

**Dinner Speech by the Secretary-General  
at the International Risk Governance Council (IRGC)  
Conference  
in Beijing, China, 20<sup>th</sup> September 2005**

**Ladies and gentlemen; firstly, I would like to thank our Chinese hosts and in particular the Minister of Science and Technology for their exceptional hospitality in hosting this event in Beijing. The rapid evolution of the Chinese economy towards dynamic market status is well documented in the OECD first ever economic review of China which I had the privilege and pleasure of releasing officially here in Beijing last Friday. Such is the intense and broad interest in China that I was pleased to see it received wide international media coverage. As a previous speaker noted, the speed of China's development and integration into the**

**mainstream of international trade and investment also carries with it risks which must be carefully identified and managed...so what better place to have this conference than in Beijing?**

**What I would like to talk to you about this evening is not so much the nature of the risks we shall be facing in the coming years but rather the political will and policy action required to deal with them. The major challenges of disasters are quite well documented for most of the OECD countries - earthquake, tsunami, typhoon, ice storms, floods, electricity failures, energy supply interruption, environmental degradation, massive population movements, health risks (bioterrorism included, but especially pandemics), near earth object impacts - they have all been identified and researched by both the private sector (university departments, business schools, consultants) and the public sector. Indeed table 1 of the IRGC White Paper on Risks Taxonomy contains an extensive inventory. The problem is less in defining what the challenges are**

**- this is quite well known by people in the field - but rather translating our understanding of those challenges into political action. I believe the important issue remains coordination and political acceptance of responsibility for meeting the risk challenges.**

**How do we tackle that issue, so well outlined in the comments of Professor Lagadec this morning? In a nutshell, I suggest that:**

- First, governments can and must be better prepared in all areas of risk management -- assessment, prevention, emergency response, and recovery -- not least through better planning and co-ordination across government departments.**
- Second, globalisation is set to tighten yet further the economic, social and cultural links and interdependencies among countries, making effective international co-operation and co-ordination in disaster management imperative. Again as Professor Lagadec emphasized globalization and**

**the speed of transmission of the consequences of disasters are more important than ever.**

- Third, public trust -- together with consumer and investor confidence -- are key elements in ensuring rapid, broad-based recovery once disaster has struck. It is easy to talk of trust and confidence building but how are they achieved?**
- And fourth, governments need to work more closely in partnership with the private sector, which has an important role to play in disaster prevention, preparedness, response and recovery.**

**Looking back on some of the disasters of this year alone (Hurricane Katrina, the London bombings, forest fires and widespread flooding in Europe) -- one could be forgiven for thinking that we live in an increasingly dangerous world. And we don't really need a crystal ball to see that the future will bring further disasters -- some of them familiar, some less so. A variety of**

**forces are helping to shape the disasters heading our way.**

**Terrorism continues to stalk all societies and was heavily focused on by leaders at the UN last week.**

**The world's climate is evolving in ways which will likely increase problems over the coming decades in the form of more frequent and extreme weather patterns (hurricanes, droughts, flooding, etc.), rising sea levels, water shortages, and so on.**

**We have seen large population movements in recent years and these are likely to continue well into the next decades: - there are already 175 million international migrants across the globe, and the figure is unlikely to diminish in the near-term; and people are increasingly moving into cities, especially in the developing world, so that urbanisation is steadily increasing (close to 60% of the world's population are expected to live in cities by 2030, up from 50% today). Such large**

**concentrations of humanity magnify the potential loss of life from both natural disasters and pandemics.**

**At OECD, we have of course -- by nature of the Organisation's mandate -- a particular interest in the economic dimension of the management of major risks and the impact of disasters on life and property. This has, first, to do with the cost to the economy. Disasters can be hugely expensive as assets are destroyed, businesses disrupted, jobs lost and working lives curtailed. Let me just give you some ball-park figures: The events of 9/11 cost the US economy around US\$ 120 billion, or about 1.2% of GDP; the Kobe earthquake cost the Japanese economy some US\$ 130 billion, around 2% of Japan's GDP. The total bill for BSE in Europe was approximately 92 billion euros, close to 1% of the EU-15's GDP . It is estimated that SARS cost the South-East Asian region some US\$ 60 billion, around 2% of the region's GDP not to mention the damage to the Canadian economy, especially the Toronto area which was virtually**

paralyzed. And bear in mind that was brought about by one infected person coming to Toronto from Asia. It is still too early to gauge the cost of Hurricane Katrina with any confidence, but it will clearly be significant. Indeed, preliminary estimates are running in hundreds of billions of Dollars. Professor Lagadec emphasized the importance of imagination in disaster assessment. Well, imagine the consequences for the world economy of a pandemic comparable to the 1918-19 Spanish Flu which is estimated to have taken at least 50 million lives on a global population base of 1.8 billion. Now we are over 6 billion with larger population concentrations and faster transmission mechanisms. The French expression “le pire n’est jamais sur”, the worst is never certain, should stimulate the imagination to prepare for the worst outcomes.

Secondly, economic policy has a lot to do with helping make economic systems more robust and more resilient to shocks, preventing further damage spreading through the economy, and ensuring a

**speedy and broad-based recovery and return to normality. Look, for example, at how in the aftermath of September 11, immediate large-scale injections of liquidity into the banking system helped preserve the integrity of the financial system and reassure depositors, despite the physical destruction wrought upon a significant part of New York's financial district.**

**And thirdly, global interdependence means that the fall out of major disasters do not stop at national frontiers. We were offered a number of examples this morning, SARS being but one. This shows the importance of international co-operation and co-ordination, which is the OECD's bread and butter business.**

**The OECD has been engaged in risk assessment work for two decades. Its risk management work began four years ago when by making an assessment of OECD countries' capacity to deal with a range of major threats ranging from natural disasters and terrorism to**



**health risks and cyber-attacks. Our conclusion from that wide-ranging study was that, in almost all aspects of risk management -- assessment, prevention, response and recovery -- our member countries were not well positioned to deal effectively with the scale and complexity of the risks of the 21st century, and that considerable efforts would be required to make improvements. If the most advanced economies of the OECD are ill equipped, it follows that developing countries are even worse off.**

**Regrettably, recent events in New Orleans have proved yet again just how difficult the task is that lies ahead of us. A key illustration is the absence of co-operation and co-ordination across government departments and agencies. When emergency responses are seen to be inadequate or incoherent, the call often goes out for a central all powerful coordinating authority. Where is the General in charge? But modern-day societies and economies are complex and sophisticated, often with multiple jurisdictions. In OECD countries there is very**

rarely a single organisation that can legitimately control the operations of all public and private actors in the event of a peace-time disaster. But it is precisely such structural and organisational difficulties that need to be overcome if our capacity for handling disasters effectively is to be significantly improved. The OECD, incidentally, is making its own -- and, I believe, very innovative -- contribution to that effort by pioneering reviews of some Member countries risk management practices. We have conducted reviews of Norway and Denmark and are preparing to review Sweden, Japan and the United States. We would like to explore the possibility of engaging the IRGC with us in these exercises which could result in important identification of best practices.

In the case of international-scale disasters, co-ordination is again the key. And we all recall the difficulties faced by charities in co-ordinating the response to the tsunami at the end of last year, when faced with such a hugely generous public response.

**An international co-ordination framework could help to prevent waste, and direct help in the most efficient and effective way.**

**At OECD, however, our focus is on economic co-ordination and co-operation, the need for which we believe will grow significantly in the years to come. Take the example of insurance. The events of 9/11 placed many insurance and re-insurance companies around the world in considerable financial straits; if one or more other major catastrophes (such as an earthquake or hurricane) had occurred within the same time frame, one can imagine the impact on the insurance industry and many financial market players.**

**Recently, the OECD has analysed different insurance industry and government initiatives to cover risks of terrorism and natural catastrophes and suggested alternative policies. With an eye to the uncertain future, we are encouraging our Member countries to co-ordinate their efforts to devise innovative ways of**

**setting mega-disaster insurance on several different pillars and of spreading the potential burden internationally.**

**More broadly, the OECD will continue to foster international research and cooperation to face the financial challenge of both natural and man-made catastrophes. One month before the devastating tsunami hit South-East Asia, the OECD gathered 150 government, private sector and academic experts from OECD and emerging economies (including China, India and Indonesia) to discuss ways to handle economic losses caused by large-scale catastrophes. We will pursue this work through new international networks including both OECD and emerging countries, that will exchange information and experience and analyse the tools and policies for prevention, management and compensation of disasters.**

**A further key to effective risk management more generally is building and preserving the public's trust.**

**It takes a long time to build but can be destroyed in an instant. The nature and history of the relations between the public and disaster management is critical to policy makers' capacity to address major risks effectively -- as those involved for example in the BSE crisis in Europe and the recovery phase of Hurricane Katrina can testify.**

**Recent events in New Orleans have shown that this remains an area of risk management fraught with dangers. But this is not to say that lessons are not learned. New York's Mayor was instrumental in the process of confidence building in the aftermath of 9/11 as we heard this morning. Looking towards my own country, Canada, I think it is fair to say that the handling of the ice storm in Quebec a few years ago (1998) offers some useful lessons. Three successive waves of heavy snowfall and ice storms in five days paralysed electricity distribution, transport networks, drinking water supplies and other vital sectors, to the point that the evacuation of Montreal was under**

**serious consideration. The usual command-and-control approach to crisis situations was abandoned in favour of a strategy of trust building in collaboration with the public, politicians and the media. Regular briefings were organised with journalists, workable rules of the game for interviews with officials were established. The president of the regional power company (Hydro Quebec) appeared at the daily press conferences, accompanied by the premier of Quebec. And the messages were focused, non-technical, and aimed at generating solidarity, trust and a sense of achievement. This was widely considered a successful operation. There are no doubt many others from which lessons could be drawn.**

**Finally, I would suggest that governments need to step up efforts to work more closely in partnership with the private sector. The respective roles and responsibilities of the public and private sectors in risk management have changed quite considerably in OECD countries in recent decades. In the wake of**

**regulatory reform and privatisation, safety issues have moved to the fore in two respects. First, as vital infrastructures and utilities have shifted from public to private ownership, gaps in the way risks are handled have been revealed. This will put renewed pressure on countries to clarify the respective roles of the public and private sectors in matters of safety. And second, as a series of recent accidents and technical failures in the power sector have shown, operational safety margins may have shrunk as short-term commercial considerations have gained in importance. Short-termism is not a good ally of risk management, at least as far as critical infrastructures are concerned. Over the coming quarter century the world will require some 16 trillion dollars of investment in the energy sector alone, much of it in the OECD countries, but a very large share of it in the developing countries where, increasingly, the private sector is expanding its role. Providing such massive amounts of energy to satisfy the world's needs will prove a serious challenge to public-private co-operation, not only because the**

**requisite funding will need to be found, but also because that energy will need to be provided reliably and securely.**

**In conclusion, I would add that governments must address these challenges quickly and comprehensively. Preparing for and managing the risks I have outlined requires a comprehensive and coordinated approach. A piecemeal response will not work; as the American proverb says “It doesn't work to leap a twenty-foot chasm in two ten-foot jumps”.**