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DAF/CA/SOPP/RD(2013)6

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

08-Mar-2013

English - Or. English

DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
CORPORATE GOVERNANCE COMMITTEE

DAF/CA/SOPP/RD(2013)6
For Official Use

Working Party on State Ownership and Privatisation Practices

Submission by TUAC

11-12 March 2013
OECD Conference Centre
2, rue André-Pascal, Paris 16

The complete version of the document is available in pdf format only.

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JT03335997

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TRADE UNION ADVISORY COMMITTEE
TO THE ORGANISATION FOR ECONOMIC
COOPERATION AND DEVELOPMENT
COMMISSION SYNDICALE CONSULTATIVE
AUPRÈS DE L'ORGANISATION DE COOPÉRATION
ET DE DÉVELOPPEMENT ÉCONOMIQUES

20th Meeting of the Working Party on State Ownership and Privatisation Practices

Submission by TUAC

Paris, 11 March 2013

TUAC welcomes the opportunity to comment on the documents that are for discussion at the 20th Meeting of the Working Party on State Ownership and Privatisation Practices. We would like to share comments on items 5, 7 & 8 of the agenda.

Item 5. Competitive neutrality

The review of "national practices in partner countries" (DAF/CA/SOPP(2013)1) is a helpful descriptive exercise of how competitive neutrality is being applied, or not, for commercial SOEs in emerging economies, including the BRICS. What is perhaps missing in the text is some broad appreciation of where each of the surveyed countries stands with respect to key policy requirements.

Our own reading of the document suggests that China is lagging far behind: "there is no articulate requirement that [Chinese commercial] SOEs operate on a competitive basis" (#35); "There is no clear mechanism to ensure adequate and transparent compensation for SOEs carrying out public services in China" (#41), "in the strategic sectors which are supported by the State, preferential income tax treatment may be provided" (#47). This is of concern given the rising power of Chinese commercial SOEs in international trade and investment and it would be worth highlighting that point in the text.

Item 7. SOEs in the development process

The discussion paper on "SOEs in the development process" (DAF/CA/SOPP(2013)3) provides for a comprehensive literature review on the role of industrial policy, of SOEs and of development banks. It could benefit from more comparative analysis of corporate governance models (insider versus outsider models, relationship versus rules-based governance, etc.), including making reference to 'old' and yet still relevant policy research conducted by the OECD Development Centre[1].

The paper fails however to address the implications for an *inclusive* model growth and for the OECD cross-directorate project on "New Approaches to Economic Challenges" (NAEC) despite these being mentioned as the papers' objective in the introductory section ("About this document and action required" p3-4).

1 such as "Governance Culture and Development - A Different Perspective on Corporate Governance", Nicolas Meisel, OECD Development Centre 2004 & "Corporate Governance in Developing, Transition and Emerging–Market Economies", Charles Oman, Steven Fries and Willem Buiter, Policy Brief n°23, OECD Development Centre 2003.

If the paper is to address "inclusive growth" and the priorities of the NAEC project (including inequalities) then it should consider the extent to which different models of industrial policy impact social cohesion and welfare and levels of inequality. Several "national examples" of industrial policy listed under section 2.1 could be reviewed accordingly. The "success" of the Chinese model (#24) might be toned downed considering the social and labour situation of hundreds of million of Chinese factory workers (both young workers and internally displaced workers). In the section on the "Korean industrialisation in the era of President Park" (box 2, #25) it would be worth clarifying that the "relative weakness of the [Korean] labour movement that kept wage costs low" was in fact due to systematic government repression of workers' rights and of trade unions during that period. Even in today's South Korea, workers' fundamental rights are not respected, particularly in the public sector and in "strategic" economic sectors, including railways, utilities, military industry, public health, the Bank of Korea, and telecommunications[2]. Other country cases could be added such as the historical role of industrial policy and of large SOEs operating along side the "Mining Houses" in supporting the South African Apartheid regime[3].

A better focus on inclusive growth might also require paying more attention the combination of industrial and social policies. For example the "renaissance of industrial policy" in Brazil in 2003 (#28) was concomitant to the *Bolsa Família* welfare reform, including a nation-wide conditional cash transfer scheme operated by Brazilian SOE *Caixa Econômica Federal* and which impact on reducing poverty, inequality and increasing child school attendance has been acknowledged by the OECD.

Regarding development banks (section 4.1 #59-70), the paper could usefully address the extent to which developments bank are better equipped to pursue long term investment strategies and lesser exposed to short-term risk taking behaviour than their private counterparts may be. It is perhaps no coincidence that development banks and other state-owned banks have been spearheading the policy discussion on long-term investment through forums such as the Long-Investment Club[4].

The section on "Investment incentives and special economic zones" (4.2 #74-76) could also reflect on how inward FDI policies should be designed to meet inclusive growth objectives, including using OECD guidance instruments such as the OECD Guidelines for Multinational Enterprises. Regarding export processing zones, their "easy-touch regulation" (#75) most often transform into full exemptions of environmental, tax and labour laws.

2 According to the International Trade Union Confederation, Korean "national law does not meet international core labour standards" and "the authorities have repeatedly interfered with trade union activities and routinely arrest and convict union members who organise or participate in collective action. (…) The rights to bargain collectively and strike are limited by the abusive use of Article 314 of the Korean Criminal Code on "Obstruction of Business" (which) can lead to imprisonment of up to five years and/or exorbitant fines. (…) Emergency arbitration that outlaws collective action in public services and large enterprises remains in place (…) goes beyond the ILO's definition of essential services and applies multiple restrictions on the right to strike and excessively limits workers' rights to collective action. The government has issued a long list of essential services that includes railways, utilities, military industry, public health, the Bank of Korea, and telecommunications for which the right to strike is heavily restricted". Source: Report for the WTO General Council Review of the Trade Policies of Republic of Korea (September, 2012). http://www.ituc-csi.org/report-for-the-wto-general-council,12054
3 Including Eskom (electricity), Telkom, Transnet (transportation), Denel (arms), Acsa (airports), Iscor (steel), SABC (media) among others. SOEs grew rapidly in the 1960-70s and accounted for 25% of the country's market capitalisation in 1990. "State corporations […] represented an accommodation across the economic power of the mining conglomerates and the political power of the Afrikaners" ("Looking Into South Africa's Economic Structure: Weak Growth Drivers and the Need for Re-Industrialisation", Basani Baloyi and Nicolas Pons-Vignon, CSID, SEBS, University of the Witwatersrand, 2009). http://www.wits.ac.za/academic/clm/sebs/sebs/csid/researchandpublications/16131/csid_working_papers.html
4 http://www.ltic.org

Item 8. Joint work with the Corporate Governance Committee on Risk Governance

We welcome the "first stage" draft peer review on risk management (DAF/CA/SOPP/WD(2013)3). In the section on the "general perspective" (#17-20) we would suggest engaging a broader discussion on the models of governance that are conducive of excessive risk taking behaviours. To that end the text could usefully draw on previous OECD work supporting the idea that in the run-up to the crisis a shareholder value-driven "equity culture" in banking came to dominate the stakeholder-friendly "credit culture" in what firms actually do. That in turned fuelled excessive leverage and use of derivatives by "large financial conglomerates without whose involvement this crisis may well have been avoided, at least in terms of the scale and force"[5].

Following section 4 on risk management in SOEs, the text could also elaborate further on state-*supported* banks and the corporate governance and risk management implications of the 'implicit' government guarantees on banks, and particularly those that are officially considered by the G20[6] as "too-big-to-fail" (or at risk of being). Recent OECD work suggests that implicit government guarantees generate an "uplift" of 1 to 4 notches of the credit rating of large banks as well as tens of USDbn in reduction in their funding cost[7]. What are the implications in terms of risk taking behaviour by bankers whose financial institutions have become state-supported assets (or rather state-supported liabilities)?

5 "The Elephant in the Room: The Need to Deal with What Banks Do" Adrian Blundell-Wignall, Gert Wehinger and Patrick Slovik, Financial Affairs Market Trends, OECD 2010 http://www.oecd.org/daf/fin/financial-markets/44357464.pdf

6Update of group of global systemically important banks (G-SIBs), Financial Stability Board, November 2012 http://www.financialstabilityboard.org/publications/r_121031ac.pdf

7 USD30-43bn yearly reduction in funding costs for 17 German banks, USD7-23bn for 7 french banks, USD9-10bn for 14 british banks, etc see "Implicit Guarantees for Bank Debt: Where Do We Stand?", Sebastian Schich and Sofia Lindh, OECD Journal: Financial Market Trends, Volume 2012 Issue 1, OECD 2012 http://www.oecd.org/daf/fin/financial-markets/Implicit-Guarantees-for-bank-debt.pdf