

Competitive Neutrality and State-Owned Enterprises: The Case of the Philippines

**Jeremias N. Paul, Jr.
Undersecretary
Department of Finance
Philippines**



Outline of Presentation

- **Competitive Neutrality Basics**
- **Some Comments
on Competitive Neutrality
and SOEs**
- **The Case of the Philippines**
- **Concluding Remarks**



Competitive Neutrality

- Requires that government business activities should not enjoy net competitive advantages over their private sector competitors simply by virtue of their public sector ownership (*Australian definition*).
- A situation where no commercial entity has a competitive advantage in a mixed market purely as a result of its ownership or control (*OECD Working Party definition*).



Potential Sources of Competitive Non-Neutrality

- Differing taxation treatment
 - Bankruptcy protection
 - Procurement rules
 - Cost recovery pricing
 - Concessional financing/Guarantees
 - Disclosure requirements
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Potential Sources of Competitive Non-Neutrality

- ❑ Rate of return requirements
 - ❑ Regulatory treatment
 - ❑ Monopoly rights
 - ❑ Direct subsidies/Cross subsidies
 - ❑ Other preferential treatment from government
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Comments on Competitive Neutrality and SOEs

- ❑ Agree that Government needs to ensure a level playing field in markets where SOEs and private sector companies compete.
 - ❑ Agree that non-profit activities of SOEs are outside the scope of a competitive neutrality framework.
 - ❑ SOEs need to be subjected to competitive market pressures.
 - ❑ One must be mindful of political economy realities on the ground.
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Comments on Competitive Neutrality and SOEs

- ❑ **Context is important. Need to look closely into the economic ownership structure of a country, e.g., broad-based ownership or controlled by few families?**
 - ❑ **There is also need to ensure that public monopolies are not replaced by private ones. Strong consumer protection is of equal importance.**
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The Case of the Philippines

- ❑ SOEs in the Philippines are known as government-owned or controlled corporations (GOCCs) – at least 51% government ownership.
 - ❑ No formal competitive neutrality framework policy document but key elements of such a framework are in place.
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The Case of the Philippines

- ❑ Policy bias is that the private sector is the primary driving force of the Philippine economy and Government should not compete with them.
 - ❑ Government may participate in areas reserved for the private sector when they are unwilling or unable to provide needed goods/services or when intervention in free market operations is justified by the need to create a bias for the disadvantaged sectors of society.
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The Case of the Philippines

- ❑ GOCCs generally have the same tax and regulatory treatment as their private sector counterparts.
 - ❑ GOCCs enjoy competitive advantages such as:
 - ✓ access to concessional financing/ sovereign guarantees;
 - ✓ not required to achieve full cost recovery;
 - ✓ not required to earn commercial rates of return.
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The Case of the Philippines

- ❑ **GOCCs face competitive disadvantages such as:**
 - ✓ **government procurement laws**
 - ✓ **multiple and conflicting mandates**
 - ✓ **political interference in tariff setting**
 - ✓ **lack of flexibility in capital structuring**
 - ❑ **Passage into law of the GOCC Governance Act of 2011 will further strengthen competitive neutrality.**
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The Case of the Philippines

- ❑ **The GOCC Governance Act of 2011 will subject GOCCs to:**
 - ✓ **Clear ownership policies of the State;**
 - ✓ **Fit and proper rules for GOCC directors;**
 - ✓ **Hard budget constraints and performance commitments/evaluation system;**
 - ✓ **Higher transparency and disclosure standards at standards no less than what is required of the private sector;**
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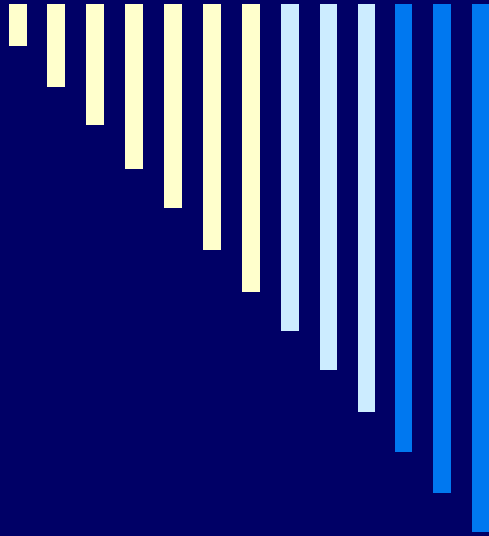
The Case of the Philippines

- ❑ **The GOCC Governance Act of 2011 will subject GOCCs to:**
 - ✓ **Clear separation of regulatory and proprietary functions of GOCCs in order to achieve a level playing field with corporations in the private sector performing similar commercial activities for the public.**
 - ✓ **Rationalization and further reduction in numbers.**
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IN CONCLUSION

- **More analysis needs to be done on competitive neutrality issues as these affect emerging and developing economies.**
 - **The Philippines already has some key elements to establish a competitive neutrality framework.**
 - **The landmark “GOCC Governance Act of 2011” will further deepen competitive neutrality policies and practices in the Philippines.**
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THANK YOU!
