3rd Meeting of the OECD Network on the Governance of State-Owned Enterprises in Southern Africa

Forging Ahead with Reforms

SESSION 3: COMPETITIVE NEUTRALITY
Maintaining a level playing field between public and private businesses

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Competitive Neutrality: Maintaining a Level Playing Field between Public and Private Business

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The concept of “competitive neutrality”

• No entity competing in the market place should have undue advantages – or disadvantages – due to its ownership.

• Supported by the OECD Guidelines on Corporate Governance of SOEs: “...a level playing-field in markets where state-owned enterprises and private sector companies compete...”

• However:
  – This does not cover all public sector business activities...
  – ...and it’s far from clear how to obtain it in practice.
A new project, a new publication

• A “best practice” report was developed jointly by a number of OECD policy communities, reflecting:
  – Extant OECD recommendations and good practices;
  – Current practices in individual countries.

• It is not yet clear whether these practices are useful, or even relevant, to the rest of the world. Therefore...

• ...a process of consultations is being commenced.
Competitive neutrality makes sense – in a development context and in international commerce

- *It is normally not in the interest of governments to let one class of enterprise crowd out others.*

- *In international trade and investment it can lead to further frictions as the costs and benefits are borne by different constituencies.*

- *OECD’s work so far has focused on competitive neutrality in the national context.*
Eight “building blocks” are identified as essential to obtain and enforce competitive neutrality:

- Operational form;
- Cost identification;
- Commercial rates of return;
- Public service obligations;
- Tax neutrality;
- Regulatory neutrality;
- Debt neutrality;
- Public procurement.

These are inter-linked and must NOT be considered in isolation.
Example 1: Public service obligations

- *Identifying public service obligations*

- *Transparency and accountability*

- *Adequate compensation*

- *Separate accounting for compensation*

- *Avoiding “hidden subsidies”*
Example 2: Debt neutrality and outright subsidies

- **Avoiding preferential financial treatment of SOEs. This could be done by:**
  - Making SOEs rely on commercial financial institution
  - Rules on the terms of financing within the public sector

- **Avoiding unintended financial benefits from state ownership. This could be done by:**
  - Withholding guarantees
  - Debt neutrality payments
Going forward: the process of consultation

- **Question 1:** is the concept of competitive neutrality relevant and applicable to your national reality?

- **Question 2:** regardless of the previous, do you have elements of a competitive neutrality framework (any of the 8 building blocks) already in place?

- Countries are invited to engage bilaterally with OECD on this.

- *In the first half of 2013 a decision will be made on whether, and how, to proceed in cooperation with non-OECD economies.*
Thanks for your attention!