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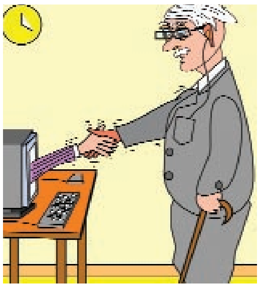

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What global warming?

In his article, Global warming: What comes after Kyoto?, Professor Burton Richter's arguments are based on two incorrect premises – one explicit, the other implied (OECD Observer No. 233, August 2002). His very first sentence asserts "Every study of global climate change has concluded that world average temperatures are rising…" This is quite clearly contradicted by the best available data, which come from weather satellites: Global atmospheric temperatures show no perceptible warming trend since 1979. This surprising result is confirmed independently by radiosondes launched worldwide daily by weather balloons.

Not only do these observations contradict the results of theoretical climate models, but these same models also demand that the atmosphere warm faster than the surface. We must therefore conclude that the models have not been validated and cannot be relied on to predict future warming.

The implied premise in Professor Richter's article is that global warming is harmful or even catastrophic. Economists, many of them on his Stanford campus, disagree with this assessment. Their published studies indicate a rise in GDP, with the agricultural and forest sectors benefiting most from a warmer climate and higher levels of carbon dioxide.

The Kyoto Protocol, even if punctiliously observed, is virtually ineffective. There is general scientific agreement that by 2050 it would lower the calculated temperature by only 0.05C, one-twentieth of a degree. This value drops to 0.02C, if the US abstains from Kyoto, as seems likely after the unanimous vote against it by the US Senate in 1997 and after President George Bush termed the treaty "fatally flawed".

Finally, the replacement of fossil fuels by the large-scale use of nuclear energy will, in my view, be the inevitable outcome of the gradual depletion of low-cost sources of oil and gas. High values of atmospheric CO_2 will be a transient event in the history of industrial civilization.

S. Fred Singer
Professor Emeritus of Environmental Sciences,
University of Virginia,
United States

Eurasian reserve

You raise the question of whether the euro could one day become a more important international reserve currency (Observer 230 January 2002). Yet you omit to mention the Panglossian forecasts of some economic commentators a few years back who had predicted a massive shift of international reserves into the euro and out of the dollar – with a consequent surge of the euro. These predictions were not surprisingly way off the mark, as many of the component parts of the euro were "currency weaklings", which weighed down the euro like lead sinkers rather than help it swim up. And then, the lynchpin of the European economy, Germany, became the sickman of Europe.

The euro has gained in value recently of course, but is this strengthening durable? As you point out, there are structural reasons for doubting this. But one key point missing from your analysis is where are all those international reserves? According to statistics from the Bank of International Settlements, most of the world's official foreign exchange reserves are to be found in East Asia, especially Japan, China, Chinese Taipei, Hong Kong-China and Korea. These countries are just across the "Pacific lake" from the US, and mostly have very strong economic and political links with the US. Moreover, they all look up to the US as the global leader, and will take a long time to convince of any merit of swinging into euros.

The fledgling process of Asia/Europe international co-operation (ASEM), which recently held its summit in Copenhagen, left many observers still wondering whether this great idea will ever achieve anything. If Europe wants a strong currency, it may need reforms, but it will certainly have to strengthen its ties with those countries in East Asia that sit on the biggest piles of official foreign exchange reserves.

Cathie Cashmere
Cronulla, Australia

On the cover

Corporate governance: Who's responsible? The cover photo is a reworked version of a photo from the Hulton Getty creative collection (© Getty Images) at www.HultonGetty.com. Taken in 1964, it captures boardrooms as many people see them: somewhat remote, private, even rather murky, places. Shareholders and stakeholders demand more transparency and increasingly high corporate standards, but when it comes to leadership and governance, who's responsible?

Better values for better governance

Donald J. Johnston, Secretary-General, OECD

We are inundated these days with concerns about corporate governance. Corporate executives are under attack and major auditing firms are worried, as well they might be in the wake of the demise of one of their giants, Arthur Andersen. Enron, WorldCom, Tyco – what should our reaction be to these extraordinary and outrageous breaches of faith with shareholders and employees?

To begin, we must make a few distinctions which seem to be lost in this flood of revelation. There may indeed be some criminal behaviour in a number of these sad stories. The law will be brought to bear in such cases and justice will hopefully be served. But there are also indications that even in the absence of criminal behaviour, some corporate managers have ceased to see themselves as stewards of other people's money. Rather, they prefer to see themselves as partners entitled to huge "entrepreneurial" rewards for doing what they are already extremely well paid to do.

We read much about rewriting rules to contain corporate abuses. But is a thicker rule book really the answer?

In the case of public companies with widely held shares, the temptation of managers to "take advantage" is enormous. We have witnessed the consequences. Is it conscionable that top executives can earn as much as 400 times the salaries of the plant floor workers? William McDonough, president of the New York Federal Reserve Board, raised this point in a speech on the anniversary of 11 September. What corporate manager is really worth that? Frankly, none. Let us remember that the CEO of a large public company is fundamentally a *manager*, surfing on the assets of others, happy to catch the upside of the business cycle, but not happy with the downside, and thus often seeking to re-base their stock options or other perks.

Will regulations change these attitudes? No. It is corporate culture, and the incentives that shape that culture, which must change. Top managers of widely held companies are in effect accountable to no one. In reality, it is these managers who usually name the directors. These in turn are then only too happy to support those who appoint them, rather than the shareholders who in theory they represent, but only in theory. Senior managers have an obvious incentive to put other CEOs on their remuneration committees, not critical, independent directors. Hence "you scratch my back, I scratch yours" becomes the basis for ratcheting up executive remuneration to levels far beyond the dreams of avarice.

Meanwhile, the major shareholders – the pension funds, the insurance companies, and so forth – too often do not play the role they should. Why? Perhaps because they can always vote by selling their shares, which is a lot less messy than sitting on boards and overseeing management. These large institutional shareholders potentially have enormous clout, but they have not exercised it very effectively to discipline top management. Perhaps now this will change and the large institutional shareholders of public companies will finally start to act like "owners".

There is one important caveat to all this. It concerns the entrepreneurs of this world who, from scratch, and often risking everything they have, manage to create enormous wealth for others, and for themselves. Good for them; that is the risk and reward principle that has made *entrepreneurial* capitalism, as opposed to *bureaucratic* capitalism, such a potent force for creating mass prosperity. But those who seek to become billionaires through the management of other people's ideas and money are another matter.

Let us be clear about the real issue. Where corporate behaviour involves criminal activity, we have judicial systems to deal with that. But today, the vast majority of the excesses of the corporate executive class really have nothing to do with criminal activity. The more fundamental problem has to do with a breakdown of traditional capitalism which has seen the role of the owners of capital undermined through diffusion of interest, leaving no one to speak clearly and forcefully for the shareholders.

I have been troubled by these developments for many years. As a former board member of a major corporation myself, I have concluded that the malaise in much of corporate governance today has even deeper roots than the all too frequent lack of adequate shareholder oversight. Somehow we have come increasingly to substitute rules for *values*. We now look first of all to see if something is legal – satisfying the letter of the law, not necessarily its spirit.

Certainly we need rules to provide the framework for behaviour and ultimately to constrain those who would take advantage. But do we want a world based on rules or a world based on values? Rules will always have loopholes, and there will always be those who will spend their time trying to wriggle through them. This thinking appears to have invaded much of the corporate world.

Are our students today learning values or learning rules? I hope both, but with a good dose of the former. Because any set of rules alone, disconnected from the values which those rules are ultimately meant to reflect, is like a body without a soul. ■

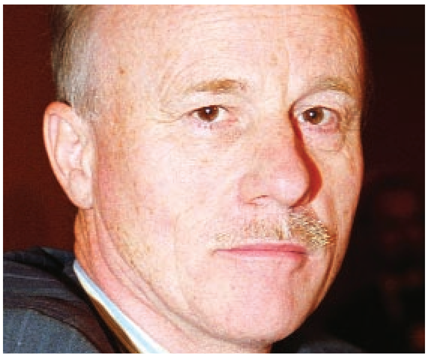
• News brief •

Terrorist cash top FATF priority

Combating terrorist financing is a top priority for the FATF "and we are calling upon all countries around the world to join us in this effort," new Financial Action Task Force (FATF) president Jochen Sanio said to mark the anniversary of the 11 September attacks on the United States.

More than 100 jurisdictions have taken part in a self-assessment exercise to evaluate the effectiveness of their measures to combat terrorist financing and the FATF encourages all those who have not yet done so to complete the self-assessment questionnaire. The FATF has also created a working group to deal with issues related to terrorist financing, such as abuse of non-profit organisations and wire transfer systems.

The FATF is holding a plenary meeting in Paris on 9-11 October to review progress by member and non-member states in



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Jochen Sanio

adopting counter-terrorist financing measures in line with the FATF's Eight Special Recommendations on Terrorist Financing, adopted in the wake of the 11 September events.

Based on replies to the self-assessment questionnaire, it will identify countries that have not taken the required measures for follow-up assessment and/or technical assistance by the International Monetary Fund (IMF), World Bank and United Nations. ■

- For more information on the FATF's work: www.fatf-gafi.org

Safety in cyberspace

Growing worldwide dependence on information systems and networks makes it all the more important to protect these systems from cyberterrorism, computer viruses, computer hacking and other threats.

OECD governments have drawn up new guidelines to help create a "culture of security" for online networks in the wake of last year's 11 September attacks in the US, laying down nine basic principles covering areas such as security awareness and respect for ethical and democratic values. The guidelines urge all users of information technology, whether governments, business or individuals, to adhere to and implement these principles.

The new guidelines are non-binding but are the result of a consensus between OECD governments after discussions involving representatives of the information technology industry, business users and civil society. OECD governments and other participants will draw on them in establishing policies, measures and training programmes for online security. Governments in other countries are asked to adopt a similar approach, while businesses are asked to factor security into the design and use of their systems and networks.

Individual users are asked to be responsible and take preventive measures to lessen the security risks inherent in an interconnected world.

As a fitting indication of their popularity, within a short time of issue downloads of the guidelines caused a sharp jump in visitor traffic on the OECD's website. ■

- For the text of the guidelines and more information on OECD work on communications technology, see www.oecd.org/sti/security-privacy
- See "Security in the new economy" by Ian Gillespie and Taizo Nakatomi, *OECD Observer* 231/232, May 2002.

Steel agreement

Disagreements over steel protection have been a bone of contention between OECD countries for several months. Now, there may be agreement in sight as OECD countries have reached consensus on scrapping steel subsidies; it is a matter of agreeing on how to do so, and in particular, how to define what a subsidy actually is. A thorny question, but of a kind that the OECD is familiar with, Wolfgang Hübner of the science, technology and industry directorate told a news conference after a steel meeting in Paris in September. "Definitions are something that we in the OECD have wrestled with in other areas" such as shipbuilding, Mr Hübner said. "That is not a new problem, we will have to deal with it when the time is right". Government and steel industry representatives will meet again in Paris on 18-19 December to discuss definitions of steel subsidies. It will also be up to this high-level meeting to decide whether the steel talks should remain in the OECD, or perhaps be moved to the World Trade Organization once preparatory work has been done at the OECD, Mr Hübner said.

At a meeting at the OECD in April, steel producers had said they expect to cut capacity by some 91 to 95 million tonnes by the end of 2002, with an additional 23 to 33 million tonnes expected to be permanently closed by 2005.

- For more about OECD work on steel: www.oecd.org/enterprise/steel/

• News brief •

New OECD chief economist

Jean-Philippe Cotis

Jean-Philippe Cotis has taken up the post of OECD chief economist and head of the economics department, replacing Ignazio Visco who had held the position since August 1997. Mr Cotis was previously director of the economics department at the French economy and finance ministry, a post he held since 1997. He has also previously worked with international institutions, chairing the European Union economic policy committee and the working party on policy aspects of macroeconomic and structural problems (WP1) of the OECD economic policy committee, as well as working as an economist at the IMF from 1986-1988. Mr Cotis' research work has mainly concerned labour markets, macroeconomic policies and taxation. In an interview with the media shortly after his appointment, the new chief economist spoke of his intention to link the strands of the organisation's structural and economic work more closely together. On globalisation, Mr Cotis is constructive, seeing it "not as an end in itself. Rather, the objective is well-being, and the better management of global public goods like health and education". Mr Cotis, 44, is married and has three children. ■

Sharing views on energy

It is in the interest of energy producers and consumers to work together to meet the global energy challenges of the next few years, International Energy Agency (IEA) executive director Robert Priddle said at the launch of the latest *World Energy Outlook* report in Osaka, Japan in late September. "The messages in this book are of equal relevance to producers and consumers and the challenges it describes can be best met if we co-operate in tackling them."

Organisation of Petroleum Exporting Countries (OPEC) president Rilwanu Lukman echoed this view, telling an OPEC ministerial meeting in Osaka the same week that "we attach a great deal of importance to producer-consumer dialogue." Both Mr Lukman and Mr Priddle were in Osaka to attend the Eighth International Energy Forum. The two organisations had held their first joint press conference earlier in the month in Rio de Janeiro.

"The IEA is proud of its reputation as the energy watchdog of the industrialised world, and will maintain it," Mr Priddle told the press conference with OPEC secretary general Alvaro Silva-Calderon at the World Petroleum Congress. "We speak for oil consumers everywhere; but we also have major oil producers as our members. A good watchdog can see both sides of the fence."

The two organisations are both co-operating on an international Joint Oil Data Exercise, designed to bring greater transparency to oil markets by improving the quality of published data on oil demand, supply and stocks.

The latest edition of the *World Energy Outlook* projects trends in energy supply and demand, prices, trade and carbon emissions to the year 2030. It also includes a special chapter on energy and poverty (see Databank, page 52). ■

- IEA (2002), *World Energy Outlook*, OECD, Paris.

Dangerous driving

French President Jacques Chirac's recent horror at French roads being among the most dangerous in Europe was borne out by recent figures from the European Conference of Ministers of Transport (ECMT), which is based at the OECD. These show that while the highest number of road deaths in absolute terms in 2001 occurred in Russia, up 4.4% from a year earlier at 30,898, France came second, up 1% at 7,720.

Roads in western, central and eastern Europe generally became safer in 2001, with the number of road deaths significantly lower than in 2000, but in the Commonwealth of Independent States (CIS) the record worsened, with a 5.3% rise in the number of fatalities. The number of deaths on the road in western Europe fell by 3.9% in 2001, while fatalities on central and eastern European roads dropped more than 4.7%. But the overall death toll on European roads for the year still came in at more than 87,500, preliminary figures from the ECMT showed.

And performance varied widely between countries. The sharpest rise in road deaths was in Yugoslavia, up 21.5% from a year earlier with 1,273 people killed, followed by Ukraine, with road deaths up 13.5% at 5,900. The steepest increase in western Europe was Finland, with road deaths up 9.3% in 2001 to 433. Macedonia and Liechtenstein can claim the sharpest percentage fall in road deaths, down 34.0% and 33.3% respectively, although the actual number of people killed remained far higher in Macedonia (107) than in Liechtenstein, where just two people died. And Azerbaijan was the only CIS state to reduce its number of road deaths, down 6.2% at 559. ■

- See www.oecd.org/cem