Definition of Economically Significant Prices – Summary of responses	
Respondent	Summary of responses
Australia	Indicators of ESPs: - entity participates in economic activity predominantly to maximise its net worth - openly competes with other similar entities - aims to recover a large proportion of its operating costs through sales - 'wins' work through public tenders or similar processes etc
Canada	Canada operates similarly to the US (see below), but with more explicit rules and a clear decision process. The general definition is "entities created to produce goods and services for sale in the market place, at economically significant prices, should be classified as GBEs." Canada has its own 50% criteria among four specific factors which must be satisfied to be a GBE. The third factor is interesting as well as it implies that an entity selling to government alone can never be a GBE: • If revenues are not primarily financed by government (ie not greater than 50%) • If the entity finances its own capital formation • If the entity provides goods and/or services to other than government • If the net operating surplus is not transferred to government
Eurostat	Notes the ESA 95 rule that if more than 50% of production costs are covered by sales, the unit is a market producer. Notes the difficulty of defining the concept of sales and that in many cases payments will not qualify as sales for the 50% rule, when the only customer is government. The deficit and debt manual says that prices paid by government to public producers are economically significant only when similar prices are applied to private producers selling to general government. Prices must be related to the volume of production and not set to cover costs. Thus public "producers" selling all their output to government are very likely to be part of general government unless there is clear evidence of them operating in a wider market environment.
IFAC-PSC	The standard includes this on the definition of GBEs: ***(c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;*** ***(d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length).*** This general definition has this qualification: "GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in

	the community with goods and services at either no charge or a significantly reduced charge.”
United Kingdom	Notes that they have used the ESA 95 50% rule without significant problems, although users sometimes challenge the arbitrary basis of them. In the majority of cases it seems to give sensible answers by correctly identifying bodies which are acting in a market way. It is necessary to distinguish between sales and subsidies when government purchases from a potential public corporation. In general the rule applied means that payments would be classified as sales if they are related to specific volumes or values of output under arms-length contracts and are not paid if that output is not delivered. The equivalent guidance in the deficit and debt manual is now used. The “50%” in the rule has sometimes been challenged but in the majority of cases it seems to give sensible answers by correctly identifying bodies which are acting in a market way. It should perhaps be higher, say 70% or 80%, but any chosen figure will be arbitrary. Rule doesn’t easily apply to businesses which engage in renting, rental or financial intermediation, as these activities do not count as production in ESA.
USA	The USA has a general definition supported by a list of cases where treatment is stated explicitly. The general definition: “The Federal Budget defines public enterprise funds as revolving funds that are authorized by law to conduct business-type activity, primarily with the public, in which the enterprises sell products or services and use the proceeds to finance operating expenses. Public enterprise funds are in the budget, and are included in the public sector. However, the budget does not define “business-type activity” explicitly; the implication is that enterprises cover a substantial portion of their operating costs with sales revenue.” The Census Bureau classification manual says: • Included are the utilities plus the following types of institutional units as state and local government enterprises: Liquor stores, air and water terminals, toll facilities, housing and urban renewal, sewerage, and miscellaneous commercial activities (parking facilities, lotteries, off-track betting, and miscellaneous insurance trusts). BEA classifies these institutional units as government enterprises because they produce goods or services for sale to the public, their sales cover a substantial portion of their operating costs, and because they maintain separate accounts. • Excluded (but under review) are health, hospitals, and

	higher education institutions, even though in some cases their sales of services may cover a substantial portion of their operating costs.
AEG	In making the distinction between market and non-market production, distinguishing payments which represent sales of services from transfers is often more important than a threshold for “economically significant prices”.

Assessment

A key issue to consider first is **scope**. That is when the prices for goods and services sold to government by government business enterprises (GBEs) can be considered economically significant. There is a variety of practice.

At one extreme is the US and Canada which make it clear that GBEs must always provide goods and services to other than government (Canada) or the public (US). By implication therefore entities selling all their production to government cannot be GBEs and would be part of government and it is irrelevant to consider whether the transfer prices are economically significant.

Then there is a middle group reflecting European practice. These say that GBEs can sell all their output to government but only if there are other private sector entities also supplying government at equivalent prices.

Finally Australia is in a third category which allows monopoly GBEs provided that there are other entities which **could** have provided the supplies even though they don’t actually do so. Public tenders are used to identify the existence of these other entities.

These different practices may reflect different cultures and organisations of public business, but TFHPSA needs to consider whether there is one approach which can be recommended for the revised SNA.

A second key issue is to specify the party for which a price has to be economically significant. That is whether the price has to be economically significant for the seller; or for the buyer; or for both. The second of these cases is perhaps the most critical. An easy example for illustration is transport services. Many countries – and certainly many large cities – operate publicly owned subsidised transport services. The price charged can still be economically significant in the eyes of the traveller, influencing their choice of mode of travel. This is easily seen when visiting different cities and observing the proportion of people using public transport, cars, bicycles etc.

If the price is economically significant for the user does this automatically make it economically significant for the purposes of the accounting system even if the proportion of the suppliers costs covered by the charges is relatively small. Currently ESA (but not SNA) says that more than 50% of costs should be covered. Previously

TFHPSA has said that it does not want to adopt the 50% as a criteria for SNA. Should we press them on this. Alternatively we should press that ESA drops the criteria to produce more consistency.

There is also an issue at the other end of the spectrum when income covers more than 100% of the costs. This would be most likely to occur when the public sector is a monopoly supplier exercising an ability to earn excess profit. The issue then becomes one of whether the customer is paying for a service or being taxed. If they are being taxed then the entity cannot be a corporation because only government can exercise the right to tax.

There is the possibility of a split treatment although this is not allowed under SNA. The amount of the charge which covers the cost of providing the service could be treated as payment for a service and the extra amount charged could be treated as a tax. But then what would the entity be – government or corporation – or should the entity be split as well. The current ruling against split treatment probably needs to be maintained. This carries with it the implication that prices charged stop being economically significant when they lead to excess operating surplus.

Provisional proposals for discussion

1. the concept of economically significant price applies to all sales by potential government business enterprises. This includes sales to government (or other GBEs) but only if these sales are at prices set in a market. This would be evidenced by the existence of other private sector entities also supplying government at equivalent prices
2. economically significant prices should be tested as a criteria of relevance to the purchaser. A price is economically significant if its level has a potential impact on consumer behaviour.
3. where the GBE (or a group of GBEs) is in a monopoly position and earns excessive profits then the amounts charged should be treated as taxes and not as purchases