STATE OWNERSHIP AT A TIME OF CRISIS: BEST PRACTICES, CHANGING PRACTICES

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Hans Christiansen, Senior Economist, Corporate Affairs Division, OECD.

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Topics for today

- The changing international SOE landscape in a world of COVID-19.
- OECD recommendations and best practices.
- But what are countries doing in practice?
- Where do we go from here? Challenges for the next decade.

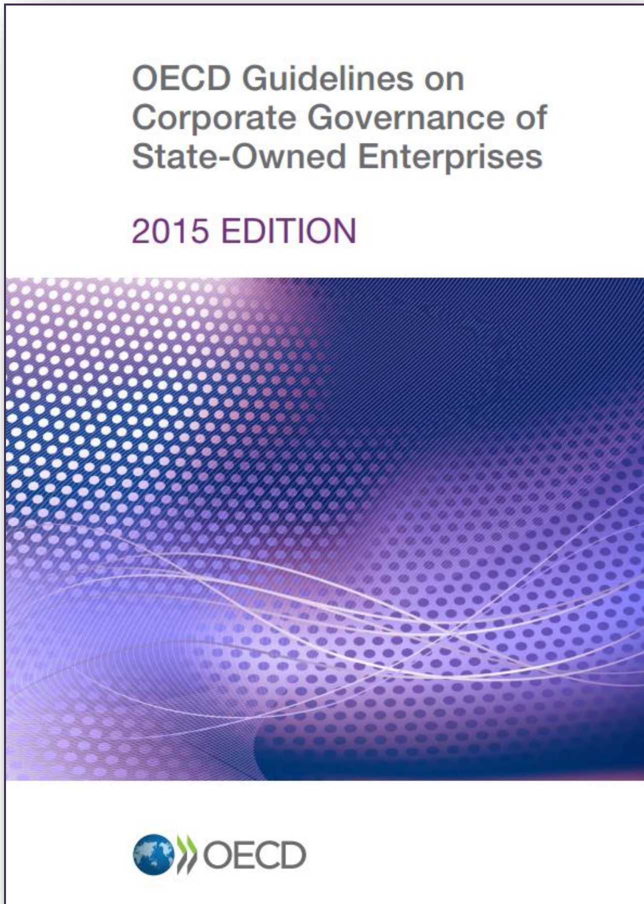
State-owned enterprises among the world's largest 500 companies

	2019	2000
WORLD TOTAL	**132**	**34**
ASIA TOTAL	**100**	**16**
China	90	8
India	4	1
Japan	2	5
Other Asia	4	2
EUROPE TOTAL	**20**	**15**
France	9	6
Russia	3	1
Germany	3	2
Italy	3	2
Other Europe	2	4
REST OF WORLD	12	3
Brazil	4	1
United States	3	1
Mexico	2	0
Middle East	3	1

Government support for the airline industry announced or implemented since 1 March 2020

Country	Target	Measures implemented/announced	Equity investment by state?
Company specific interventions			
Austria	Austrian Airlines	Loan guarantees	No
Belgium	Brussels Airlines	State loan	No
Finland	Finnair	Loan guarantees plus a rights issue to all shareholders underwritten by the state	Potentially
France and the Netherlands	Air France-KLM	Mostly loan guarantees, plus a state loan	No
Germany	Condor	Loans by federal and regional government	No
	Lufthansa	Equity, loans and convertible debt	Yes
Hong Kong, China	Cathay Pacific Airways	A combination of share and warrant purchases and a bridge loan	Yes
Israel	El Al	Loan guarantee and stock issuance.	Yes
Italy	Alitalia	Nationalisation	Yes
Korea	Korean Air	Bond purchases	No
Latvia	Air Baltic	Recapitalisation	Yes
New Zealand	Air New Zealand	State loan convertible to equity	Potentially
Norway	Norwegian Air	Loan guarantees (conditional on a debt equity swap with the private creditors)	No
Portugal	TAP	Loan and capital injection	Yes
Singapore	Singapore Airlines	Equity and convertible debt issuance. The state acts as investor of last instance	Potentially
South Africa	South African Airways	Recapitalisation by the state owner	Yes
Sweden and Denmark	Scandinavian Airlines SAS	Loans, loan guarantees, hybrid notes and stock issuance.	Yes
Switzerland	Swiss	Loan guarantees (sureties)	No
Industry-wide programmes			
United Kingdom	Three airline companies	State loans	No
United States	Airline industry	Mix of grants, redeemable loans and warrants	Potentially

The OECD Guidelines on Corporate Governance of State-Owned Enterprises: An overview of the seven chapters



I. Rationales for state ownership

II. The state's role as owner

III. State-owned enterprises in the marketplace

IV. Equitable treatment of shareholders and other investors

V. Stakeholder relations and responsible business

VI. Disclosure and transparency

VII. The responsibilities of the boards of state-owned enterprises

The OECD Guidelines on Corporate Governance of State-Owned Enterprises

What is the status of the Guidelines?

- **An OECD legal instrument.** All OECD countries must associate themselves with the recommendations laid down in the Guidelines.

- **Addressed to the SOE ownership.** The Guidelines makes recommendations to policy makers and public officials responsible for exercising the ownership of enterprises**.**

- **Non-binding.** No government or SOE is in any given situation legally obliged to follow the Guidelines. But newcomers to the OECD must demonstrate that they can credibly do so.

- **Not limited to OECD members.** Any country can, following a review of its national SOE sector, become an adherent to the Guidelines and participate fully in OECD's work on SOEs.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises

The Guidelines embody a shared vision:

- **The general public is the ultimate owner of SOEs.** The Guidelines are based on, and complementary to, the OECD Principles of Corporate Governance, which apply to exchange-listed companies. The idea is that SOEs should be as accountable to the general public as listed enterprises should be to their shareholders.

- **Setting a high level of aspiration.** The Guidelines establish a high bar for good practices. They are designed to serve as a lodestar for reform – not establish minimum standards. Not many countries have fully implemented the Guidelines, but ongoing SOE reform is almost always consistent with the Guidelines.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises

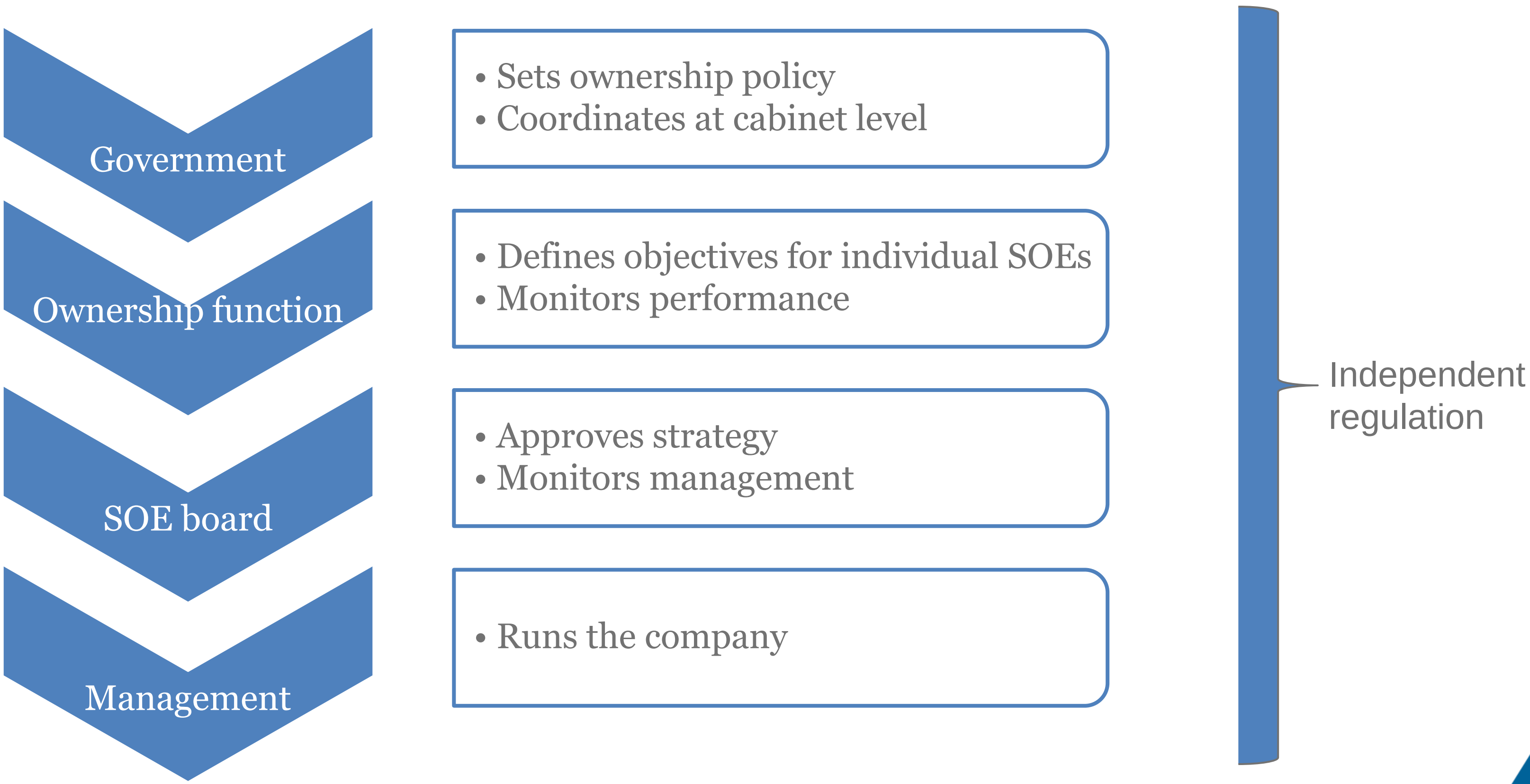
Main priorities in the Guidelines:

- **A rules-based environment**. The rationale for state ownership should be clear, and each SOE should operate subject to transparent financial and non-financial objectives.
- **Reinforcing the ownership function.** The state administration should exercise SOE ownership on a whole-of-government basis. The state ownership function should be separate from the regulatory function to avoid conflicts of interest.
- **Level playing field.** SOEs should be subject to the same rules and regulations as other enterprises. They should compete on a level playing field with private enterprises and not distort competition.
- **Equitable treatment of shareholders**. The state should not have any undue advantages over other investors in SOEs.
- **Transparency and disclosure.** SOEs' objectives and performance should be disclosed and reviewed.
- **Stakeholder relationship.** SOEs and their owners should treat employees, creditors and affected communities fairly and equitably.
- **Boards of directors**. The boards are the SOEs' highest decision-making bodies. They should exercise their powers free of political interference.

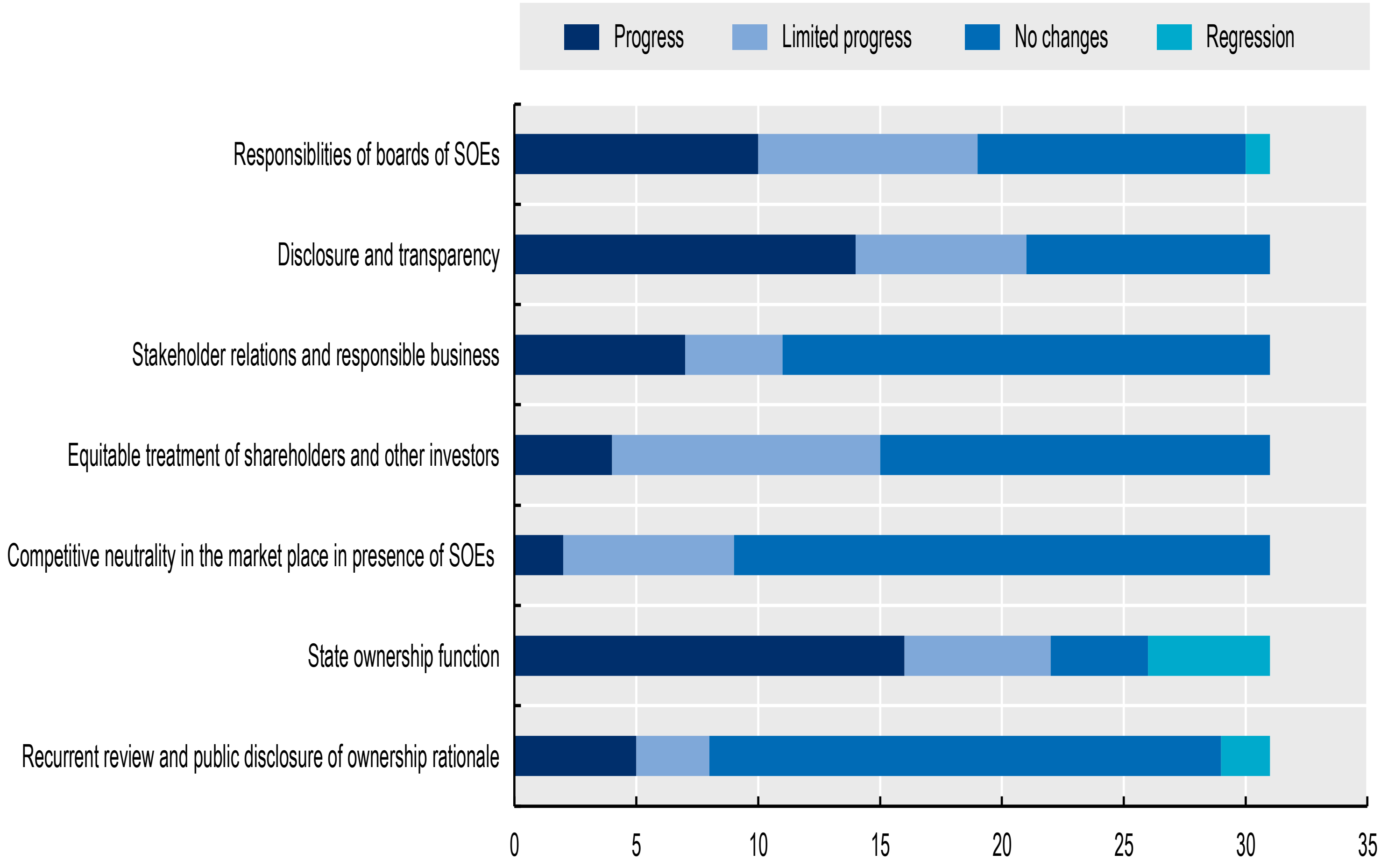
The OECD Guidelines on Corporate Governance of State-Owned Enterprises

The "OECD model" implies:

- The ownership of SOEs is separated from regulation
- Each ownership decision should be taken at the appropriate level



Changes in ownership and governance practices in OECD countries



Example of national practices: Who exercises the state ownership function?

Decentralised

- Argentina
- Colombia
- Mexico

Decentralised with coordinating agency

- India
- Israel
- Kazakhstan
- Latvia
- Lithuania

Dual or twin track model

- Belgium
- Brazil
- Czech Republic
- Estonia
- Germany
- Italy
- Switzerland
- Turkey
- New Zealand

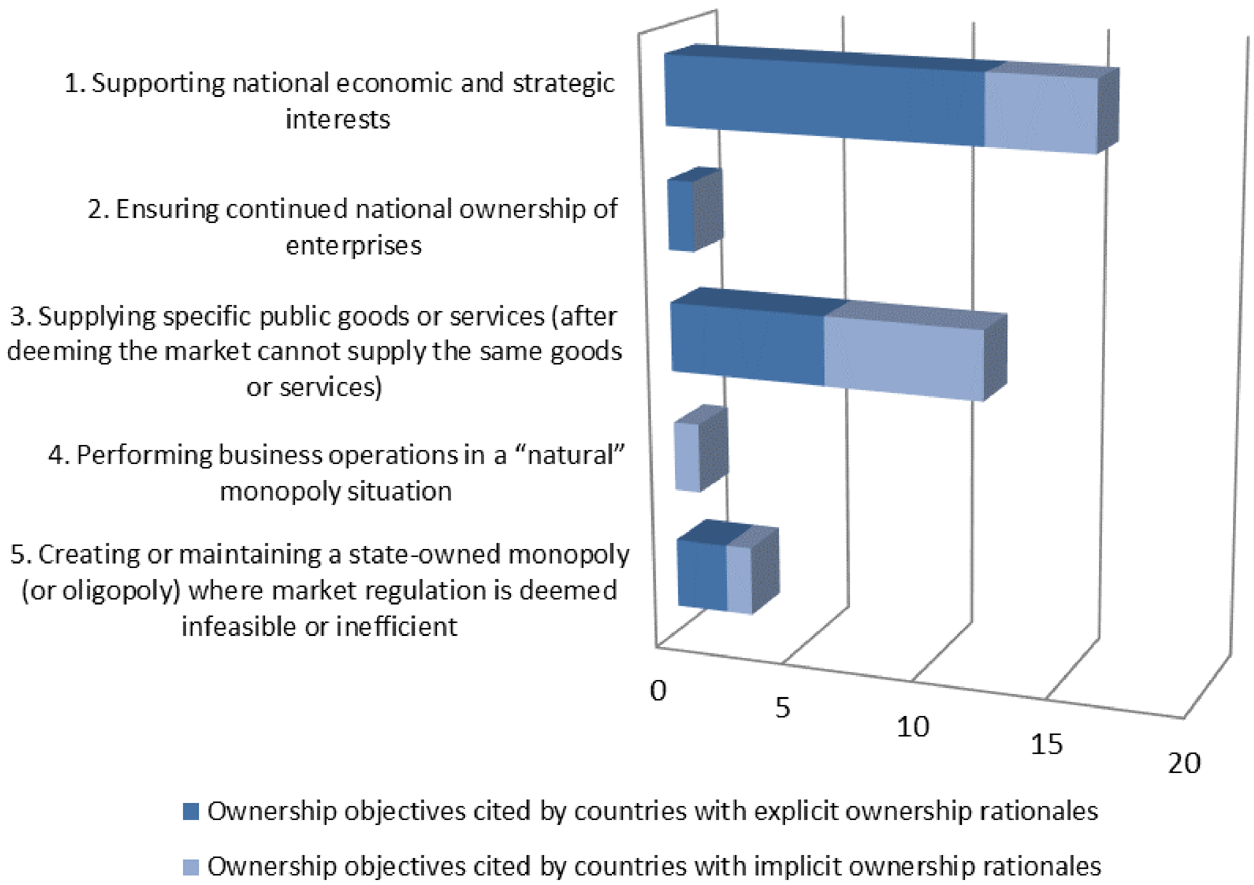
Centralised with exceptions

- Chile
- Netherlands
- Norway
- Poland
- Russia
- South Africa

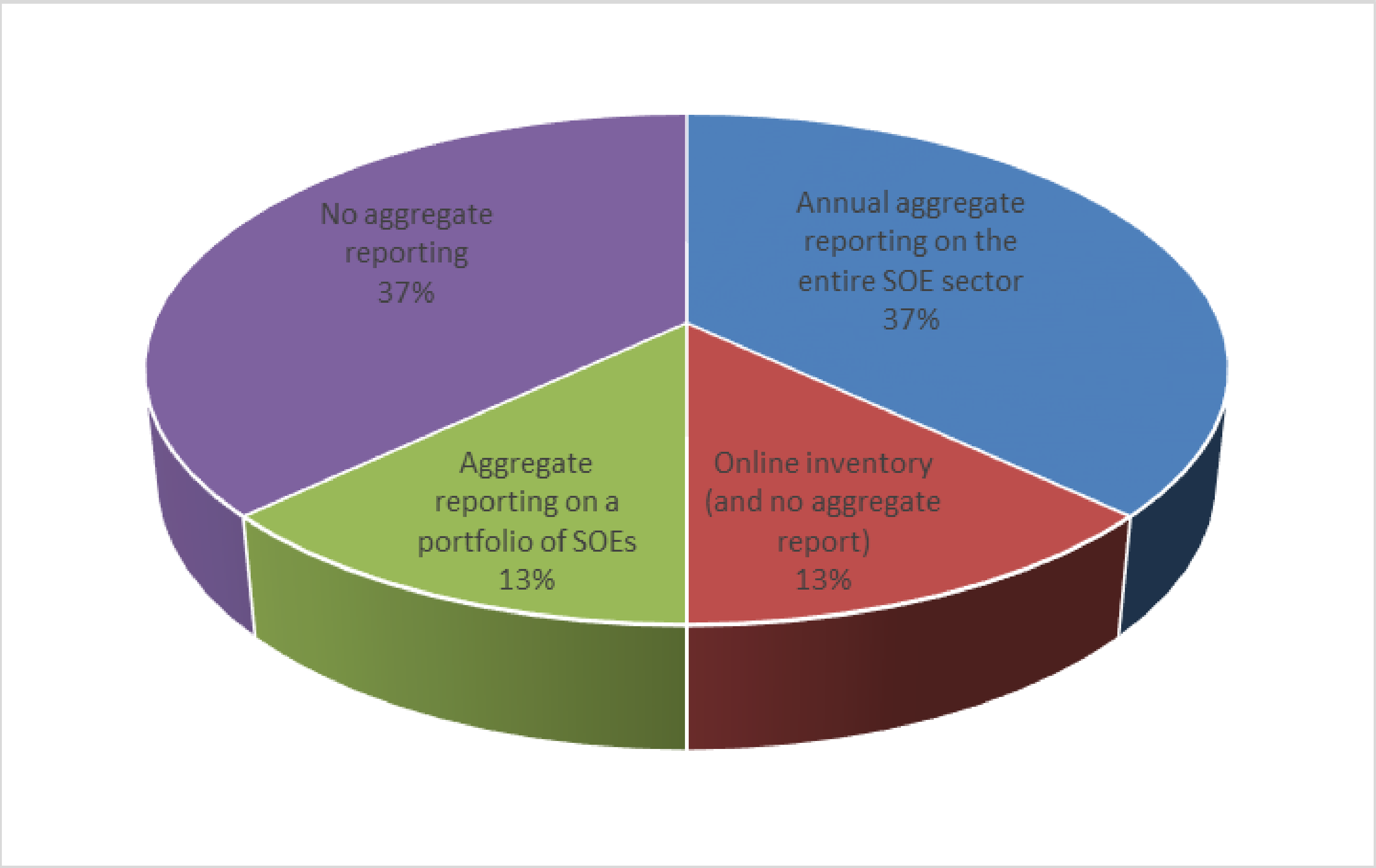
Centralised under one agency, holding company or ministry

- China
- Finland
- France
- Hungary
- Korea
- Slovenia
- Spain
- Sweden

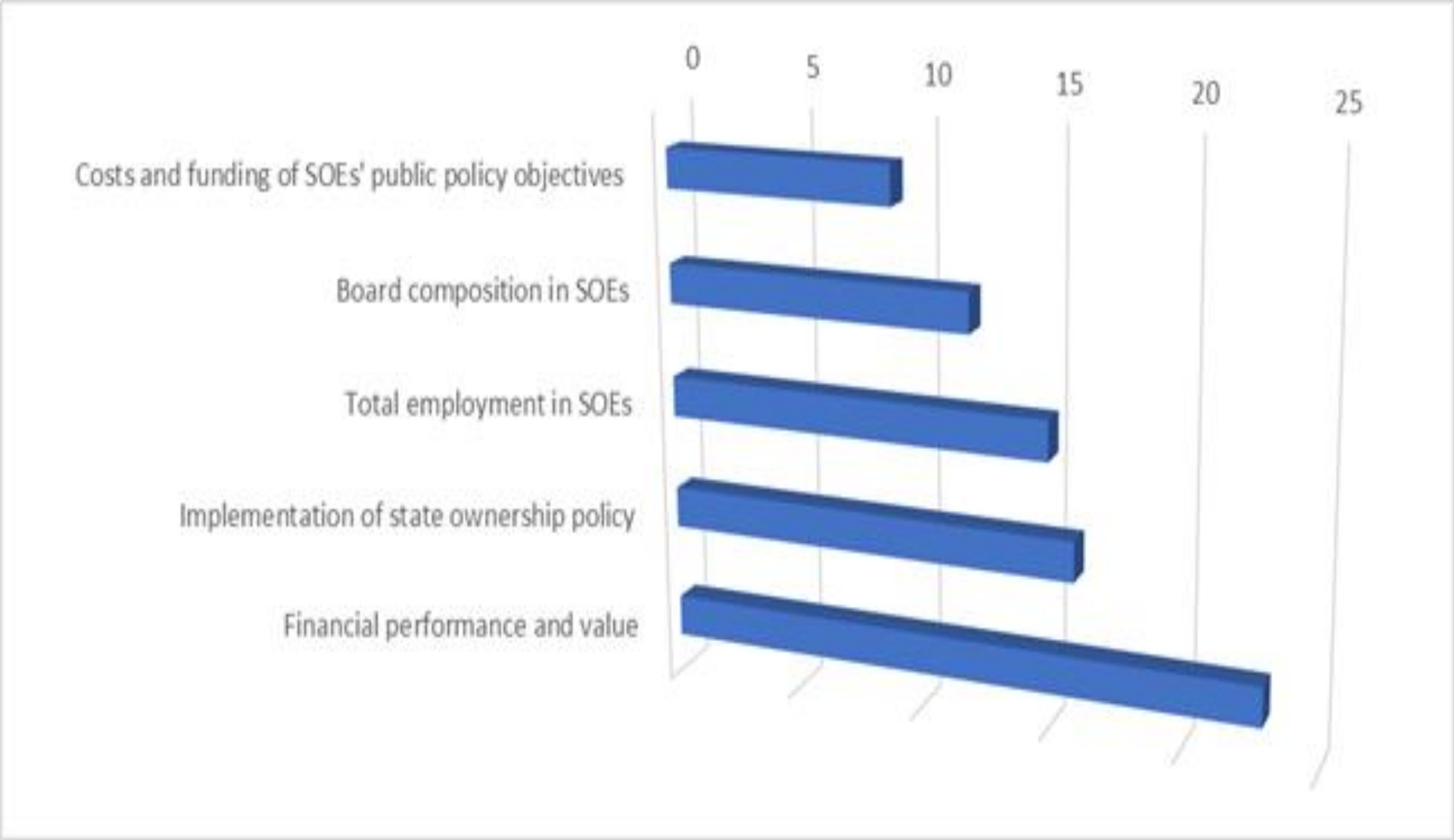
Why does the state own enterprises?



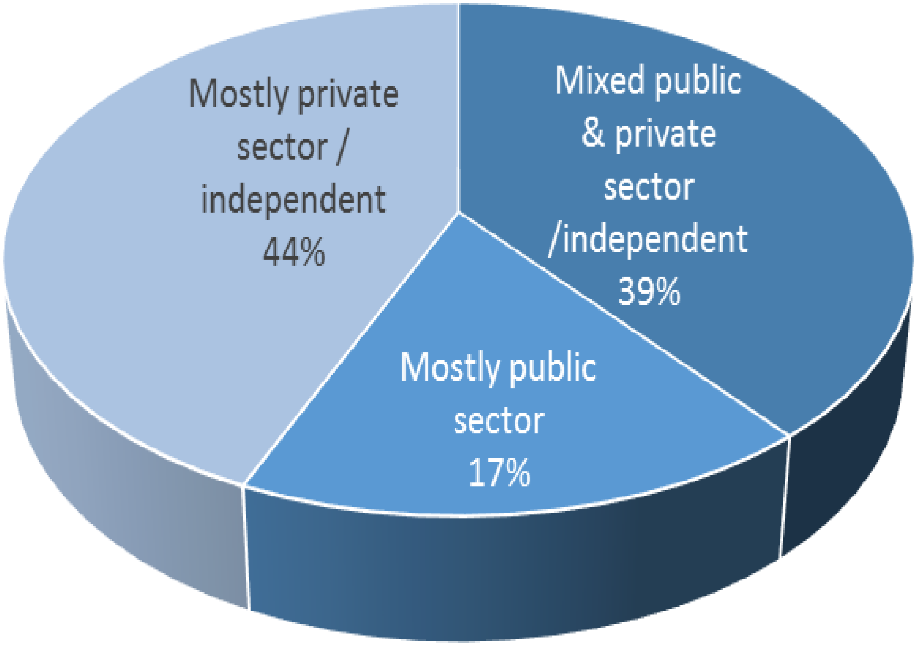
Information sharing: aggregate reporting by the state



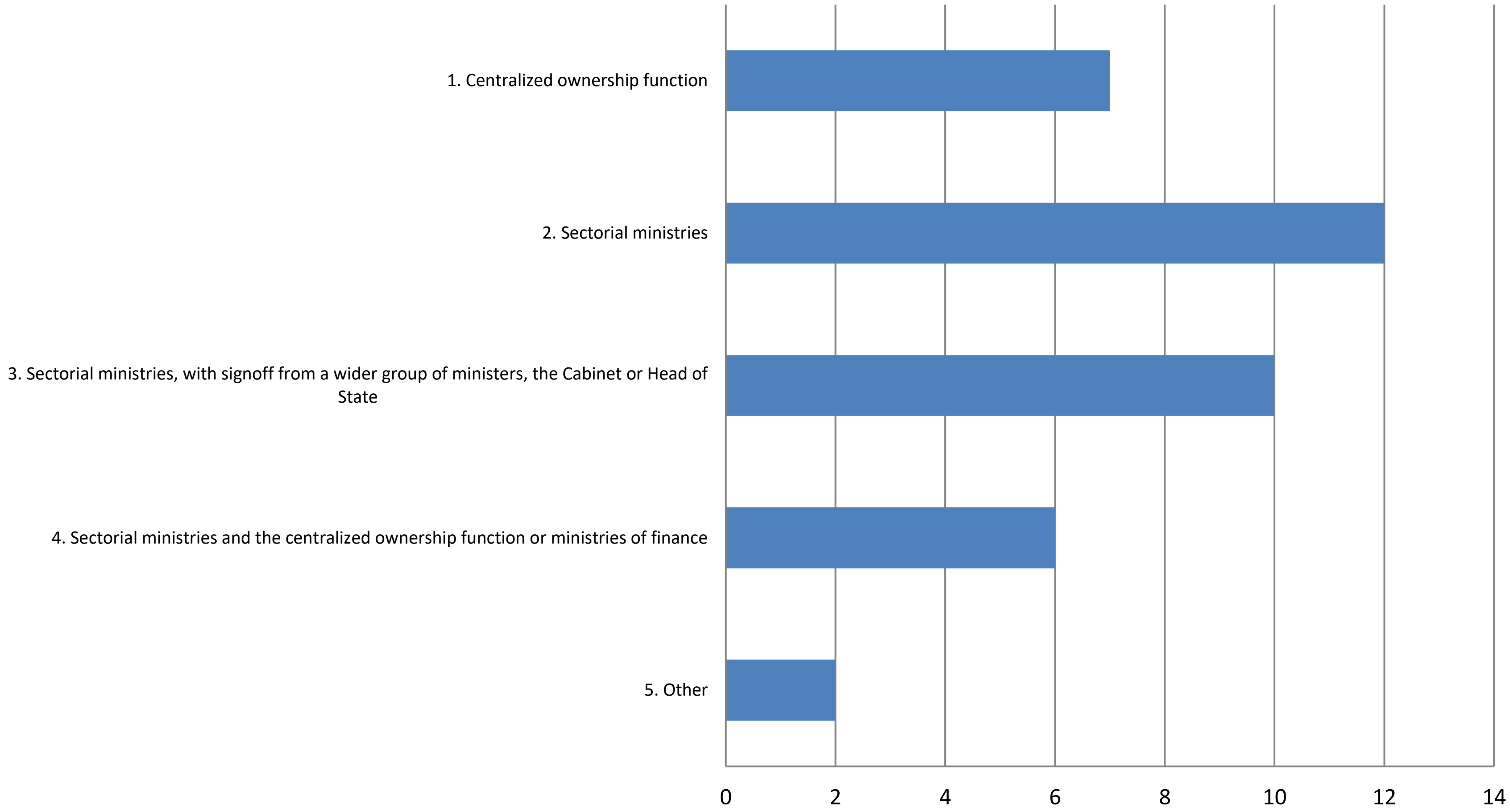
Information sharing: what do the aggregate reports contain?



Who serves on the boards of directors?



And who appoints the directors?



Where do we go from here?

- The number of state-owned and –invested enterprises will grow.
- The internationalisation of SOEs will continue.

- Increased call for good practices of ownership and governance – especially among “accidental” enterprise owners
- A heightened need for a level playing field and reciprocity of approach.

Resources and contacts

For more information on OECD work on state-owned enterprises, please visit:

http://www.oecd.org/daf/ca/soemarket.htm

Questions can be addressed to:

StateOwnedEnterprises@oecd.org