



BUSINESSatOECD

STATEMENT TO AMBASSADORS AND OECD LEADERSHIP

*Expanding Digital Opportunities:
Agreeing Priority Actions*

15 January 2019 – Liaison Committee Meeting

Room Document



Introduction

It is a seminal year for the OECD on digital. The publication of the *Going Digital* project's synthesis report in March and the May Ministerial Council Meeting on this issue signals the need for action. Ensuring the digital transformation continues to deliver prosperity, does not mean narrowing our focus solely to digital policy. Instead, it means a step-change across many points on the policy agenda and pursuing a truly multi-stakeholder approach.

Digital technologies are now integral to almost all aspects of our lives. Today, across OECD countries, there is on average more than one mobile broadband subscription per person, and 95% of all businesses have broadband.¹ Looking to the future, the OECD forecasts that the number of connected devices in and around people's homes will increase from 1 billion in 2016 to 14 billion by 2022.² The expected economic impact is significant with the OECD estimating that the Internet of Things (IoT) will add between USD 2.7 trillion and USD 6.2 trillion to the global economy annually by 2025.³ However, we also know that 14% of jobs are at high risk of automation, and business leaders see all jobs being touched by artificial intelligence over time, implying that future employment opportunities will be different to those today.

For *Business at OECD* this is a positive agenda. The digital transformation offers unprecedented opportunities to raise productivity, enable creativity and innovation, and increase competition and consumer welfare, while fostering social and economic prosperity. Failure to fully seize the benefits will only reduce our ability to meet the ambitious social, economic and environmental goals set out by world leaders through the 2030 Agenda for Sustainable Development, the Paris Climate Agreement, and subsequent OECD and G20 commitments to inclusive and sustainable growth.⁴ Our commitment in this regard is recognized in the overarching theme of the upcoming B20 Summit *Society 5.0 for SDGs*.⁵

As global economic headwinds strengthen, governments must act quickly to implement reforms that support the long-term success of our economies.⁶ In 2019, the OECD must become the 'go-to' source of policy advice for governments on getting the most from digital. This paper sets out the business priorities for OECD action focusing specifically on where our enhanced cooperation will successfully address the digital transformation across the full breadth of its work.

¹ <http://www.oecd.org/sti/broadband/broadband-statistics/>

² OECD (2017), *OECD Digital Economy Outlook 2017*, OECD Publishing, Paris.

³ OECD (2016), *OECD Science, Technology and Innovation Outlook 2016*, OECD Publishing, Paris

⁴ United Nations, General Assembly (25 September 2015) *Transforming our world: the 2030 Agenda for Sustainable Development*, A/RES/70/1; United Nations, Framework Convention on Climate Change (12 December 2015), *Adoption of the Paris Agreement*, Proposal by the President, FCCC/CP/2015/L.9/Rev.1.

⁵ <http://www.b20tokyo.org/>

⁶ OECD (September, 2018) *Interim Economic Outlook*.

1) Give all companies the space to innovate

Businesses are at the forefront of the transition to digitalized economies, and countries that work effectively with their respective business communities will strengthen their lead. To enable this, we rely on governments to set the right regulatory and policy environment so individual businesses can innovate, adopt, and deploy new technologies and business practices. The OECD can help by strengthening its policy advice and support for its members in a number of areas.

1.1 Promote innovation and help foster the diffusion of technology in our economies

Today, businesses are looking to leverage digital to innovate at a faster pace. To support this effort, we urge the OECD to prioritize work on digitalization in science and innovation policy. Specifically, we believe more work is needed to help governments implement coordinated national strategies for privacy and data integrity, public-private collaboration, and incentive structures for research. The business need here is clear, with 57% of national business federations in OECD countries citing ‘raising effectiveness of R&D policies’ as a top structural reform priority.⁷

Nowhere is this clearer than in the health sector. Here, the OECD should endorse the use of big data in health by promoting transnational data flows, and encourage the provision of a high-performance digital health infrastructure by setting clear targets and deploying broadband and mobile connectivity. We also ask the OECD to drive the evolution towards patient-centered and outcomes-focused healthcare and social systems to allow national governments to recognize and reward innovation based on the value it brings to patients and society. We also look forward to joint work with the OECD as it implements the Council Recommendation on Health Data Governance. Ensuring broad and effective participation by business, and other key stakeholders, in the OECD’s health policy work is essential.

Intellectual Property (IP) protection remains a crucial incentive for innovation. All OECD committees, particularly the Science and Technology and Health Committees, should work collaboratively to reinforce the important role played by an effective and predictable IP system in economic development and productivity growth. Digital security is also vital to generate user trust in digital ecosystems, and therefore drive innovation. The OECD should build on the useful work of the *Global Forum on Digital Security and Prosperity*, raising awareness amongst consumers and fostering public-private cooperation in this area.

The OECD’s role as a standards setter is important as new technologies mature. Building policy consensus, with inputs from all stakeholders, can help build trust and promote the adoption of new technologies. In this regard, the OECD program to develop principles for Artificial Intelligence (AI) with input from business and other stakeholders, including civil society, is critical.

⁷ *Business at OECD* (May, 2018) Economic Policy Survey.

1.2 Redouble efforts to reach a multilateral agreement on digital tax within the agreed timeframe

The world is looking to the OECD, through the *Inclusive Framework*, which currently covers 122 countries, to find global consensus on potential changes to the international tax framework in light of digitalization. As these discussions progress it is critical for policymakers to recognize that the digital economy is the whole economy, and the rules we set to tax it are the rules that will tax the whole economy. It is critical that we do not ring-fence specific industrial sectors. Rather, policymakers should support the development of digitalized businesses, and eliminate barriers for all businesses to access and compete in the global marketplace that digitalization enables.

The OECD, working with our business community, must make every effort to drive a consensus, otherwise inconsistent unilateral measures that erect barriers to trade and growth will continue to proliferate. We must ensure that the OECD's standing as the preeminent multilateral tax rulemaking body is not diminished if positive progress is not achieved within the agreed timeframe.

1.3 Deepen our understanding of digital solutions that support good governance and responsible business conduct

The impact of the digital transformation on business models has been extensively documented. *Business at OECD* is optimistic that new technologies and processes can offer great benefits in supporting transparency, integrity and responsible conduct, in both business and government.

The OECD should take a leading role in deepening our knowledge as to how digital can help address corruption. We especially encourage additional research and best practice dissemination on how the use of digital technologies can promote trust and reduce corruption in public procurement. Business also sees great potential in digital solutions to address corruption at the border, such as via electronic customs and cross-border automated clearance systems.⁸

Further OECD work should explore the impact of technology on corporate governance. In areas such as shareholder relationships, the functioning of the annual general meeting, as well as in the assurance and presentation of integrated company information, digital is having a major transformative impact. This change is ongoing and the OECD, cooperating with our business networks, must ensure it remains at the forefront.

Finally, we welcome the increased focus from the OECD on blockchain, and distributed ledger technology more broadly. One important application of this technology will be in supply chains where additional transparency can support due diligence efforts and will be highly valuable. It also offers significant opportunities in customer identification systems, one of the building blocks for the development of digital services. We urge the OECD to continue this important work here and in other areas.

⁸ *Business at OECD* (2016) OECD Integrity Forum Global Trade without Corruption: BIAC Key Messages.

1.4 Prioritize solutions that would accelerate the implementation of the Paris Climate Agreement

Business remains broadly committed to the Paris Climate Agreement. Certainty about environmental policies will be crucial to enable business investment into climate-related digital innovations, which are needed to ensure its successful implementation. To facilitate this, we call on the Parties to enhance the consultation processes under the Agreement, as highlighted in our recent report *The Paris Agreement and the Private Sector: Institutional Infrastructure for Nationally Determined Contributions (NDC) Implementation with Business*, developed jointly with the Major Economies Business Forum (BizMEF). Beyond this, the OECD could promote universal digital mechanisms to support implementation.

OECD efforts to support the development and market adoption of new technologies, such as smarter grids and storage for our energy system, which can reduce carbon emissions embedded in consumption, would be highly valuable. Further research, such as the new OECD project on digitalization and the circular economy, into how digital technologies can help reduce barriers associated with the circular economy, should be prioritized.

Give all companies the space to innovate - summary of key actions for the OECD and Ambassadors:

- * *Promote innovation and help foster the diffusion of technology in our economies*
- * *Redouble efforts to reach a multilateral agreement on digital tax within the agreed timeframe*
- * *Deepen our understanding of digital solutions that support good governance and responsible business conduct*
- * *Prioritize solutions that would accelerate the implementation of the Paris Climate Agreement*

2) Give people the right tools so more can succeed

As with every previous revolution in industry, the digital transformation requires governments to step-up their support for citizens to help broaden economic participation. The OECD can assist by updating its policy advice and support for its members in a number of areas.

2.1 Promote closer collaboration between business and governments to help people acquire the skills required for tomorrow's jobs

Improving human capital was the top reform priority cited in our 2018 *Economic Policy Survey*, with 78% of national business federations placing this amongst their top five concerns.⁹ Drilling down, over 60% called for an expansion of vocational education and training (VET) with over half wanting the effectiveness of VET and its links to business increased.¹⁰

Ultimately, both governments and business must work together to better align curricula and reduce skills mismatch.¹¹ It is critical to mainstream and strengthen Science, Technology, Engineering, and Math (STEM) at all levels of our education systems both to propel, and derive benefits from, the digital transformation. Maths teaching in particular requires updating to reflect our modern economic needs in data science, with applied mathematics an essential area for inclusion. The teaching of technology and engineering also lag far behind in school systems worldwide, where today there is essentially no broad and deep teaching of technology and engineering in school curricula.

Skills such as creativity, critical thinking, communication, and collaboration, as well as character qualities such as mindfulness, curiosity, courage, resilience, ethics and leadership should be embedded in education and training.¹² In addition, adaptability and “learning how to learn,” for example metacognition and developing a growth mind-set, should be built into the education system from the earliest possible age.

Beyond this, lifelong learning must be the norm in a future of work characterized by change. This is a shared challenge. In this context, the OECD's role as a provider of long-term, cross-country data measuring the performance of education and skills systems is even more important to enable successful benchmarking.¹³ Financing mechanisms for a life-long system should be a priority in the education agenda.

⁹ *Business at OECD* (May, 2018) Economic Policy Survey.

¹⁰ *Business at OECD* (May, 2018) Economic Policy Survey.

¹¹ http://biac.org/wp-content/uploads/2014/05/130605_BIAC_Education_Survey_PREMIUM.pdf.

¹² <http://biac.org/wp-content/uploads/2015/06/15-06-Synthesis-BIAC-Character-Survey1>.

¹³ For example, the Programme for the International Assessment of Adult Competencies (PIAAC).

2.2 Promote diverse forms of work

The publication of the revised OECD *Jobs Strategy* in December 2018 was a solid step forward for the OECD in advising governments on modern labor market reforms. The digital transformation calls for a forward looking, whole of government, approach to employment policy and meaningful social dialogue.¹⁴

It is time to move away from the terminology of ‘non-standard’ as opposed to ‘standard’ forms of work. Diverse forms of work will be needed on an equal footing to satisfy both the wish for more flexible work and work-life balance, and the requirements of new business models.

Implementation of the new *Jobs Strategy* should be accompanied by a more in-depth OECD analysis of the vast variety of rights, responsibilities and entitlements attached to employment contracts already present in OECD countries. The value of flexibility, or improved ability to decide where and when one works, should be a part of that assessment.

2.3 Reform social protection systems to ensure appropriate coverage of all forms of work

An increasingly pressing issue is the need to update social benefit systems to ensure better alignment with emerging business models. The focus should be on activating the integration of people into the labor market. A Universal Basic Income approach will not work towards this important goal. The objective should be for all types of contracts to have access to social protection. Systems should also ensure the portability of benefits, allowing for the creation and build-up of rights for individuals across different forms of work, jobs and sectors.

2.4 Respect the value and context of social dialogue and other labor relations systems

Social dialogue and labor relations models are a reflection of local cultural, societal and legal traditions, unique across countries. There is no universal blueprint for finding the right solutions and facilitating the implementation of reforms.

Effective social dialogue requires political will to engage with responsible social partners. Further, it only works when social partners are representative and willing to achieve joint solutions. Social dialogue is not an end in itself.

Meaningful dialogue with social partners should respect their autonomy and can only be successful in helping to find the right solutions if it is embedded in cultural and societal traditions. Other models of labor relations and employee relations can effectively facilitate adaptation to

¹⁴ *Business at OECD* (December, 2018) Statement addressing the new OECD Jobs Strategy: The New OECD Jobs Strategy - Guidance for a Successful Digital Transformation of Work.

new business models and job opportunities by promoting strong employee engagement and maximizing transparency about change.

2.5 Offer targeted support to entrepreneurs and small businesses to help them participate in the digital economy

Digital transformation offers huge potential for smaller businesses. However, it also poses specific challenges that require a policy response. Our recently published *Policy Priorities for entrepreneurship* report sets out eight headline recommendations to support small and medium sized enterprises (SMEs).¹⁵ Key amongst these is the need for dedicated action to help smaller businesses, and self-employed entrepreneurs, participate in the digital economy. Specific recommendations range from ensuring enough is invested into digital and communications infrastructure, to strengthening the technical competence of SMEs through specialized training, and access to advice and public data.

To support governments in this area the OECD must deepen its data provision and analysis, and the forthcoming flagship *OECD SME and Entrepreneurship Outlook* is a positive step here. Going forward it will be critical to help governments understand the different needs of different types of small business by further disaggregating and broadening the data captured in the *Outlook*, especially to include data on individual entrepreneurs.

Give people the right tools - summary of key actions for the OECD and Ambassadors:

- * *Promote closer collaboration between business and governments to help people acquire the skills required for tomorrow's jobs*
- * *Promote diverse forms of work*
- * *Reform social protection systems to ensure appropriate coverage of all forms of work*
- * *Respect the value and context of social dialogue and other labor relations systems*
- * *Offer targeted support to entrepreneurs and small businesses to help them participate in the digital economy*

¹⁵ *Business at OECD* (October, 2018) Policy priorities for entrepreneurship: helping SMEs and entrepreneurs to survive and thrive.

3) Modernize markets to broaden societal access

Underpinning the successful digitalization of markets are sound, forward looking, legal frameworks. These are critical to ensure a level playing field and to promote effective competition between firms. The OECD can help by reviewing its policy advice and support for its members in a number of areas.

3.1 Ensure consumer policy keeps pace with the application of new technologies

The digital transformation enables consumers to access more information than ever before, and so make better informed purchasing decisions. However new technologies and service patterns related to Artificial Intelligence (AI) and Internet of Things (IoT) can raise challenges for traditional ideas of product safety and liability. It is essential to ensure that the policy landscape across the OECD finds the right balance between maintaining a high standard of consumer protection, while not stifling innovation or access to markets for new technologies.

Building on useful policy advice, such as the 2016 OECD *Recommendation on Consumer Protection in E-commerce*, we see great value in the OECD prioritizing work in this area. Business stands ready to offer its insights into emerging technologies. Ultimately, we look to the OECD to support evidence-based consumer policies, and to advise against regulating technologies that have not yet reached market-maturity.

3.2 Review competition policies, building on existing core principles

Public scrutiny has recently focused on the competition implications of the digital transformation. The OECD has a key role here in developing leading edge policy advice for governments. Our business members welcome the current review of the OECD *Competition Assessment Toolkit* to account for new business models in the sharing economy and platforms, such as in e-health and telemedicine.

We encourage the OECD to increase dialogue among competition authorities about new digitally enabled business models and resulting business practicalities. However, OECD and competition authorities should not rush to conclusions about market concentration, or on personalized pricing, where more, and timely, research and consensus building is needed.

3.3 Deliver responsive regulatory frameworks by promoting good regulatory policy, governance principles and tools

The pace of the digital transformation requires an increasingly agile public sector, able to adapt to new realities and risks. As governments address the digital transformation through novel regulatory approaches, it is important for business that the performance, cost-effectiveness, and legal quality of regulatory frameworks and administrative formalities are ensured.

The insight of the OECD *Regulatory Policy Outlook 2018* is highly instructive, especially its assessment that there is currently no systematic approach to evaluating if laws and regulations meet their objectives across the OECD. We urge the OECD to deepen its analysis and disseminate best practices, in order to promote the systematic use of good regulatory policy principles and tools. These include regulatory impact assessments, stakeholder engagement and ex-post evaluation.

In financial services specifically, digital transformation can help improve financial inclusion, drive efficiency, increase reliability, and lower costs for consumers. Regulatory frameworks should support this by safeguarding financial stability, while delivering privacy and fairness in access to data by applying the principle of ‘same activity, same rules, same supervision.’

3.4 Lead the way in fostering greater international regulatory cooperation built on a strong rules-based trading system

As the digital transformation knits international markets ever more closely together, a commitment to international regulatory cooperation, to promote interoperable policy frameworks becomes increasingly important. The costs of inaction here are significant, and *Business at OECD* research, conducted jointly with the International Federation of Accountants (IFAC), finds that regulatory divergence costs firms in the financial services sector alone over USD 780 billion a year.¹⁶

Predictable legal frameworks are vital for resolving conflicts of laws in many sectors of goods and services and to engender trust, for example in issues such as cross-border data access. They in turn are underpinned by the essential rules-based global trading system. At a time when there is much debate about the effectiveness of this system, we reaffirm its critical importance to the business community. We urge the OECD to enhance its work highlighting the benefits of an open global trading system, and in providing thought for how to improve the system for the 21st century.

¹⁶ *Business at OECD* and International Federation of Accountants (IFAC) (2018), Costs and impacts of regulatory divergence.

3.5 Update our understanding of how digital transformation impacts trade and investment

The flow of data across borders is now central to global value chains and a major requirement for a wide range of manufacturing and services industries.¹⁷ Across the past twelve months *Business at OECD* has worked to support the OECD's investigation of the impact of data localization on business, including by convening a special Roundtable on Data Localization, Digital Trade and Market Openness, in April 2018. We stand ready to support this important work in the year ahead.

Business recognizes the OECD's deep knowledge on the value of trade developed through its analytical work, especially on Global Value Chains (GVCs), Trade in Value-Added (TiVA), and the Services Trade Restrictiveness Index (STRI). We welcome recent OECD research, which sheds light on the interlinkages between trade, investment and GVCs and the role that Multinational Enterprises (MNEs) play in this context. Continued support by the OECD will be essential in developing a renewed understanding of the benefits of trade and foreign direct investment (FDI) for economic growth and sustainable development.

Trade and investment can help accelerate the diffusion of digital technologies and their associated productivity gains. At the same time, due attention must be given to national security concerns and intellectual property rights violations, which decrease the attractiveness of investment in certain countries. We now urge the OECD to broaden its work on the digital aspects of trade and investment, including by prioritizing new research in this area.

Broadening societal access - summary of key actions for the OECD and Ambassadors:

- * *Ensure consumer policy keeps pace with the application of new technologies*
- * *Review competition policies, building on existing core principles*
- * *Deliver responsive regulatory frameworks by promoting good regulatory policy, governance principles and tools*
- * *Lead the way in fostering greater international regulatory cooperation built on a strong rules-based trading system*
- * *Update our understanding of how digital transformation impacts trade and investment*

¹⁷ *Business at OECD* (2016), The flow of data across borders: a BIAC trade policy perspective.

Conclusion

For the OECD to become the ‘go to’ source of policy advice for governments it must build on its core strengths. These are its commitment to consensus based policy development, informed by stakeholders, and solid data collection and analysis. We believe the OECD remains the best place to reach agreement on issues of measurement, data collection and analysis in the context of the digital transformation. As our economies, technologies and societies change at a rapid pace these fundamental issues will become increasingly important.

This agenda speaks to the central mission of the OECD. Leading on digital will only make the organization more relevant to governments, stakeholders, and to society at large.

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