

OECD'S CONTROL INSTRUMENTS IN THE CONTEXT OF RUSSIA'S ACCESSION TO THIS ORGANISATION

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Russia's accession to the OECD will definitely have a positive effect on Russia's image worldwide. However, Russia's OECD membership may have an adverse effect though the use of certain OECD's instruments. Russia should take account of potential pressure which it may be subject to both by most powerful OECD members and international organizations equipped with formally defined instruments of pressure which cooperate closely with the OECD. Therefore, it may not only prevent Russia from pursuing to the full extent its interests as OECD member, but also create preconditions for situations under which Russia's stand may not be supported by other OECD members.

Russia is currently in the process of accession to the OECD, a most reputable international economic organization embracing the most developed nations and actively cooperating with international organizations, associations such as WTO, IBRD, G20, G8, etc. If a country wants to access to any international organization, it must observe the rules and provisions of such organization. Russia has membership in most of international organizations with a strongly pronounced control function (WTO, UN, IMF, etc.), but the OECD seems to have no such function at the first glance. OECD's control instruments' features slightly differ from the methods of pressure used by the foregoing organizations. The OECD is distinguished by the fact that its acts are basically advisory in nature, i.e. they are not legally binding. In this context, it is hard to forecast the consequences of non-observance of OECD's rules and provisions, because no consequences are formally defined. However, a comprehensive analysis of OECD's activities shows that such consequences may be drastic and serve as a tool to impose OECD's will on its members and non-members so that they do their best to strictly observe its acts.

Unlike many other economic organizations with Russia's membership, the OECD has no any special body authorized to enforce its acts.

Analysis of a huge package of OECD's acts has led to a conclusion that there is no liability for non-performance of OECD's acts. A report on the effectiveness of OECD economic surveillance has shown that 24 randomly selected OECD member countries have implemented as little as 52% of OECD's economic recommendations¹.

OECD's official instruments are acts adopted by the OECD Council: decisions and recommendations. On top of that, the OECD has more instruments enabling it to influence its members and conduct its activities. These are peer assessment (reviews), peer pressure,

dialogue, economic reviews, economic forecasts, procedure for the adoption of acts in the OECD, cooperation with non-member countries, close interaction and cooperation with international organizations and associations.

The OECD employs all of the foregoing instruments collectively. For instance, peer assessment involves studies of each country's policy in a particular area in comparison with other countries through discussion between them, i.e. peer OECD member countries. This approach offers a flexible instrument designed to settle disputes between OECD members through an open dialogue aimed at clarifying the stand of parties in dispute². Collective discussions allow OECD member countries to share their experience, which is currently very important for Russia in the context of its moving towards international standards for national policies.

Furthermore, joint discussions of issues as part of dialogues unavoidably trigger the 'peer pressure' mechanism which has actively been implemented by the OECD. For instance, a dialogue can be conducted as sharing of experience between representatives of states with a view to solving a problem in a particular country and serve as guidance to best international practices, and a proposed practice, if successful, can't be denied, as it may be regarded as lack of ability or will to solve the detected issue. This may produce a mixed response of both other peer OECD members and the OECD itself towards a member country. Publication of peer review results builds up pressure on the part of society and mass media, thereby influencing adoption of an OECD's act by the state. In addition to the foregoing soft-promotion approaches, there is so-called 'name and shame' method which is used as part of peer pressure³. The method is designed to publicly detect states which have fail to or inappropriately execute OECD's acts.

² OECD's methods analysis. Document OECD SG/LEG(2002)1.

³ OECD's methods analysis. Document SG/LEG(2002)1

¹ <http://oecdproject.wordpress.com/>

Such OECD's instrument as dialogue is designed basically to give a recommendation or make a decision mostly on a consensus basis¹. Though the OECD's act adoption practice is basically governed by consensus, a practice of decision-making by qualified majority voting has been in place since 2004. This approach allows OECD's acts to be adopted and decisions made where there are objectors, provided there is support on the part of 60% of member countries and no objections on the part of three and more members making 25% of total contributions to the OECD Budget. Based on the foregoing, the OECD recognizes priority of the interests of economically powerful nations (USA, Japan, Germany), whereas peer pressure is actively used in consensus, and qualified majority voting is designed so that major contributors to the OECD Budget may comparatively easily prevent any decisions which are not within the scope of their interests.

Detecting a problem through a peer review intends to define and discuss the problem as part of joint discussion, dialogue. OECD's peer assessment can be regarded as OECD's instrument designed to monitor, manage and make member countries implement OECD's acts and enhance the effectiveness of the government of particular states. Apart from peer assessment, the OECD conducts regular economic surveys and makes economic forecasts with regard to both member and non-member countries. The OECD conducts at least 18 surveys annually². Economic forecasting is designed to assess economic situation in countries. This monitoring may become the basis for peer assessments.

Another OECD's instrument is cooperation with non-member countries through forms of cooperation approved by the OECD, thus allowing it to maintain heavy weight worldwide while retaining tight and partially privileged membership (34 member countries for the time being).

Apart from the foregoing control instruments, the OECD acts in close cooperation with other international organizations and associations (FATF, WTO, UN, G8, G20, EC, MBP, etc.) under existing joint action projects. For instance, the IMF and the OECD are cooperating in such areas as financial provisions, international investments, financial and taxation issues. The OECD virtually performs the functions of G20 secretariat, prepares relevant documents and materials for reports other organizations, namely ILO, WTO, IBRD, IMF, etc. Very many international organizations and their structural

entities are involved in different OECD's bodies: 107 international organizations enjoy associate membership, 23 international organizations enjoy full membership. The foregoing interaction allows the OECD to have an indirect effect on economic and political reforms worldwide. For instance, on February 12, 2013 the OECD published a report on base erosion and profit shifting, including analysis of factors which lead to tax base erosion, as well as proposals on how to resolve the problems highlighted in the report³. The report is focused on certain Cyprian indicators which have given rise to OECD's concern (e.g., percentage ratio of revenues from foreign corporations and national GDP), wherefore the OECD has urged the world community to take measures to combat tax avoidance, without suggesting any particular measures against Cyprus. Furthermore, regarding the Cyprian crisis, the Eurogroup made a statement on March 16, 2013 on that the European Union intended to provide 10bn euro as financial assistance to Cyprus, as well as fully supported introduction of tax measures, including capital yield tax and corporate tax rate increase⁴. Later, the Cyprian government and the Trinity⁵ signed a memorandum on financial assistance to Cyprus subject to the introduction of the foregoing tax measures, as well as reforms in its financial and banking sectors. Not only do the foregoing demonstrate sizable reputation of the OECD as international organization, but also its instruments' indirect impact on decision-making of other organizations which have supranational authorities and formally defined rules vs. the OECD.

Finally, it should be noted that it is not only the quality of information and recommendations for its members that is of importance for the performance measurement of an international organization, but also the degree of implementation of these provisions by member countries in their practice. Without being exposed to a certain pressure, OECD member countries fail to adequately implement OECD's recommendations, thereby making it impossible to measure their quality and, consequently, total performance effectiveness of the OECD as international organization.

Russia is therefore exposed to certain risks in the context of its accession to the OECD. On the one hand, Russia's accession to the OECD will definitely have a

1 Consensus is an alternative to voting, unanimous decision-making with the consent from all members of an international organization.

2 <http://www.oecd.org/about/publishing/oecd-economic-country-surveys.htm>

3 OECD (2013), Addressing Base Erosion and Profit Shifting, OECD Publications http://www.oecd-ilibrary.org/taxation/addressing-base-erosion-and-profit-shifting_9789264192744-en

4 Eurogroup Statement on Cyprus (16.03.2013) http://eurozone.europa.eu/media/402209/Eurogroup%20statement%20CY_final_16%203%202013%20_2_.pdf

5 The Trinity is a committee comprising European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF), which was established to organize financial aid to European countries hit by the European debt crisis.

positive effect on Russia's image worldwide. On the other hand, Russia's OECD membership may have an adverse effect through the use of certain OECD instruments (e.g., through peer pressure which may be regarded the name-and-shame method). In addition, Russia should take account of potential pressure which it may be subject to both by most powerful OECD members and international organizations equipped with formally defined instruments of pressure which

cooperate closely with the OECD. It may not only prevent Russia from pursuing in full its interests as OECD member, but also create preconditions for situations under which Russia's stand may not be supported by other OECD members, given 3–4% of Russia's contribution to OECD (to compare, the leading OECD members contribute from 22% by the United States, 13% by Japan, to 8%, 6%, and 5% by Germany, France, and Great Britain respectively). ●