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

DBSA Vulindlela Academy, Midrand, South Africa
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BETTER POLICIES FOR BETTER LIVES

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

Presentation given at the meeting of the Southern Africa Network on Corporate Governance of SOEs in Midrand, 8-9 October 2012.

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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.***

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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.***

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About the report

- ***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.***

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Example 1: Public service obligations

- ***Identifying public service obligations***
- ***Transparency and accountability***
- ***Adequate compensation***
- ***Separate accounting for compensation***
- ***Avoiding "hidden subsidies"***

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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.***

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Thanks for your attention!