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United States Mission to the OSCE

Economic and Environmental Dimension Implementation Meeting Session 3: Good Governance

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Before I begin, I'd like to thank the panelists today for their excellent and informative presentations.

The United States has viewed with keen interest the evolving discussions in recent years on what the OSCE's priorities should be in the Economic and Environmental Dimension. As our friend and colleague Mr. Svilanovic pointed out during last year's Vienna Review Conference, we appear to have come to an appreciation that good governance is the key linking theme across the entire second dimension. The Maastricht Strategy is very clear on this point: "Good public and corporate governance and strong institutions are essential foundations for a sound economy, which can attract investments, and thereby enable States to reduce poverty and inequality, to increase social integration and opportunities for all, and to protect the environment. Good governance at all levels contributes to prosperity, stability and security." As we consider the implementation of our second dimension commitments, however, we should keep in mind why it is important to implement those commitments.

The global economic downturn continues to put extreme pressure on people and governments across the OSCE region. To be sure, some countries have weathered the storm better than others. Still, no country can be forever immune to market forces, and even within those that have done well, there are always citizens left behind. This is certainly the case in the United States, and for this reason President Obama is focused intently on how best to put those Americans without a job back to work. We all know that trade and investment are critical drivers of economic growth. Indeed, recognizing this important reality, the Obama Administration has launched the National Export Initiative, which seeks to deepen our strategic trade relationships around the world, recognizing that 85 percent of world GDP growth will occur outside the United States in the coming few years. As we encourage more American businesses – large and small – to embrace international trade, seek opportunities in new markets, and make strategic investments that will lead to increased global trade flows, we are keenly aware of the challenges and costs posed by official corruption, weak institutions, and lack of respect for property rights, including intellectual property.

Weak governance and lack of transparency constitute non-tariff barriers to trade, which we have committed ourselves to eliminating. Furthermore, the same issues that deter trade and investment also work against comprehensive security: a lack of transparency in governance leads to diminished confidence that problems and disputes will be addressed in a fair and impartial manner. Without trust and confidence in public institutions, there is little incentive for investors and companies to pursue trade deals or direct investment in those economies.

The effect is stagnating economic performance, which, as we have seen in the past several months and years, can lead to political upheaval.

The United States Government is deeply committed to fostering good governance and transparency in its political and economic institutions. President Obama has made the global fight against corruption a top priority. As he has noted, “In too many places, the culture of the bribe is a brake on development and prosperity. It discourages entrepreneurship, destroys public trust, and undermines the rule of law while stifling economic growth.”

The real world costs of corruption and weak institutions should not be underestimated. The World Bank estimates that more than one trillion dollars in bribes are paid each year out of a global economy of approximately 30 trillion dollars. That's an incredible three percent of the world's economy. In 2009, companies lost nearly \$25 billion to companies willing to pay bribes in deals for which the outcome is known. And bribery is especially costly for small and medium-size enterprises (SMEs): a separate study has shown that up to 25 percent of SME operating capital in companies operating internationally is diverted to corruption. That is a staggering figure that illustrates how corruption diverts scarce resources to thoroughly unproductive ends.

Corruption is a global problem that knows no borders. And that's why corruption demands a truly global response – one that knows no limits on collaboration. The Obama Administration is doing its part to implement its obligations under the OECD Anti-Bribery Convention by enforcing the U.S. Foreign Corrupt Practices Act (FCPA) strictly and fairly. We are determined to ensure that U.S. businesses do not contribute to corruption in foreign markets. At the same time, we are determined to do what we can to assist them in the fight against foreign corruption, and against the high risk and significant costs of corruption in such markets.

Regrettably, at this stage, the lack of enforcement of domestic bribery laws, and of foreign bribery laws by many nations that are Parties to the OECD Anti-Bribery Convention is extremely troubling and raises concerns about a lack of political will. Governments can and should prosecute both those who give bribes and those who receive them, both at home and abroad. And the OSCE should continue to encourage participating States to adopt and enforce rigorous anti-bribery regimes.

Of course, the fight against corruption is not simply a law enforcement matter; rather it can also be a significant – if not the most significant – non-tariff barrier all companies face. Accordingly, the U.S. Department of Commerce and the International Trade Administration (or ITA) are committed to working with our trading partners to level the playing field and to promote transparent and corruption-free markets globally. Our work to promote clean and ethical business environments occurs at both the multilateral and bilateral level. At the multilateral level, the ITA is pressing its counterparts to lead by example and to implement comprehensive anti-corruption measures.

In addition to our work through the OECD, the United States has been working diligently to persuade the G20 countries to adopt a comprehensive anti-corruption action plan, which includes a commitment focused on adoption and robust enforcement of anti-bribery laws, implementation of the UN Convention Against Corruption, greater engagement with the private sector, and support for transparency mechanisms, to name a few. Many of these

commitments require our G20 partners to enact and implement new laws and preventive measures.

The United States, at ITA's initiative, in particular, took the lead on proposals relating to the private sector and also on whistleblower protection, within the G20. In the United States, whistleblowers play a crucial role in helping to enforce anti-corruption law. This principle is also embodied in international conventions. Articles 12 and 13 of the UN Convention require States Parties to prevent corruption in the private sector and promote the fight against corruption with the business community and civil society. Unless governments can protect whistleblowers, it is unlikely that they can identify or address systemic causes of corruption. The United States believes robust whistleblower protection should be an essential part of any good governance initiative in the OSCE, and I was encouraged to hear Ambassador O'Leary indicate that this will be an area of focus under the Irish Chairmanship.

The U.S. Department of Commerce has also been committed to fostering strong private sector integrity as an integral part of promoting good governance in markets worldwide. Companies are global corporate citizens, and as such, can work collectively and with governments to foster trust, and promote transparency. I hope that some our work may provide a useful model for the OSCE to consider as it looks to embrace good governance and anti-corruption as a priority for the second dimension, a goal we fully support, and which I am personally committed to supporting.

For example, the ITA has championed business ethics and corporate governance reform since the early 1990s, following the fall of the Berlin Wall. Our Business Ethics Manual has been translated into Chinese, Spanish and Russian and is still one of the most widely used resources on this important topic. We have partnered with business associations and chambers of commerce to develop collective action and business ethics program in many markets.

Our work on business ethics has grown. This past year, the ITA has focused on trying to heighten awareness of good governance, transparency and business ethics in sectors of vital importance to many economies – by taking a “sectoral” approach to combating corruption and promoting good business practice, the challenge of dealing with corruption becomes less daunting. The ethical issues specific to different industries vary greatly – and there is no one-size-fits-all approach to the problem. Within the G20, for example, the United States, at the initiative of the U.S. Department of Commerce, has taken the lead in calling for the G20 to endorse additional sectoral approaches to fighting corruption, beyond the Extractive Industries Transparency Initiative (EITI). We have asked G20 governments, for example, to consider supporting the Construction Sector Transparency Initiative (COST) – a new multi-stakeholder initiative, developed by the World Bank. COST uses similar approaches to EITI to promote greater transparency in public infrastructure projects and government procurement. I hope that the OSCE might similarly consider COST and other multi-stakeholder approaches to promoting transparency under the Irish chairmanship.

Within APEC, the ITA has focused on developing new ethical principles for key sectors within the APEC region. I am pleased to report that under the APEC SME working group, we have coordinated a project with APEC countries and businesses to develop principles of business ethics in the construction, medical devices and biopharmaceutical sectors. These voluntary principles are meant to be used by businesses and trade associations – large and small – to guide their ethical interactions with public officials and institutions. I hope that

within the OSCE framework and the EEDIM, we might also consider focusing on business ethics in specific sectors of interest to all of our economies.

I want to close by suggesting some activities to take the theme of good governance and transparency forward. In addition to encouraging the OSCE to formally endorse the Extractive Industries Transparency Initiative—a move that would send an important signal about this body’s commitment to the principles of good governance and transparency—the U.S. encourages us to explore whether there are additional sectoral initiatives that merit support from the OSCE, including the Construction Sector Transparency Initiative. The United States Government also strongly supports the Irish Chair’s goal to develop a Statement or Declaration of Transparency Principles to help guide our governments in their future activities.

I want to encourage us to consider new models of bilateral cooperation to promote good governance such as the model Mr. Murray just discussed, leading to a public-private initiative in the Russian power generation sector.

We at the U.S. Department of Commerce are working closely with the Center for Black Sea/Caspian Studies at American University to potentially convene a conference in May of next year that would seek to address the challenge of developing mechanisms to ensure good governance and transparency, while also balancing the goals of protecting national security and accelerating economic development faced by the countries of the Caucasus and Central Asia, as they seek to assert their role as a gateway between Europe and Asia. In addition, the conference will also focus on specific market access challenges to regional integration and economic development in the Caucasus and Central Asia such as transparency in Government procurement and privatization, and trade facilitation challenges, including customs and lack of regional harmonization. It is our hope that the OSCE will join us for this event – focused on critical areas such as transport and infrastructure – to work on tangible ideas for projects and collaborations in the OSCE region.

We look forward with great interest to the 20th Economic and Environmental Forum, where we will delve deeper into all the facets of good governance. We also thank the Lithuanian Chairman-in-Office for ensuring that their draft Ministerial Council decision on Energy Security incorporates transparency in the energy sector – in our view, considering the vital role that energy plays in modern economic life, there can be no confidence, and thus no security, without energy transparency. In the year ahead, we envision an even broader focus on transparency principles across the entire spectrum of economic and environmental activities, and will work with all of our colleagues in the OSCE to make that vision a reality.

Thank you, Mr. Moderator.