal with growing inequality including promotion of equity audits in all relevant areas of government policy (§26-30);
- Reform in policies and institutions must be based upon an "evidence-based" approach to policy evaluation and full social partner consultation and negotiation so as to ensure "shared ownership" of the reform process (§31-33);
- Building on the G8 meetings of 2007 particularly with regard to the social dimension of globalisation and determining a more effective approach to corporate accountability and social responsibility including in the "Heiligendamm Process" (§34-37);
- Global coherence in defining and handling the challenges of attenuating climate change and developing a just transition agenda favouring "green jobs" (§38-44);
- That emergency steps are taken to meet commitments by OECD countries on development assistance in the light of the explosion of hunger and poverty triggered by rising food and energy prices (§45-49);
- That OECD enlargement increases rather than undermines OECD effectiveness. This requires monitoring respect for "basic values of pluralistic democracy, respect for human rights and a competitive market economy" (§50-55).

Responding to the unfolding economic and financial crisis

Economic recovery measures that support decent work

8 The OECD economies are facing a serious economic slowdown and risk of recession, amplifying uncertainties about the condition of the world economy in 2008 already hit by an explosion in fuel and food prices. In the past 12 months, economic growth projections have shifted from optimism to alarm. What began as a financial crisis in the US housing mortgage market early in 2007, transformed into an OECD-wide credit crunch during the summer and into a global turndown by the end of the year. The US and the broader OECD area are most exposed to the risk of recession, but repercussions in the developing world should not be underestimated as the effects of fuel, food and commodity price rises make themselves manifest It is already clear that growth and employment will suffer. For unions, the current situation reveals a growing divergence between unregulated and unmanageable financial markets on one hand and the financing needs of the real economy to provide decent work on the other.

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9 By spring 2008, the impact of the US sub-prime mortgage crisis had been twofold. Domestically it had already led to over 2 million American working families being expelled from their homes and to another 10 million having negative equity in their homes – the mortgage debts exceed the value of their property. This destruction of household wealth has undermined consumer and business confidence; unemployment is rising and at the time of writing looming recession in the US economy awaits only publication of updated figures. Internationally, the sub-prime mortgage crisis triggered a collapse in credit derivative markets that had developed over the past decade without public regulatory oversight. Household and corporate credit lending restrictions are tightening across the OECD. The immediate result has been an unprecedented slump in public confidence in financial markets.

10 The persistence of structural current account and exchange rate imbalances within the OECD (particularly between the US and the Euro area) and imbalances with emerging economies is likely to deepen the crisis. Emerging economies' accumulation of dollar holdings – and increasing investment by sovereign wealth funds (SWFs) – has provided needed equity recapitalisation for badly hit banks and financial institutions. However, risks loom of disorderly adjustments – a brutal reversion of capital flows away from the dollar area in the face of continuing uncertainty in the US.

11 Downside risks are exacerbated by rising inflationary pressures from energy and commodity prices. Crude oil has now reached USD 120 per barrel. While OECD demand has stabilised at around 4 million barrels per day since 2003, non-OECD demand doubled during that period to reach 11 million barrels per day in 2007. For OECD member countries a USD10 increase per barrel on oil prices equates to a reduction in OECD domestic demand level by -0.2 percent in 2008. Food price rises are hitting workers' incomes in the industrialised countries but they are having catastrophic impact on the populations of developing countries.

12 The concomitant monetary responses by central banks at the end of 2007 have proven insufficient. It will need more than liquidity injections or cuts in interest rates by central bankers to re-establish confidence in banks and rebuild a credible and respected financial market system. OECD governments need to consider the cost of inaction in the face of growing unregulated financial institutions – banks' off-balance-sheet investment vehicles, hedge funds, private equity – and financial product markets – collateralized debt obligations.

13 Emerging economies' surpluses should be redirected domestically to long-term productive investments, to education, social security, health, the formal private sector and rural development. Fiscal stimulus should target increases in aggregate demand of sufficient magnitude to revitalise the real economy: employment, wage and household disposable income growth.

14 OECD finance ministers have to work on a coordinated strategy for broad-based and diversified demand-side policies including support to median and low incomes. The downturn is the appropriate time to bring forward targeted infrastructure programmes and measures aimed at reducing inequality and improving the environment as called for later in this statement.

15 In the US, a comprehensive plan is needed combining raising income of low- and middle-income workers, reinforcing safety nets, including unemployment benefits, and ambitious federal government spending in infrastructure on education and transport. The effectiveness of tax cuts to the wealthiest and to business – as seen in the US President Bush's USD 150 billion package – is doubtful.

16 In Japan, measures promoting the slow recovery from a long-continuing deflationary burden need to be rebalanced in favour of domestic demand, as current growth relies almost exclusively on exports. At the time of writing Japan's industrial production was registering a decline of more than 3 percent at an annual rate. Increases in real wages are now crucial to raise demand and should be backed up by fiscal policy in support of household consumption.

17 In the EU, coordination of different ongoing fiscal policy initiatives by member states needs to be improved. Member states are currently pushing and pulling in different directions with the effect, undesired and unwelcome, of neutralising others' policies. The case for cutting interest rates should be reconsidered now that the dollar/euro exchange rate has reached unsustainable levels.

Global financial markets need global rules which promote integrity

Regulating financial markets: the labour dimension

18 The financial vortex that has now unleashed a jobs crisis has its roots in the irresponsible deregulation of financial markets promoting excessive leverage by financial institutions, asset price bubbles, and financial innovation that exported bad debt under the guise of "structured products". This opaque system worked as long as interest rates and credit default levels were low. It collapsed at the first downturn in the US housing market at the end of 2006. The true credit risk of the underlying household and corporate assets – which is fundamental for the good functioning of the real economy – was not of concern to the promoters of structured products, making it impossible for investors – including workers' pension funds – to understand what they were buying and know what they were exposed to. The resulting uncertainty about where credit risks and losses were located triggered bank failures and a collapse of confidence. The inter-bank lending market has ceased to function, while OECD-based banks dropped USD 570 billion in market value in 2007 and another USD 337 billion in the first quarter of 2008. Hedge funds, whilst preserved for some time thanks to their opacity have also experienced a series of failures. According to the OECD, the expected downgrading of the credit rating of the major financial guarantors might trigger a generalised downgrading of the estimated USD 2400 billion in corporate bonds that these insurance groups guarantee. The resulting cost for the real economy debt financing could be unprecedented, particularly for the most exposed parts including the already heavily indebted private equity companies who employ millions of workers across the OECD.

19 Governments must be proactive in ensuring that an effective regulatory response prevents such a crisis from re-occurring. Central banks' monetary response over the past year has been manifest but is far from sufficient. To rebuild public confidence, OECD governments must give assurance that international cooperation will be accelerated to revise and restore both regulation and supervision of credit financing activities and institutions. The OECD Ministerial Council should drive forward such renewed international cooperation and make sure the financial and

banking sector fulfil their public purpose of meeting the financing needs of the real economy. The OECD itself should undertake a horizontal cross directorate review of regulation of financial markets.

20 OECD governments must also focus on the employment impact of the wave of private equity buy-outs, and accordingly the employer responsibilities of private equity groups. More broadly, governments should commit to engage in reviews of how this controversial business model avoids existing laws and regulations that protect established workers' rights. In the UK and France over a million workers in each country are believed to be under private equity regimes. Estimates in the US alone reach 10 million. Trade unions have called for fair taxation, transparency and governance of private equity. Workers' rights to decent wages and pensions, to collective bargaining, to freedom of association and to information and consultation, rank among the most important regulatory challenges posed by private equity. Private equity decisions are rarely taken at the level of portfolio companies and hence fall outside the remit of traditional and labour legislation. Labour legislation under private equity regimes has become a major complication. In the US, the AFL-CIO has called upon Congress to require private equity to play by the same societal rules that apply to publicly quoted corporations. In Europe, the ETUC has identified several areas where EU Directives on employee consultation and on "acquired rights" are not adapted to private equity. In Japan, after an investigation by the ministry of health, labour and welfare in 2006, RENGO has called for enhancing legislation on employer liability to cover investment funds possessing substantial share ownership in a company, as is the case with private equity funds. Revisiting legal aspects of employer liability to protect established rights of workers under private equity regimes has become a crucial issue across the OECD.

"The massive wealth that is accumulated in SWFs should be considered in a broader policy discussion with key emerging economies.

Regulating sovereign wealth funds

21 The rapid growth of Sovereign Wealth funds (SWFs) – which is attributable to the persistence and growth of structural imbalances between OECD areas and emerging countries – has changed the landscape of global asset ownership. Just as hedge funds and private equity firms have become mainstream in the asset management industry, in a short period SWFs have moved up in the global ranking of asset owners and have surpassed long-held positions by OECD-based pension funds. Little is known about most SWFs' investment and governance policies. What is reported in the media falls short of comprehensive information. However, while greater attention is needed on the governance of SWFs themselves, equal consideration should be given to the regulation of financial intermediaries – including hedge funds and private equity firms – that channel their investments into the real economy.

22 The massive wealth that is accumulated in SWFs should be considered in a broader policy discussion with key emerging economies, in light of warnings by the IMF about current account imbalances. The OECD and the IMF have the instruments and the expertise to develop guidance for SWFs, their host economies and recipient governments. However it would be a mistake to focus exclusively on the non-OECD based SWFs while leaving aside the broader ramifications in the investment chains. Trade unions call on G8 governments:

- To integrate the role of SWFs in the necessary dialogue with emerging economies on the coordination of fiscal and budgetary policies to rebalance growth between world regions;
- To link the investment policy and regulatory issues raised by SWFs with those of other lightly regulated investors, including hedge funds and private equity;
- To engage dialogue on the joint implementation of the OECD Guidelines for Multinational Enterprises, the OECD Guidelines on Corporate Governance of State-Owned Enterprises, as well as relevant pension governance and asset management related OECD Guidelines.

Offshore Financial Centres

23 Money laundering, misuse of alternative investment vehicles, tax crimes, and other inappropriate exploitation of financial markets for personal gain: all have changed in both character and dimension. Widespread financial abuse erodes the integrity of the international financial system and raises new challenges for policy-makers and society. In certain jurisdictions such abuse may go so far as to undermine the democratic basis of government itself by depriving governments of the revenues needed to finance the physical and social infrastructure required for a sustainable growth path. Working families are particularly concerned at the impact of tax havens. The 2008 Liechtenstein scandal shows that the amounts of revenue lost (one estimate for Germany was as high as EUR 4 billion) are significant. Such offshore tax evasion can undermine the confidence of honest taxpayers in the fairness of the tax system and severely constrain the ability of governments to invest in the future of our societies.

24 Financial crimes thrive in a climate of secrecy where normal good governance measures are undermined by a lack of transparency and a failure of financial centres to cooperate effectively with the law enforcement agencies of other countries. Poorly regulated financial markets not only open up new opportunities for financial crimes but can also threaten the stability of the international financial system. As new technologies reduce the importance of physical proximity to major on-shore financial centres so a new generation of Offshore Financial Centres (OFC) have emerged. Despite improvements in regulatory coverage against money laundering in a number of Offshore Financial Centres, some are still characterised by strict bank secrecy, criminal penalties for disclosure of client information and a policy or practice of non-co-operation with law enforcement agencies of other countries. These OFCs attract brass plate banks, anonymous financial companies and asset protection trusts.

25 OECD Governments need to respond to these threats by developing legislation to detect and deter financial crimes and by strengthening their law enforcement and tax enforcement capacity. The OECD has taken the lead in developing new international standards and since 1998 has taken steps to address the problems raised by tax havens as part of a broader initiative to counter harmful tax practices. In 1989 the Financial Action Task Force (FATF) was created to counter money laundering. Setting standards is but one step in the fight against financial and tax abuse. Monitoring their implementation and getting compliance from OFCs is the next challenge. The emergence of new financial centres will have to be monitored and renewed efforts will be required to ensure that those centres which achieve high standards will not be put at a competitive disadvantage. OECD countries will have to be the driving force behind initiatives to improve the integrity of financial markets. To maintain their credibility they will need to continue review their own money laundering, law enforcement, supervisory and tax enforcement powers. This in turn will require integrity and ensuring that there are no free riders in the system.

Putting fair distribution at the heart of policy

Assessing the impact of policy through new "equity audits"

26 The impact of both globalisation on employment, labour markets and wages, as well as inadequate domestic policies for distribution have become the key factors accounting for rising inequality both between and within countries. Within the OECD countries the "gini coefficient" measuring inequality between households net income has risen by 6 percent in the last two decades. The increase in inequality was particularly strong in the United Kingdom and the United States. According to the

UNDP[1], of the 73 countries worldwide for which figures are available, 53 countries – comprising more than four fifths of the world's population – have recorded an increase in inequality of income distribution over the last two decades. We call on the OECD to ensure that fair distribution of income and equal opportunities are put at the centre of government policies. As a starting point, economic and social policies of all relevant government departments in OECD countries and in the OECD itself should be assessed for their impact on the distribution of income and social equity. This would establish a form of "equity audits". The gender dimension of inequality also remains to be effectively tackled – evidence[2] from some 63 countries show that on average women are paid 16 percent less than their male counterparts.

27 Workers displaced in many industrialised countries often experience extended periods of unemployment and a subsequent pay cut when re-employed. At the same time, firms wield an increased power in negotiations with unions because of competitive pressures, tax arbitrage and the threat of relocation and departure from any given country. In a number of countries government policies themselves have tilted the balance of power against workers and in favour of employers, through what are claimed to be employment-promoting reform policies, i.e. the deregulation of labour markets, cuts in pension benefits, medical insurance and other social protection rights, lowering taxes on high incomes and companies, and the side effects of workfare policies. Such one-sided labour market reforms are reflected in the OECD's "Going for Growth"[3] publication, yet called into question by the evidence in the OECD restated Jobs Strategy[4]. Diminishing numbers benefiting from economic growth and globalisation is not only a threat to social cohesion: without appropriate policy responses the process adds to scepticism about free trade and thus lends support for proposals to erect barriers to global trade and investment.

> "Economic and social policies of all relevant government departments in OECD countries and in the OECD itself should be assessed for their impact on the distribution of income and social equity.

Ensuring high quality social security systems

28 Re-establishing and developing effective social security systems and ensuring the application of labour market protection to all workers is not just socially necessary, it is essential to market functioning. Job protection and in particular prior notification of redundancy should not be seen as rigidity but as offering a possibility to prepare retrenched workers to find a productive job elsewhere. Combating unemployment and job insecurity requires effectively coordinating macroeconomic, social policies with systems of collective bargaining, based on social dialogue involving government, trade unions and employers and active labour market policies providing basic protection in line with the requirements of decent work as well as opportunities to move up the income and skill ladders.

29 In addition to progressive tax systems, targeted social expenditures and widening collective bargaining coverage, minimum wages that are set intelligently through government regulation or collective bargaining are important to provide a floor in labour markets and prevent a further rise of wage inequality. High quality universal social protection systems for all are necessary to give workers security throughout the process of economic change. By investing in social protection systems countries can stimulate productivity and encourage innovation.

30 Of central importance is the need for OECD country governments to invest in education systems and raise skill levels. It is in the interests of all OECD governments to deliver on past commitments to invest in lifelong learning and to mobilise investment in education, vocational training and skills. Over time, such investment can be among the most significant factors in addressing imbalances. Among the consequences of these imbalances are movements of people. Migration and increased mobility is to be expected in a global economy, but clandestine, exploitative, and unbalanced forms of migration raise ethical issues for national societies, contribute

1 UNDP Human Development Report 2007/2008 and 2005

2 International Trade Union Confederation "The Global Pay Gap" 2008

3 "Going for Growth" OECD 2008

4 "OECD Employment Outlook – Boosting Jobs and Incomes" 2006

to unemployment, and threaten social cohesion. Migration policy must be rights-based, and must include measures for education, training and skills development in both countries of origin and receiving countries.

Getting shared ownership of the political economy of reform

31 The OECD has embarked upon a debate on the "political economy of reform". How to design and implement economic reforms successfully indeed has become a stand-alone policy issue. However, recent discussions at the OECD[5] have left aside the issue of what to reform in a context of macroeconomic imbalances in the world economy and have focussed almost exclusively on how to best sell to the public reforms aiming more individualised exposure to market risks and less collective insurance and solidarity mechanisms. Successful reforms should be based on shared assessments – including on the current macroeconomic imbalances – and priorities for the real economy and working families. Such approach requires structured dialogue with the representative constituencies of the real economy, including trade unions. Think tanks, public relation officers and media consultancies cannot substitute to civil society and the representative organisations of the real economy.

32 To be credible the OECD work on political economy of reform must bridge the gap between the confidence with which the case for structural reform, in particular for labour market deregulation has been asserted and the evidence that the regulating institutions are the culprits. The "evidence-based" approach of the revised OECD Jobs Strategy is a more promising approach than the *a priori* recommendations of "Going for Growth". Thus, models that have been applied to justify structural reform policies must be reconfigured. In particular, it is necessary to:

- Strengthen the sensitivity of performance-related cross-country comparisons to institutional settings and policy complementarities;
- Pay equal attention to both economic and social issues;
- Study the experience made with the new form of benchmarking and policy learning established by the EU, the open method of coordination;
- Provide new and more robust evidence for policy learning and adjusting prior to new knowledge; and
- Follow the recommendation of the OECD Ministerial Council as agreed in 2007, namely to "reach out to a wider range of stakeholders and involve the social partners in reform efforts."

33 The work should not repeat past errors identifying organisations such as trade unions as "rent seekers" representing "insiders" in the labour market. Labour market institutions such as trade unions are the result of democratic processes and decisions, reflecting a social contract and addressing market failures as well as the asymmetry and imbalance of bargaining power between individual workers and employers. Moreover, political support by citizens for socially balanced economic governance "can actually enhance efficiency, guaranteeing the flexibility, transparency and consensus that would be missing when ruling according to the strict application of a doctrine."[6]

Strengthening the OECD Guidelines for Multinational Enterprises

34 The G8 Heiligendamm Summit and the Dresden G8 Labour Ministers Conference in 2007 mandated to the OECD to develop its work on corporate responsibility and accountability. The ministers stressed that "it is primarily the task of governments to implement and improve human rights and labour standards". At the

5 OECD-IMF conference on structural reform in Europe, April 2008.

6 Fitoussi, J.-P. 2003. The ECB monetary policy strategy and structural reforms. European Parliament, Committee for Economic and Monetary Affairs. Briefing paper n. 2, p. 2

same time they called on companies to go beyond this. They referred to the ILO Multinational Declaration, the OECD Guidelines for Multinational Enterprises and the UN Global Compact as providing international frameworks for CSR. They also drew attention to the role of International Framework Agreements being negotiated between companies and Global Union Federations. The ministers strongly encouraged companies in the G8 countries and beyond to observe the OECD Guidelines for Multinational Enterprises. They also appealed to the governments of emerging and developing countries to associate themselves with the values and standards contained in the Guidelines and committed themselves to actively support their dissemination and promote better governance through the OECD Guidelines' National Contact Points: messages that should be followed up by the OECD.

35 OECD government commitment to the OECD Guidelines for MNE is of no value unless they have effectively operating National Contact Points involving trade unions and other engaged parties. An important number of National Contact Points exist only on paper, without genuine functions. These governments must ensure that alleged violations of the Guidelines are properly investigated by NCPs in line with the commitments entered into. A stocktaking of the performance of all NCPs can be useful to indicate what needs to be improved to enhance the effectiveness of the OECD Guidelines' implementation mechanism. OECD Governments should ensure in particular that companies that receive public funds such as export credits and investment guarantees are in conformity with the Guidelines. It is important that emerging and developing countries are involved actively in the high-level round table on responsible business conduct being jointly organized in June 2008 by the OECD and ILO . An expanded Memorandum of Understanding between the OECD and the ILO covering this and other areas of work would assist a follow-up as set out in paragraph 55 below.

"OECD government commitment to the OECD Guidelines for MNE is of no value unless they have effectively operating National Contact Points involving trade unions and other engaged parties.

36 OECD governments must also convince the Enhanced Engagement countries (China, India, Brazil, South Africa and Indonesia) of the importance of adhering to the Guidelines. To make the merits of the guidelines known, governments should devote more resources to their dissemination with particular attention to developing countries. Every year the OECD organises several outreach "regional roundtables" in Asia, Africa, Latin America on issues such as corporate governance, public governance, pension reform, foreign investment. Comparable efforts should be made by the Organisation and its member states to the promotion of the Guidelines.

The Heiligendamm process

37 As a new form of a topic-driven High-level Dialogue, the G8 agreed the Heiligendamm Process to provide a Forum for more substantive dialogue between major emerging and developing countries and the G8 leading to regular meetings between ministers from the 13 countries with various portfolios. The focus is on innovation, investment and corporate accountability, development, and energy efficiency. The OECD has been asked to provide a platform for the proposed new dialogue process, assisted by the IEA as the relevant organisation in the field of energy efficiency. The above issue are all ones of keen concern to unions. The Heiligendamm process must include the effective involvement and voice of trade unions.

Tackling climate change

Green jobs, a driver for climate change solutions

38 The overall costs of climate change in a business as usual scenario would be equivalent to losing at least 5 percent of world output each year. If a wider range of risks and impacts is taken into account, the net effects of damage could exceed 20 percent of world output. By contrast, the costs of reducing greenhouse gas emissions to avert its worst effects, i.e. by 85 percent by the year 2050, could limit the costs

to one percent of world output each year. All governments must take the necessary actions to reduce emissions to meet those targets, based on the principle of common but differentiated responsibilities and depending on each country's economic and social development. While action to combat climate change will lead to changes in economic activity and employment, the failure to act would entail catastrophic consequences for human society, the global economy and prospects for sustainable jobs.

39 However, policies to reduce emissions affect income distribution not only across countries, but also among households within countries. Low income households typically spend a larger proportion of their income on energy-related goods. Therefore, they are more likely to be affected by policies that raise energy prices, such as putting a price on Greenhouse Gas emissions, or removing fuel subsidies. We call on Governments to address income distribution and employment concerns through policy instruments focused on these social issues. In addition, other climate-related economic instruments, such as the trading of emission credits, must be part of broad policy packages and need to be accompanied by social policies to fairly distribute the cost of climate protection.

40 A policy framework for sustainable employment and just transition for workers affected by change should be put in place. Such framework must include a 'green jobs' agenda giving workers and their representatives the rights to engage pro-actively with business to ensure sustainable production. The OECD should work to bring about a synergy between employment creation and action to combat climate change on: alternatives for energy supply, transportation, energy efficient housing, agricultural production, managing the food system. The research being published by UNEP[7] with ILO and trade union involvement shows the employment creation potential of green jobs. Investment must support employment transition through technology transfer policies, job training, adult education and compensation. It should be part of overall efforts to promote economic diversification, strengthen climate-vulnerable infrastructures particularly for water and health. For developing countries, this must be supported by international funding.

41 Employment promotion should be linked to less carbon-intensive economy through energy saving and efficiency policies, including collective transportation, retrofitting of the housing sectors, sustainable energy sources and advanced technology of vehicles. The employment dimension must be taken into account when planning the introduction of new and emerging technologies for carbon dioxide capture and storage at power plants, sequestering CO2 in geologic reservoirs, in forests and soils, through reduction of deforestation and by increasing forestation and conservation tillage.

42 Employment transition and 'green job' promotion should become an integral part of intergovernmental agencies' action. The OECD should work with the UN National Sustainable Development Strategies, UN Sustainable Consumption and Production, the ILO Decent Work Country Programme as well as the UNFCCC. Such activities should be brought into the scope of national reporting and evaluation exercises of the UNFCCC, especially as related to the Bali Action Plan mandates for promoting sustainable development and implementing the New Delhi Action Plan.

Promoting national dialogues and linkages with trade negotiations and development

43 National consultative frameworks can become a basis for transition programmes, in order to prevent, avoid or reduce the potentially adverse social effects that could result from efforts to attain compliance with the Kyoto Protocol. In France, the "Grenelle de l'environnement" innovated by creating a truly multi-stakeholder dialogue for discussion of the necessary regulatory measures to create national con-

7 "Green jobs, Towards sustainable work in a low carbon world". World Watch Institute for UNEP and ILO, 2008.

sensus around climate change. In Spain tripartite social dialogue at the national and sectoral level has proven useful to work towards this goal, identifying measures to deal with affected workers. It also put the country on the path to reducing greenhouse gas emission. In the UK, the Trade Union Sustainable Development Advisory Committee, TUSDAC was set up as a forum for consultation between government and trade unions on sustainable development and environmental issues, including on climate change.

44 Governments should also seek to strengthen the climate-employment connections within trade policies. Border adjustment mechanisms (i.e. tariffs) may be required by those countries internalising carbon emission reduction costs within their production structures. A differentiated adjustment mechanism is needed whereby developing countries do not face an additional burden on top of the effects of climate change itself. Developing countries' capacity to develop clean technology should further be facilitated through changes to TRIPS rules. The consequences of internalizing the real cost of transporting goods and relocating polluting industries in developing countries must be scrutinized. Governments should undertake joint research with trade, environment, labour and social ministries in their own countries and be guided by the integration approaches of current work underway in the OECD Development Assistance Committee networks on poverty and environment.

"The OECD should work to bring about a synergy between employment creation and action to combat climate change.

Addressing the developing world's priorities

Meeting the Millennium Development Goals

45 The OECD, the developing countries and the emerging economies have a shared long-term interest in ensuring sustainable development and reduction in inequality and poverty. Central to this is meeting the Millennium Development Goals (MDGs). Nearly one and a half billion people still lack access to safe drinking water. The world continues to face the scourge of an AIDS and malaria emergency with 40 million adults and children infected with HIV AIDS. 77 million children lack access to primary education and more than ten times that number of adults, 771 million, are illiterate. Yet, development assistance (ODA) from the members of the OECD Development Assistance Committee in real terms fell by 8.4 percent to USD 103.7 billion, representing a fall from 0.31 percent to 0.25 percent of Gross National Income between 2006 and 2007. Notwithstanding the foreseeable decline in debt relief, the OECD has noted that "overall, most donors are not on track to meet their stated commitments to scale up aid and will need to make unprecedented increases to meet the targets they have set for 2010"[8]. Trade unions, therefore, reaffirm their call on governments to fulfil their promises and report on the measures that have been and will be taken in order to meet these commitments.

46 The Paris Declaration on Aid Effectiveness could be turned into a meaningful instrument to reform aid practices. However, the Declaration focuses in the main on government relationships and improving the capacities of state actors in developing countries. It takes into account neither the role of civil society organisations nor of trade unions. A major initiative should be taken to support trade union assistance to developing country partners. Furthermore, aid effectiveness cannot be separated from broader development goals such as decent work, human rights and gender equality. Aid should be based on encouraging good governance and widening choices on pathways to development. The High Level Forum to be held in Accra later this year to review progress in the implementation of the Declaration will be a significant test of the usefulness of the Declaration.

Responding to the humanitarian crisis of rising food prices

47 On top of the need for further action to meet the MDGs, a humanitarian crisis

8 OECD Development Assistance Committee, Figures 2007 ODA, 4 April 2008

looms as a result of soaring food prices. For many developing widespread hunger is once again on the increase and food riots have spread from Haiti and across Africa. The jump in prices reflects not only growing food demand from rising populations but also the increasingly apparent damaging consequences of bio-fuel production. Coupled with harvest failures in key exporting countries and boosted by speculative investments, the effect has been an increase of 57% in food prices over the past year.

48 Unions have called on major OECD countries to give leadership for a rapid response to deal with the humanitarian crisis in the context of the UN. Assistance to poorest countries which despite falling food imports will have to pay 35 percent more for their cereal imports in the year up to July 2008 should be increased. Beyond this, the OECD should undertake a full environment, social and economic assessment of the shift to bio-fuel production.

Achieving a genuine WTO Development Round

49 The food crisis also provides an opportunity to revisit trade negotiations.The Doha Round negotiations at the World Trade Organisation (WTO) must deliver on the promises made to developing countries regarding food security, elimination of agricultural export subsidies and significantly reduced agricultural domestic subsidies by industrialised countries, including in the area of cotton. Developing countries should not be pressured to trade off potential gains in agriculture for substantial losses in NAMA and to make tariff reductions that will negatively affect their economies, employment and future industrial development. Much higher coefficients and more flexibility for developing countries than those currently on the table are required. Concrete measures must be taken to protect public services, the right to regulate and the right to universal access to basic goods and services from the GATS negotiations. A full impact assessment of the decent work repercussions of the current proposals in all areas of the negotiations together with concerns over the impact of the European Union's Economic Partnership Agreements is urgently required.

The OECD enlargement process must respect workers fundamental human rights

50 The decision to enter into a new period of membership expansion taken at the 2007 Ministerial Council meeting is the correct one. The emerging economies are responsible for a rapidly increasing share of world economic output. The world labour force has more than doubled over the past fifteen years and the bulk of this lies outside OECD countries. For the OECD to be a focal point for managing the challenges and shaping globalisation, particularly social and labour issues, there needs to be expanded membership and engagement.

51 However, enlargement has to increase OECD effectiveness and not undermine it. The strengths of the OECD include its ability to conduct evidence-based policy analysis, develop policy guidance and best practices, encourage change through peer group pressures and on occasion binding regulation. It has key value in its ability for institutionalised dialogue with labour and employer groups through their official advisory bodies – the TUAC and the BIAC – and with international NGOs – as seen in the regular consultations with OECDWatch. The efficiency of the Organisation also depends upon the "like-mindedness" of its members. This concept was first stated after the fall of the Berlin Wall in 1990 when the OECD Ministerial Council declared: "the basic values which are common to the OECD countries: pluralistic democracy, respect for human rights, and a competitive market economy". The 1992 Ministerial Council restated these basic principles as the common ground of "like-minded" member countries. The relevance of like-mindedness was restated in the Noboru report[9] in 2004. Ministers again referred to them in 2007 when they defined

9 A Strategy for enlargement and outreach : report by the chair of the heads of delegation working group, May 2004

the Organisation's mission as "promoting peace, stability, prosperity and democratic values through sound economic policies and good governance" and "invited the Organisation to remain true to its founding vision and high standards".

52 Applying the common values, together with the "acquis" must be a condition for membership of the Organisation and must be a central element of the enhanced engagement with selected non-members. An important element of human rights of particular concern to TUAC is the respect of fundamental workers' rights. These are defined in the 1998 ILO Declaration on Fundamental Principles and Rights at Work. The Declaration covers four fundamental rights:-

- Freedom of association and collective bargaining;
- Elimination of forced and compulsory labour;
- Elimination of discrimination in respect of employment and occupation; and,
- Abolition of child labour.

> Applicant countries should be required to commit to the respect for the Fundamental Human Rights Conventions of the ILO as part of their membership [...] The Memorandum of Understanding between the OECD and the ILO dates from 1961 and now needs to be updated.

53 In addition to being part of the core values of OECD countries, respect for these rights is a requirement for TUAC's relationship with the OECD to be able to function. For TUAC, to have a constructive dialogue with OECD and be representative of workers' interests, these workers must be free to organise and bargain collectively and have all their fundamental rights respected. This was evident during the membership negotiations of the Republic of Korea in 1996 and in the subsequent special monitoring process conducted by ELSAC. Above and beyond being a gateway condition for membership, respect for core workers' rights is also a requirement for market economies to function properly. Where workers have the right to join and form unions and bargain, there is less low pay, more secure work, more workers' training, less corruption. Above all, these are more just societies. All European OECD Members have ratified all eight core Conventions, and most of them are ratified by others. In some countries, the problems arising out of inadequate respect for, and non-ratification of, Convention n°87 (on freedom of association and the right to organise) have been widely noted.

54 TUAC would therefore propose that the applicant countries be required to commit to the respect for the Fundamental Human Rights Conventions of the ILO as part of their membership. The five current applicants have ratified all eight conventions and therefore this should not pose major difficulties for the countries concerned. Moreover, Chile, Estonia, Israel and Slovenia have already adopted the OECD MNE Guidelines of which respect for fundamental rights are a component part.

55 There remain, however, issues concerning enforcement and capacity building. ELSAC should therefore be mandated to make an examination of the applicant countries' observance of core labour standards as part of the "acquis" of the accession process in cooperation with the ILO. The Memorandum of Understanding between the OECD and the ILO dates from 1961 and now needs to be updated to serve as a basis for this. In addition, this should cover broader issues of development assistance and decent work, migration, ending discrimination, developing "green" jobs as well as corporate accountability and responsibility. TUAC is ready to support OECD work in this area.