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AUSTRALIA AND THE OECD

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*Aynsley Kellow*  
University of Tasmania, Australia  
Aynsley.Kellow@utas.edu.au

*Peter Carroll*  
University of Tasmania, Australia  
Peter.Carroll@utas.edu.au

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ABSTRACT

In this paper we describe the accession of Australia to the OECD, discussing briefly some of the reasons for its reluctance to join the Organisation. We then assess both the significance of the OECD for Australia and the contribution Australia has made to the evolution of the Organisation, including its role in budgetary reform in the past decade.

*Keywords:* Organization for Economic Cooperation and Development (OECD); International Organisations; Australia.

RESUMEN

En este trabajo se describe la adhesión de Australia a la OCDE y se examinan algunas de las razones de su reticencia a integrarse en la organización. Finalmente, se evalúa tanto la relevancia de la OCDE para Australia como la contribución que ha hecho Australia a la evolución de la organización, incluido su papel en la reforma presupuestaria de la última década.

*Palabras clave:* Organización para la Cooperación y el Desarrollo Económico (OCDE); Organizaciones Internacionales; Australia.

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## 1. AUSTRALIA AND THE OECD<sup>1</sup>

Australia became a member of the Organisation for Economic Cooperation and Development (OECD) in 1971, ten years after its establishment in 1961, only the second member from outside of the North American and European areas, following Japan's accession in 1964.

Australia enjoys middle power status in the global system. It sits just outside the top dozen national economies in terms of size, and quite squarely in the G20. Together with New Zealand, it is a settler society located in the Asia-Pacific region, with an open, liberal democratic society. It seems to be a 'natural' member of the OECD, and so its rather belated accession requires some explanation. Its accession helped extend the reach of the OECD beyond the North Atlantic, but some differences of perspective persist between European and Asia-Pacific members. Australia, for example, has supported candidates from its region for both the Enlargement and Enhanced Engagement initiatives, while the European Union and its members have been keen to admit EU accession states to the Organisation.

This suggests that the relationship between the OECD and Australia has differed, and continues to differ from that between the Organisation and other members, especially those in the North Atlantic region, and that some understanding of this relationship is necessary for a complete understanding

<sup>1</sup> Aynsley Kellow is Professor of Government at the University of Tasmania, and former Head of the School of Government. He is Chair of Research Committee 38 (Politics and Business) of IPSA, and has published widely on public policy, both domestic and international, including especially environment and energy policy. Beside the OECD, his recent research has focused on the international organisation of business in politics, climate change and risk management in the international context. Professor Peter Carroll is currently a research professor in the Faculty of Business at the University of Tasmania, following five years as Dean of the Faculty. He has published in a wide variety of areas including innovation, regulatory compliance, public enterprise, international expositions, tourism, regulatory reform, international business and international organizations. His current research focuses upon the relations between international, intergovernmental organisations, the OECD and the management of international activities by departments and regulatory reform. This paper draws on research for our forthcoming book *The OECD: A Study of Organisational Adaptation* (Cheltenham: Edward Elgar, 2011 in press), and was supported by a grant from the Australian Research Council (DP0559803), without which it would not have been possible.

of the OECD at fifty. This article seeks to provide such an understanding. It has two major aims: one, to provide an explanation as to why Australia belatedly sought and gained membership in what was then a very North Atlantic centred organisation, far from its Asia-Pacific region; two, to indicate by means of a selection of short case studies, the extent and complexity of its involvement, emphasising how a middle power can exercise, at times, a surprisingly influential voice in a leading international organisation.

In an article such as this it is impossible to provide more than a very limited picture of the very wide range of activities that have characterised Australian involvement. Moreover, as the cases indicate, there is no such 'thing', as a single Australian experience of the OECD. Rather, there have been and are several, largely separate experiences as Australian departments and agencies have taken up membership of an increasing range of OECD committees, each with their own work programme and associated network of policy actors. As an OECD working party noted,

*Through its committee structure the OECD's substantive policy agenda and outputs respond directly to the needs of, and are closely monitored by, senior policy officials from capitals in a way that may be unique among international organisations. It is these committees that produce the outputs of the OECD, the policy advice, guidelines, principles ("soft law") and best practices. The working methods of the committees are one of the institution's hallmarks, the source of its added value and the support it enjoys in capitals (OECD, 2008)*

Australia has been an active and effective participant in the OECD, overcoming an initial reluctance to join. Here we first discuss that question of accession by Australia, before exploring its experience as a member by examining three brief case studies: health, chemicals and part of the reform of the OECD's budget process. These vignettes demonstrate that, while it has acted in concert with other members in all cases, Australia – as a middle power from the Asia-Pacific – has played significant roles (both positive and negative) in affecting the OECD and its work programmes.

## 2. AUSTRALIA AND INTERNATIONAL ECONOMIC COOPERATION: FROM THE UN SPECIALISED AGENCIES TO THE OECD<sup>2</sup>

In the early post-1945 years Australian governments were somewhat ambivalent in relation to membership of the new international organisations established to provide a framework for international economic cooperation, notably in regard to the IMF, IBRD and the proposed ITO. In particular, the emphasis on free trade in the discussions leading up to the establishment of the IMF and IBRD and, ultimately, the GATT, posed a considerable challenge to Australia's well-embedded policies of imperial preference and industry protection (Capling, 2010:15-16). Also, the Australian Labor Party Cabinet

<sup>2</sup> We draw here upon material from the British and Australian National Archives.



in the early post war years was extremely suspicious of the IMF, concerned that it might be dominated by international financiers, a group it held largely responsible for the Great Depression (Henry, 2003:3). While the advice received from senior public servants was somewhat less sceptical, even Brigden, the chief economist at the Australian legation in Washington, noted in relation to the IMF and IBRD that they were 'flabby vehicles of Uncle Sam's patronage'(Capling, 2010:21).

At the same time, successive Australian governments realised the importance of membership of the new international organisations if they were to have any voice, however limited, in determining the new rules for the international financial and trading systems. They were aware, in the cases of the IMF and IBRD, of the funding opportunities both organisations presented for domestic economic development purposes, especially given the shortage of US Dollars. Hence, while Australian membership of the IMF and IBRD was delayed and an existing scepticism as to American motives in promoting free trade was deepened by President Truman's failure to gain Congressional acceptance of the ITO, resulting in the establishment of the GATT supported only by a secretariat, Australia took up membership in all three organisations.

The Chifley Government displayed a similar, continuing ambivalence in the late 1940s about the possibility of the British Government giving way to American pressure for it to take part in a new European customs union. On the one hand Britain's membership of such a union might pose major, increased barriers to Australian exports and the system of Commonwealth preferences. On the other hand such a union might accelerate European economic recovery at a time when the Cold War was posing increasing security concerns. It was no surprise in this context that the future British Prime Minister, then Secretary for Overseas Trade saw Australia as 'suspicious and unenthusiastic' about British policy regarding Europe (Milward, 2002:29). As it happened, these early talks on a possible customs union were not successful, with talks eventually leading to the creation of the less threatening OEEC, the predecessor of the OECD.

In the 1950s, as Australian international economic interests began to diversify away from their previously high dependence on British markets and British investors were no longer able to satisfy Australia requirements for capital for domestic economic development, the Menzies governments were careful to ensure that Australia played a positive role in both the IMF and the IBRD (particularly the latter), in order to ensure a continuing capacity to borrow from the institutions (Singleton y Robertson, 2002:103-104). While not a member of the OEEC, Australia was kept informed of its activities through bilateral diplomatic channels and through Commonwealth Prime Ministers' meetings, where British Prime Ministers and officials usually kept members informed of the latest OEEC developments (Greenwood, 1957:49).

Although the OECD was not formed until 1961 and Australian membership did not commence until 1971, Australian diplomats were familiar with the work of the OEEC and had taken a keen interest in the difficult and protracted

negotiations as to the future role of the OEEC that took place in the later 1950s (Griffiths, 1997:235-256). Their concerns were largely the same as that voiced in the late 1940s, that is, for the negative impact of the now newly-formed EEC on Australian exports, especially agricultural exports. It was a concern that motivated them to sympathise with British attempts to convince OEEC members that the OEEC should provide the basis for a new European Free Trade Area, without common external tariffs, rather than what shortly afterwards became the EEC (Kunkel, 2004). In addition, there was some, if rather faint hope that EFTA might provide a means for gaining access to European markets.

The British efforts were unsuccessful, leading to the creation of EFTA and a decision to reshape the OEEC into what became the OECD. While, in principle, the Australian Government had no great objection to the creation of the OECD, it was concerned as to what might be its excessive influence in GATT, where the Australian representative made the point that since the OECD would represent a very powerful proportion of the total GATT membership, its views, if unanimously adopted, could virtually commit all the members of GATT before they had a chance to discuss them properly within the context of GATT and, indeed, that it was a serious threat to the existence of GATT itself (*The Economist*, 1960:1221). Similar, if less extreme concerns were raised in regard to the role of the OECD's new Economic Policy Committee and its influential Working Party 3 regarding the role and influence of the IMF. Also, there was some concern, at least in relation to the OECD's new Development Assistance Committee (DAC), that too close an Australian association with DAC might not go down well with some of the East Asian and South East Asian countries (excluding Japan), being increasingly targeted as potential markets by Australia. Hence, following a British offer of support for Australia's membership of DAC in 1960, it was decided not to accept the offer.

While the Australian Government had concerns in relation to the influence of the OECD and perceptions of it as a 'rich man's club', by developing countries, they did not prevent it working closely with it in relation to overseas aid. In December 1962, for example, Cabinet agreed that Australia should take up membership in an ad hoc working party of OECD's Development Assistance Committee (DAC). The working party aimed to coordinate western aid to Thailand, an increasingly valuable ally of the USA and, to a more limited extent, Australia, in regard to the rapidly intensifying war in Vietnam. Similarly, in June 1963 there was an agreement to join another DAC working party to coordinate aid to Indonesia, though it met only once, as Indonesia then commenced its policy of confrontation with Malaysia. Most significantly, the Australian Government agreed to work closely with the Western Group at the first UNCTAD in 1964, a group that was serviced by the OECD Secretariat. The work involved Australian attendance at a number of meetings at the OECD to coordinate, as far as possible, the views of the largely OECD members of the Western Group.



The British Government regularly attempted to allay Australian concerns regarding the OECD at the meetings of the Commonwealth Liaison Committee. In 1961, for example, the British representative stressed that the Economic Policy Committee would not supplant the role of the IMF. It is doubtful that the concerns were allayed to any significant extent, although the experience of working with the OECD's DAC and Trade Committee in relation to the Western Group meetings seems to have been a positive one. However, the concerns were probably sharply intensified by the sudden and unexpected British decision to apply for entry to the EEC in mid-1961, despite repeated assertions to the contrary (Ward, 2001).

Given the nature of Australian concerns regarding the influence of the OEEC/OECD and the realisation that the British Government was by no means committed to supporting Australia's economic interests, as had been made clear in its application for entry to the EEC, then either a close relationship with, or membership of, the OECD, might have been attractive. It would have provided improved access to key decision makers in America and Western Europe, with the opportunity to press Australian interests and views across a wide range of economic sectors, not only those related to trade and balance of payments issues. Yet, in 1963, when offered the support of the British Government for an application for OECD membership, in parallel with the application of the Japanese Government, the offer was politely rejected, somewhat to the surprise of the British Government.

The 1962-3 British offer of support was by no means spontaneous, nor was it made out of any sense of guilt at not having informed Australia of the decision to apply for British entry to the EEC. Indeed, its basic motivation sprang from a self-serving desire to avoid any potential, adverse public criticism as to why Australian entry to the OECD had not been supported, given that the British Government was now supporting a Japanese application, an application that, earlier in 1962, it had not supported. Hence, the offer to support Australian and New Zealand applications for membership was designed, in part, only to avoid such criticism, rather than any great desire to encourage their membership. Moreover, the earlier British opposition to Japanese membership was based on the notion that to offer it to Japan would only encourage requests from countries such as Australia, New Zealand, Brazil and Argentina. Naturally, in order to be convincing when faced with criticism as to why an Australian application had not been supported, it required that both countries be approached by Britain with an offer to support their entry, as well as Japan's.

Whether or not the Australian Government doubted the sincerity of the British offer, there were a range of other grounds for its rejection. To begin with, the Australian Cabinet was receiving contradictory advice. The Departments of External Affairs (DEA), Treasury and Prime Minister were broadly in favour of membership, emphasising the access to important policy making networks it would provide. However, the then powerful Department of Trade and Industry

(DTI), chaired by the influential Deputy Prime Minister Jack McEwan (also the leader of the Liberal Party's coalition partner, the Country Party), strongly opposed membership. As Fothergill notes, he, together with his officials, felt that Australia's proper place was not with the industrialised countries of the OECD and that membership would endanger recent Australian efforts to align itself more closely with the new markets developing in South East Asia. Moreover, they felt that too close an association of Australia with the OECD would reduce its influence in the coming GATT Ministerial Meeting, especially in a planned Australian criticism of the EEC's agricultural protectionism and damage its relations with the Group of 77 in UNCTAD (Fothergill, 2008:20).

In addition, the Australian Government was aware that the United States Government had indicated that it would prefer that Australia not apply for membership at this time as: one, it might encourage similar, but unwelcome applications from Brazil and Argentina; two, it might 'prejudice or at least complicate their first priority task of gaining admittance of Japan to O.E.C.D.' Finally, the members of the Cabinet Committee were concerned that time did not permit a 'full investigation of the commitments which membership might entail'.

While it was decided not to proceed to an application in 1963 the question of Australian membership remained high on the agenda of the Department of External Affairs and the Treasury for the next two years, culminating in a formal submission to Cabinet in 1965 that recommended membership. The submission stressed that the OECD was 'the major forum for consultation on economic matters among Western Governments at a high policy level', and that, while it was a 'purely consultative body' that did not make decisions on major policy issues, 'it is in the OECD that the formative (and often decisive) discussions take place on many important matters – including financial matters (such as the position of sterling) which are of importance for our general relations with the major countries of Europe, the United States of America and Japan'. Hence, membership would provide access to information and influence, not only on economic and financial matters, but across a wide range of areas of interest, including aid.

However, again, Minister McEwen and his Department of Trade and Industry opposed the recommendation, on much the same grounds as in 1963 and Cabinet decided that at this time Australia should only seek membership of the DAC, 'leaving open for later consideration the question of whether an application should be made for full membership'. The application for DAC membership was successful, although the US Government indicated it could not support the application (though it would not oppose it in DAC, nor lobby against it before the meeting) as it would, in turn, lead to similar proposals from countries such as Brazil, Argentina and Israel, and, ultimately, requests for full membership of the OECD, making it an increasingly cumbersome and less valuable body.

In January 1969, the DEA, mindful of Cabinet's 1965 decision that there might be later consideration of an application for full membership, organised an



informal meeting with representatives from Treasury, Prime Minister's and DTI to see if there might be agreement to take a fresh look at possible membership of the OECD. It was agreed that three reports would be prepared for the group, one each from Treasury, DEA and the DTI. The reports from Treasury and the DEA were overwhelmingly positive and, though very cautious and recommending a number of qualifications, the report from DTI was also positive. Also, while still of importance, it was felt that the UN and agencies such as GATT and UNCTAD were increasingly concentrating on issues of concern to developing countries, rather than to those that concerned Australian interests.

Hence, at a full interdepartmental meeting chaired by Sir James Plimsoll of the DEA, it was agreed that a small drafting group would prepare a draft paper for Cabinet recommending membership. The draft became the basis for Cabinet submissions 174 and 176 and, on 30 April 1970 Cabinet approved an official approach to the OECD to determine the terms and conditions for membership. The terms and conditions proved satisfactory and, in 1971, Australia became a member of the OECD.

### 3. AUSTRALIA AND THE OECD HEALTH PROJECT<sup>3</sup>

In the interdepartmental discussions that led up to Australia's accession its Department of Health was interested in 'subjects such as air and water pollution, radioactivity and other common health problems' and, though it did not indicate the likelihood of a major involvement with the OECD, was happy to support the application. This was to remain the case until the mid-1990s when, in the context of a new emphasis on its international activities, designed to support its aims of providing world class health services, improving export opportunities for the health sector and reducing the regulatory burden on business, the Department began to take a more active role in the WHO, OECD and the World Bank and gained membership of the Four Nations Conference of Health Experts (US, Canada, Germany and The Netherlands). Its involvement with the OECD increased notably and included: the secondment of a senior officer for a year to work on a project to analyse the instruments used by selected countries to identify evidence-based health outcomes; the development of closer links with the Secretariat; and increased participation by its staff in OECD working groups involved in health issues (Department of Health and Family Services, 1999:258). As the Department noted, its increased involvement provided access to the OECD's research resources, its capacity for comparisons of health policy performance by use of its data base and 'importantly, its capacity to directly link health to economic decision-making (Department of Health and Family Services, 2000:375-377).

However, at the very time that the Department was increasing its

<sup>3</sup> This section draws upon the documents of Directorate for Employment, Labour and Social Affairs (DELSA) and interviews with key participants.

involvement, the health-related work of the OECD, focused in its Health Unit, a part of the Social Policy Division in the Directorate for Employment, Labour and Social Affairs (DELSA), was facing increasingly difficult resource constraints that seemed likely to significantly reduce the scope of that work. After discussions with Peter Scherer, the Australian head of the Social Policy Division in Canberra in 1998, the Department decided to take a joint leadership role in reinvigorating the OECD's health activities. It worked closely with the Canadian, USA and Dutch delegates to the Employment, Labour and Social Affairs Committee's Working Party on Social Policy and, following discussions with John Martin, the head of DELSA, then with the OECD's Secretary-General, Donald Johnston, 'A Draft Strategy for ELSAC Work on Health Policy', outlining a detailed programme of work for the next five years was submitted to the Working Party on Social Policy for its consideration.

The strategy document was endorsed and submitted to ELSAC in April 2000, as was an additional paper outlining initial proposals for further work on health in other directorates. In turn, a revised version of the latter paper, incorporating the bulk of the proposals from the strategy paper, was submitted to, and discussed by, the OECD Council and Executive Committee in May 2000. The focus of the revised proposal was to be on the measurement, analysis and improvement of health systems performance, in addition to the work already proposed.

The revised and expanded proposal came about, in part, as a result of the critical reaction by several OECD member states, notably the USA and Australia, to the WHO's 2000 World Health Report and the surprisingly low rankings the report assigned to the performance of their national health systems. In essence, their dissatisfaction, together with their willingness to provide at least part of the additional funding necessary for the OECD's additional health work, opened up a fortuitous window of opportunity for the Secretariat to propose an increase in the range of work included in the health project. The additional work, unsurprisingly, was to focus on a more detailed examination of health system performance based on OECD, rather than WHO expertise. Member sensitivities regarding comparative rankings can be seen in the reported comment of the Japanese delegate, who

*warned against including explicit ranking in the analysis. Mr. Hurst explained that there are no large differences between the OECD and the WHO in terms of their definition and conceptualisation of performance. However, the OECD will concentrate on understanding the causes of variations in performance and will avoid any country ranking (OECD, 2001).*

The revised proposal was favourably received and it was discussed and, in general terms, endorsed at the 2000 OECD Ministerial Council. It was followed, on 8 August 2000, by a letter from the Secretary-General to all of the OECD ambassadors (the Council members), putting forward the proposal for a project for expanded work on health over the next three years. In addition, the proposal was discussed on 2-3 November 2000 by the OECD's Executive



Committee in Special Session (chaired by Australian Tony Hinton) and, on 21 December 2000 Council approved the proposal and allocated FF 3 million from the budget for the project.

The increased scale and inter-directorate nature of the revised health project, involving four directorates, was discussed at the first meeting of a new Ad Hoc Group on Health, established to direct the project. As might be expected, its bureau consisted largely of delegates from the member countries that had been instrumental in promoting the project, with Australia and the Netherlands as co-chairs, plus Canada, Finland, Italy, Japan, Poland, Portugal and Switzerland. The Ad Hoc Group on Health, unusually, reported directly to Council, not to a parent committee, as had been the case for its predecessor, the Working Group on Social Policy. This was in recognition of its cross-directorate nature and, at this time, its uncertain future, as it was established for the duration of the health project 2001-04, not as a permanent body. Perhaps most importantly, it was also an indication that, while only a temporary body, it was seen as performing a very significant role, both as regards the health project and, possibly, future work on health at the OECD.

The health project's performance was reviewed by Council in 2004. It was well received and a meeting of OECD health ministers in 2004 recommended an increase in the resources devoted to health. The relative success of the Health Project, at least as judged by the report to Council and the success in gaining increased funding for 2005-06 is not, in retrospect, surprising, for there was continuing support from the members that had initially supported the health project and, importantly, signs of increased support from nearly all other members. As the Secretariat noted to Council in regard to funding plans for health work after the conclusion of the health project:

*Some 25 countries indicated their willingness to contribute funding – a much larger number than contributed to support the three-year Health Project. This will permit it to carry out the ambitious work programme for 2005–2006, provided that the additional Part I funding which the Secretary-General has proposed to Council, is forthcoming (OECD, 2004).*

A further recognition of the new prominence accorded to health was the progressive increase in the status of the Ad Hoc Group, first in being granted the unusual status of the Group on Health, then, in 2007, achieving full, Level 1 committee status as the Health Committee. While an upgrade to full committee status was proposed in 2004, at this time Council was considering widespread reforms to the existing committee system, so that the title of 'Group', was bestowed until the reform process had been completed. Similarly, the performance of the Group on Health was ranked highly in one of the OECD's in-depth evaluations of committees undertaken in 2006. It was ranked on four criteria, receiving a high rating for relevance, effectiveness and sustainability and a medium to high rating for efficiency. The evaluation report recommended and the OECD Council agreed that the Group's mandate should be renewed for a period of five years. Finally, the Group achieved full, level 1 committee status

as the Health Committee in 2007 and the Australian delegate and Group co-chair, the Australian Secretary for Health and Ageing, Jane Halton, was elected to chair the new committee, a position she has occupied since that date.

The Department of Health's experience with the OECD has been variable, but, in the last decade a largely positive one, springing out of its strategy of clearly targeting the organisation as a centre for its international work, followed by intensive follow-up activities, including persistent lobbying of members in support of its objectives, as well as the provision of highly effective leadership by its senior staff. Its success demonstrates that it is possible for even a relatively small state to exercise considerable influence in the world of international organisations.

#### 4. AUSTRALIA AND THE CHEMICALS RISK REDUCTION PROGRAM

Australia played a significant role in the OECD's Chemicals Program in the 1990s, essentially blocking efforts by Sweden and its Nordic partners as they tried to push for the adoption of a Council Act on lead as part of the Risk Reduction Program for Existing Chemicals. Such a Decision or Recommendation would have been important, not just within the OECD, but because of the influence such a measure would have had within the European Union, to which Sweden was in the process of acceding, with a five-year period for policies to be harmonized. Having the OECD adopt the Swedish 'Substitution Principle' would have helped move the EU towards harmonizing its policies in this area with those of Sweden. Australia blocked these moves, exploiting the requirement for consensus, and reflecting the tensions that can sometimes arise between the OECD's European membership (reflecting its origins in the OEEC) and the wider membership.

Chemical safety had been an early OECD priority, with the United States proposing at the first meeting of the Environment Committee in November 1970 that it establish a consultative process for member countries to notify each other on intended or current measures taken on 'bioactive substances' (pesticides, drugs, food additives, and chemical pollutants) that might affect the interests of other member countries. US concern centred on the extent to which regulatory actions taken by European states constituted disguised barriers to trade, as the US was continuously confronted by European requests for restrictions on the development of new chemicals — an area of the industry where the US enjoyed comparative advantage over the European chemicals industry (Schweitzer, 1991:239). The US was therefore seeking to use the OECD to harmonise approaches to regulation, rather than allowing individual states to adopt trade-restrictive regulation not necessarily based upon the best science (Kellow, 1999).

In March 1971, the Environment Committee agreed to establish a Sector Group on Unintended Occurrence of Chemicals in the Environment, extending the scope of the work beyond pesticides, and shifting the focus from scientific



inquiry to preventative and curative action (Long, 2000:46). In 1975, this Sector Group became the OECD Chemicals Group, given additional impetus with the establishment, largely on the initiative of Sweden, of a Special Program on the Control of Chemicals in 1978 with extra-budgetary funds in Part II of the budget. The 1979 Meeting of Environment Ministers identified work on chemicals as being of 'of "primary necessity", particularly to promote the harmonisation of national regulatory regimes' (Long, 2000:58). The list of those sponsoring the Part II Special Program was largely predictable, as it included both those with substantial chemical industries (Belgium, France, Germany, Switzerland, the UK and US) and the Nordic countries at the environmental vanguard, but the standout omission was Japan, another significant chemical industry player, which did not subscribe to the Special Program.

The Program developed harmonised chemical testing and hazard assessment procedures aimed at ensuring national legislation did not create non-tariff barriers to trade. A set of OECD Guidelines for the Testing of Chemicals was developed in 1981. This was part of an effort that produced a number of other Council Acts promoting the harmonisation of chemical regulation between 1980 and 1985: Mutual Acceptance of Data, Minimum Pre-Market Data Requirements, Mutual Recognition of Compliance with Good Laboratory Practices, Protection of Proprietary Rights of Data Submitted on New Chemicals, Exchange of Confidential Data on New Chemicals, The OECD List of Non-Confidential Data on Chemicals, and Information Exchange Related to the Export of Banned or Restricted Chemicals.

At the High Level Meeting of the Chemicals Group in May 1980, there was 'strong support' expressed by 'many delegates' for a greater emphasis on existing chemicals in OECD chemicals activities, and this developed into the OECD Program of Risk Reduction for Existing Chemicals, which was to take on a problematic character. The focus on existing chemicals proved to be a threat to the non-ferrous metals industry, and therefore of concern to both Australia and Canada. The initial step in 1980 was taken further in 1987 with the adoption of a Council Act on the Systematic Investigation of Existing Chemicals.

Australia was aware that the work of the OECD could be important in the development of measures in the wider multilateral system, a lesson in the OECD's work on waste blazing a trail for the subsequent Basel Convention. On the other hand, the members of the Nordic Council (Sweden, Denmark, Norway, Finland and Iceland) were attempting to export their chemical risk reduction policies, applying the 'substitution principle' developed in Sweden to other states. The issue for them was not just about the other OECD member states, but the (perhaps more importantly) prize of European Union risk management policy. The EU was a single market, so there was a strong case for harmonised policies there, and Sweden joined the EU in 1995 with a grace period of five years to harmonise its environmental policies to those of the EU. As Sweden and the other Nordic states were more 'progressive' in their environmental policies than the United Kingdom and the Southern

European states, their preference was to bring the EU into line with them, and the OECD Risk Reduction Program was an important way of achieving that. Beyond that, the OECD's work on chemicals had implications for the later negotiation of what became the Rotterdam and Stockholm Conventions (on prior informed consent in trade in chemicals and persistent organic pollutants, respectively).

The Risk Reduction Program selected five 'pilot substances' for its first work, and the effectiveness of chemical industry lobbying in the OECD context ensured that only two of these were synthetic chemicals, while three were metals: cadmium, lead and mercury. The OECD's Chemicals Committee considered a proposal for a Council Act on lead in June 1995 that would have required members to make domestic risk management decisions in line with international principles, even when there was no international dimension to the risks.

Australia, the leading global lead producer, supported by Canada, was able to use the need for consensus in the OECD to block the moves towards a Council Act by proposing successfully instead a less threatening (and non-binding) Ministerial Declaration. Australia's participation in the Program had occurred through the Commonwealth Environment Protection Agency (CEPA), and its government was alerted belatedly by the non-ferrous metals industry to the potential threat to their interests posed by the focus on metals. A whole-of-government position was then developed through an interdepartmental committee that involved the resources, trade and health agencies, chaired by CEPA. Whereas Australia previously had been rather passive in the Program, it made a concerted effort, coordinated with Canada, to forestall any Decision or Recommendation that might restrict global trade in lead or other non-ferrous metals. Interestingly, several of the EU states not at the Environmental vanguard resisted efforts by the European Commission to caucus EU members behind the Swedish position and gave 'back door' support and encouragement to Australia, which was able, with some considerable effort, to forestall the development within the OECD of a Council Act that would have had a negative impact on its interests, especially if a Council Act was used as the basis for regulation in the EU and beyond.

Australia, supported effectively only by Canada, was therefore able to use the OECD's requirement for consensus to block an initiative that would have impacted on its significant national interests, and prevent the OECD serving as a venue where trade restrictive regulatory measures, rather than those that ensured national regulatory approaches did not amount to disguised barriers to trade, could be developed.



## 5. REFORMING THE OECD: THE AUSTRALIAN ROLE IN BUDGETARY REFORM<sup>4</sup>

Australia has played a significant role in the past decade in driving reform in the OECD, taking on a reformist role both there and in other international organizations. It tends to find itself close to other members of the 'Anglosphere' in taking an interest in reform, especially of the budget process, partly because it has undergone considerable reforms at the domestic level (often characterized as 'New Public Management') and saw a disjuncture between best practice and actual practice at the OECD, which was championing best practice. But in part its desire for reform reflects the relative costs of participation for such a distant member – not just financial costs, but the costs measured in time (and jet-lag) incurred by the many participants in the OECD and its various subsidiary bodies. Whereas European members are never more than a few hours away from Paris, travel from the more remote capitals (Canberra, Tokyo, Seoul, Wellington, and now Santiago) involves considerable effort. The Vinde Report in the late 1990s noted that the costs of members' participation in the OECD were about equal to their contributions to the OECD budget, but these costs are not evenly distributed and those paying a higher price have greater motivation to question cost-effectiveness.

Australia joined with the US and the UK in the mid-1990s effectively to force reform by cutting the Organisation's budget by 10 percent, which was to amount to a larger cut in real terms. After 2000 came a key reform to the budget system. The budget reforms had two aspects: first, one that addressed how money was spent and priorities set; and the second that addressed how the costs were borne by member states. We focus here on the first.

It was somewhat ironic that a champion of best practice in economics and public sector management fell short of that standard in its own governance, and the budget system was preventing the OECD from taking new strategic directions, because funds were tied up in serving past priorities and members had denied it additional funds. The directorates were considered by some members to have become 'fiefdoms' and their activities were seen as being determined too much by the capabilities of staff resources, rather than by the development of strategic priorities by the Organisation as a whole. There was considerable strategic inertia in the organization, and it was difficult to abandon past priorities or allocate resources to new ones. One interview subject put it that the OECD was 'congenitally bad at developing priorities and at killing things that are dead.' Another put it that 'It has proved impossible to eliminate some activities that should be eliminated because of the reliance on the consensus process.' There was a need, one said, for some 'strategic housekeeping.'

A considerable problem was that the OECD budget was input-driven, with negligible attention given to outputs, efficiency and effectiveness. The first

<sup>4</sup> This section is based on interviews with three Australian Ambassadors, several other Ambassadors, former Secretary-General Johnston, Secretary-General Gurría, and key members of the Secretariat on a not-for-attribution basis.

ever evaluation of output was performed only on the outputs from the 2003 budget, with the introduction of a Performance Implementation Report (PIR) that focused on quality, impact and potential impact. The PIR initiative came as part of budgetary reform that had commenced in 1996, with the US, the UK and Australia particularly pushing for an outcomes-based system and budget cuts. This reform thrust was consistent with reforms that had occurred in most member states – at least those in the ‘Anglosphere’ (the US, UK and Australia plus Canada and New Zealand), which are more focused on economic liberalisation than many European members.

The reforms were to put the OECD ahead of most international organizations, except perhaps the World Bank, but the process took a decade to reach its conclusion, and required considerable persistence, particularly on the part of the Chair of the Budget Committee, Australian Ambassador Ian Forsyth, and the reforms took a further two years to bed down. One of his colleagues said of Forsyth that he was perfect for the ‘hard, deliberate grind,’ that he had the ‘grit and determination not to give in.’ In interviews, Ambassadors indicated (on a not-for-attribution basis) that the reform process was resisted (without success) by Secretary-General Johnston, who attempted to ‘foment the divide’ between the Anglos and the Europeans over the need for reform. Many of the European members had a much more ‘social’ perspective, and had not undergone similar ‘New Public Management’ reforms.

The key reform to the budget process was the introduction of a system oriented towards allocation to programs and program evaluation, with the adoption of a process of developing a Program of Work and Budget (PWB) based on outputs rather than inputs. Implementing this system for 2003/04 resulted in unprecedented levels of resource reallocations towards high priority areas, such as work supporting the Doha Round of WTO negotiations, corporate governance, anti-corruption, taxation, steel, shipbuilding and competition (Bourgon, 2009:12).

The second element of the budgetary reforms was the introduction of the PIR noted above. Under the PIR system, the Secretariat reports on the extent to which results intended by various programs were achieved, and the members then assess and rate the quality and impact of the Organisation’s products. This was a vital element in ensuring that the Secretariat was accountable for the quality of its work.

The final component of the reforms element of the PWB was the Medium-Term Orientation Survey (MTO), introduced in 2005. The purpose of the MTO was to identify medium-term priorities across the OECD’s entire substantive work program on a whole-of-organisation basis, and to assist the Secretary-General in developing his biennial budget proposal. The OECD now has an ability to allocate resources within a strategic framework and a system of results-based management. It might not have gone as far as developing strategic plans, which Australia favoured, but it is better placed to discontinue activities that are no longer a priority, freeing up resources for new initiatives.



The reforms were not easily won, and were not fully supported by Secretary-General Johnston or the Secretariat, and some members had to be dragged along, unconvinced by the need for reform – partly because the reforms went further than the reforms their national budgetary processes had seen. Ultimately, all members supported the reforms, however, with the process run through working parties of ambassadors, established by the Heads of Delegation, not the Council, chaired by the Secretary-General. As Chair of the Budget Committee, Ian Forsyth had a strong mandate from Canberra to improve the performance of the OECD. Australia has taken a similarly active stance in many other international organizations, pressing for improvements in efficiency and effectiveness.

Forsyth did not enjoy total success: for example, he wanted to require the Secretariat to develop corporate plans, but this proposal was resisted by the Secretary-General. The reforms to the Budget process were adopted at two meetings of Council in December 2004, with considerable effect. The Central Priorities Fund was doubled and substantial shifts in resource allocations occurred, with the Budget for 2003-4 and 2004-5 achieving record shifts of resources – to areas including tax, corporate governance, and health. The reforms linking the development of the PWB to the PIR process were not warmly embraced by all the Secretariat; there was still, as one informant put it, a ‘cultural problem in the place.’ Forsyth’s successor, Véronique Ingram, was also tasked with seeing through the budgetary reforms, and did so from the position of Chair of the Audit Committee.

The appointment of Ángel Gurría as Secretary-General to replace Donald Johnston was clearly important in terms of ensuring there was no retreat from the budgetary reforms. (Australia had put forward its own candidate in Dr Alan Fels). The OECD was thought by many to be in ‘serious trouble’, and they ‘could not afford a dud’ – they ‘could not afford for the OECD to drift for five years’. Gurría had spent one week every month for six months at the OECD during the transition and it was feared some of ‘Donald Johnston’s cronies’ – the ‘Secretariat Mafia’ – might have ‘got at him’. As one informant put it, some in the Working Groups on governance reforms were working to pre-empt the reforms agreed to by Johnston and to constrain the incoming Secretary-General.

The Secretariat was lukewarm about the reforms and some Committees had difficulty in implementing the system. The Committee on Cooperation with Non-Members, for example, found an inability to rank its work on outreach, and the results of many programs were reported as ‘cannot assess.’ There were reportedly some poor results in other areas – for example the Environment Committee under the second PIR. The Committees appeared not to have been briefed particularly well on the new system, so it did not immediately permeate the whole of the organisation sufficiently to produce culture change.

The role played by Australia in driving budgetary reform was undertaken in conjunction with others, particularly the US and UK, and would not have

succeeded without these. Forsyth was succeeded as Chair of the Budget Committee by UK Ambassador David Lyscom, who carried a continuing brief for zero real growth, and this follow-up was clearly important. Nevertheless, the case demonstrates that Australia, as a middle power, was able to play a significant part in bringing about reform in the OECD.

## 6. CONCLUSION

Australia came to the OECD somewhat reluctantly, keen to ensure that joining an initially largely North Atlantic organisation did not distract it unduly from its increasingly important focus on the Asia-Pacific. After accession, it has played a significant role as a middle power, using the characteristics of the OECD to influence both its work programs and the reform of the Organisation itself. This experience differs from that of the larger states (the members of the G7, for example) and from that of the North Atlantic membership the OECD inherited from the OEEC.

Australia has found the OECD a useful organisation, though it has increasingly questioned the continuing value it can provide. As a result, it has been amongst that group of members (such as the US and UK) that has led the push for reform to ensure the OECD retains its relevance in a world in which the centre of gravity has been moving away from the North Atlantic. By ensuring its budget process focuses on cost-effective outcomes, so that limited resources can be allocated to new priorities, and by voicing a concern that its regional neighbours are included the OECD attempts to retain its relevance (Enlargement and Enhanced Engagement), it has played an important role in ensuring the OECD at fifty continues to provide a source of value in the international economic architecture.

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