STATE-OWNED ENTERPRISES AND THE LOW-CARBON TRANSITION: POLICY AND GOVERNANCE PERSPECTIVES

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SOEs and the “Carbon Entanglement”

Most governments suffer from “entanglement” in the fossil-fuel industries

Fossil-fuel SOEs add an extra layer to the entanglement:
• Government dividends
• SOE asset value
• Politics of government-controlled jobs, etc, etc

Fossil-fuel influence:
• Tax revenues
• Royalties
• Employment
• Foreign and domestic investment
• Lobbying
On an “effective carbon rate” basis, most non-road GHG emissions are still unpriced.
SOEs and the low-carbon transition (1): SOEs prevalent in fossil-fuel extraction & conversion

Source: Climate Policy Initiative (2014)
SOEs are increasingly investing in overseas markets, including both fossil-fuel and clean energy.

SOEs are also heavily investing in low-carbon technology, especially renewable electricity generation.

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Don’t forget energy demand side (e.g. steel, cement) and manufacturing (solar PV, wind turbines)!

Source: IEA (2016), World Energy Investment
What do guidelines on SOE governance teach us for low-carbon transition?

- **OECD guidelines** since 2005, revised in 2015
- **Recommendations for SOEs** operate to efficiently, transparently and be accountable
- **SOEs can be as efficient as private firms**, but should be as accountable to their public owners as listed firms are to shareholders

- **Seven chapters:**
  I. Rationales for state ownership
  II. The state’s role as an 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
Relevant principles from the OECD guidelines

• “The ultimate purpose of state ownership of enterprises should be to maximise value for society”
• Responsibility to the public shareholder means taking a longer-term view of risk and future financial value
• The State as an informed shareholder, setting mandate and direction of SOE boards
• The ownership function should be separate from the government’s policy-making and regulation function
• Where SOEs compete in the market, governments should ensure a level playing field: only strictly commercial deals with banks; no preferential financing from the state
Applying SOE governance principles to the low-carbon transition

- With long-term responsibility to the public, government shareholder could mandate SOE boards to include **climate factors in their risk evaluation** (and set **long-term remuneration incentives**)
- The State should ensure that **SOE mandates and strategy are consistent with national plans** on climate change, and vice-versa
- Valuing climate risk by **internalising carbon pricing** into operations and investment decisions:
  - In mixed economies, governments need to ensure that SOEs are not the main political blockage to implementing strong carbon pricing
  - SOEs can introduce their own monetary carbon values justified by long-term view on climate risk (e.g. for operations and procurement)
- **Full exposure to the market** can help avoid overcapacity; protection of SOEs through preferential finance or dividend waivers could slow the transition...
- ... and **“green” support schemes** (e.g. renewable electricity tenders) should not specifically favour SOEs
Two final thoughts

• The dilemma of divesting high-carbon assets: immediate relief for SOE but potentially greater GHG emissions overall. How far and at what cost should the SOE’s public responsibility on climate extend?

• Escaping the entanglement requires strategic planning on broader economic impacts: employment transitions and fulfilling public policy objectives
Thank you for your attention

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