Working Group on Privatisation and Corporate Governance of State Owned Assets

Draft Summary Record

11th Meeting of the Working Group on Privatisation and Corporate Governance of State-Owned Assets

6-7 March 2008
OECD Conference Centre
2, rue André-Pascal, Paris 75016

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SUMMARY RECORD OF THE 11TH MEETING OF THE OECD WORKING GROUP ON PRIVATISATION AND CORPORATE GOVERNANCE OF STATE-OWNED ASSETS

Item 1: Opening of the meeting

The Chair opened the meeting and welcomed new delegates from France and Hungary to the Working Group.

Item 2: Adoption of the agenda

The agenda [DAF/CA/PRIV/A(2008)1] was adopted without changes.

Item 3: Adoption of the draft summary record of the 10th meeting

The draft summary record of the 10th meeting [DAF/CA/PRIV/M(2008)1] was adopted with one change in the first sentence of item 4.

Item 4: Consultation with BIAC and TUAC

TUAC called for better co-ordination in the work on Sovereign Wealth Funds and argued that it should be linked to work on private equity and hedge funds. It also urged the OECD to make use of existing instruments, including the MNE Guidelines and the SOE Guidelines. In relation to DAF/CA/PRIV(2008)1, TUAC asked for clearer distinction between corporate social responsibility and more controversial or politically motivated objectives. They also wanted to see a distinction between the pursuit of national security objectives and undue political interference. TUAC welcomed the descriptive exercise on trends in privatisation [DAF/CA/PRIV(2008)2] but argued that further guidance is relevant mainly for non-OECD countries. Rather than issuing best practices on privatisation, TUAC advised to focus on a review of how the SOE Guidelines are implemented. TUAC welcomed the Transparency and Accountability Guide and suggested that a short version be developed to facilitate its use by various stakeholders.

BIAC addressed the opportunities posed by Sovereign Wealth Funds, for example in terms of access to capital. In terms of challenges posed by SWFs, BIAC mentioned their impact on financial stability and the level playing field, possible non-commercial objectives and cross-border “re-nationalisations”. BIAC has expressed concern for a potential prompt and hastily prepared regulatory response which would not be effective in addressing the real issues. It considered that the paper presented by the Secretariat [DAF/CA/PRIV(2008)1] was very informative and that it brought interesting results regarding important issues that need to be addressed. They also underscored the merits of co-ordination among various bodies working on SWFs. BIAC called for continuing work on privatisation and commended the Secretariat for a very informative report. It suggested that the section on “preparing for privatisation”, could be expanded and that more attention could be given to the need for transparency and accountability, before, during and after privatisation. In the PWB, BIAC underlined the importance of cross-border activities of SOEs and offered to play a role in providing information. It underlined the importance of also bringing non-member countries on board so that they could use the tools developed by the Working Group early on.
Item 5: Transparency and Accountability Guide

The Secretariat provided a summary of the main comments received during the first meeting of the Global Network on Privatisation and Corporate Governance of SOEs. Delegates provided the Secretariat with additional comments to finalise the Guide [DAF/CA/PRIV(2007)4/REV1]. These included a request to expand the introduction and to develop a ten page summary. The World Bank underlined the relevance of this guide for emerging economies. It was agreed that a final draft will be circulated for written approval before the summer.

Item 6: Corporate Governance of Sovereign Wealth Funds

The Secretariat introduced a stocktaking paper [DAF/CA/PRIV(2008)1] concerning “The relevance of the OECD Guidelines for Corporate Governance of State Owned Enterprises to the governance of state owned investment vehicles”. Delegates expressed support for the analysis contained in the Secretariat’s paper and invited the Chair to explore the possibility of restricting it. Some delegates cautioned that an overly prescriptive approach could lend inadvertent support to protectionist sentiments, and one Delegation opined that, while the paper provides a balanced view of how the Guidelines might be applied to SWFs, it is not clear that it is always and necessarily fruitful to do so.

Representatives of the European Commission and the International Monetary Fund (IMF) informed the Working Group of ongoing work on SWFs in their respective organisations – especially the formation of the International Working Group of SWFs that had constituted itself with IMF as its Secretariat. Delegates agreed that OECD needs to proceed in close co-ordination with other international bodies. No follow-up work to the stocktaking paper was suggested.

Item 7: Sector Focus / Airport Privatisation

The German and French delegations presented their experiences with recent airport privatisation. The German experiences differ from many other countries, since most airports are jointly owned by the state and the sub-national authorities. Recent privatisation of the airports of Hamburg and Frankfurt were based on economic efficiency considerations. In particular, that needs for additional capital could be better met by private investors. Potential further privatisations are currently held up because of disagreements between different levels of government. The recent restructuring of the French airport sector is based on legislation passed in April 2005, which led to the corporatisation of the airport of Paris (AdP) and allowed regional airports to operate as public-private concessions. The law foresees the opening of AdP’s capital to the public, but stipulates that the state must remain majority shareholder. A main purpose of the corporatisation were to put the operations, managerial incentives, tariffs and regulatory regimes on a more “commercial” footing, improving the efficiency and competitiveness of AdP.

Item 8: Best Practices in Privatisation

a) The Working Group considered the progress report [DAF/CA/PRIV(2008)2]. The report summarises the responses to a questionnaire issued by the Secretariat in November 2008. Countries that have not yet submitted responses to the questionnaire were asked to do so at their earliest convenience. Delegates were invited to verify the presentation of their responses and provided guidance on the completion of the report.

It was agreed that a full draft in the form of a “best practices report” should be submitted at the Working Group’s meeting in November 2008.

b) The Working Group also discussed a paper, prepared by an external consultant, addressing the role of incumbent boards and managements in the privatisation process [DAF/CA/PRIV(2008)3]. Several
Delegates argued that the paper went too far in the direction of identifying problems which had not occurred in practice in their respective jurisdictions. They observed that the attitude of managers toward privatisation depends not only on privatisation methods but also on their vision for the corporate future of the privatised SOE. Other delegates associated themselves with the main thrust of the report testifying that they had encountered most of the suggested difficulties in their national privatisation programmes.

**Item 9: Programme of Work and Budget 2009-2010**

Delegates expressed strong support for the draft 2009-2010 Programme of Work and Budget and the priorities as set out in DAF/CA/PRIV(2008)4, and agreed on the description of challenges and opportunities presented in section 2, “The Economic and Political Background”. The meeting voiced top priority for output A, “State-Owned Enterprises in Global Markets: Impact and Issues,” and some delegates noted that there may be synergies with output D “Reforming the State Owned Sector”. The Secretariat was also encouraged to build on the ongoing privatisation work to develop output C “Guidelines on Effective Privatisation.” Delegates also noted the importance of voluntary contributions to support the proposed work programme, particularly for Output B to move forward with the new Global Network on Privatisation and Corporate Governance of SOEs, regional networks and possible country reviews of Brazil and China. Delegates generally suggested a lower priority for Output E “Corporate Governance of Sovereign Wealth Funds,” while keeping the door open to further dialogue on this subject to serve and inform the multilateral process. The Working Group strongly supported the request for Central Priority Funding as essential in responding to the increased demand for its work among both member and non-member countries.

The Secretariat was asked to take the Working Group’s comments into account in its preparations of an integrated, PWB proposal for consideration by the Steering Group on Corporate Governance.

**Item 10: Accession**

Please see DAF/CA/PRIV/ACS/M(2008)1 [confidential].

**Item 11: Other business**

It was agreed to hold the next Working Group meeting back-to-back with the Steering Group meeting with a joint session dedicated to accession reviews.
Participants list for The 11th Meeting of the Working Group on Privatisation and Corporate Governance of State Owned Assets/Liste des participants pour Le 11ème Réunion du Groupe de travail de l'OCDE sur la privatisation et le gouvernement d'entreprise des actifs appartenant à l'Etat


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