

“Competition in the European Energy Markets”

GME Conference

Rome, November 13, 2007

a comment on public policies

by Pippo Ranci

director, Florence School of Regulation

- **Starting from market dominance by one company**
- **Competition can be introduced in one of two ways**
- *Either* **by forcing the dominant company to reduce its market share (imposing break-up or divestiture, imposing a cap to production or to market share)**
- *Or* **by enlarging the market**
- **The latter has been generally preferred in Europe**
- **Being the most pacific and market-friendly solution**
- **It was expected that competition would develop**

THE RECIPE HAS WORKED ONLY PARTIALLY

- **The task was:**
- **To create a European Internal Energy Market (IEM)**
- **Characterised by competition**
- **After the 1996-98 directives**
- **After the 2003 directives and regulations**
- **Following the sector inquiry of 2005**
- **We know that**

**THE IEM IS NOT WORKING PROPERLY
COMPETITION IS STILL INSUFFICIENT**

- **Why** is the advance of competition so slow?
- **Because:**
 - National markets have not yet been sufficiently unified (due to insufficient interconnections, contractual and normative barriers)
 - The wave of mergers and acquisitions has made

COMPANIES GROW FASTER THAN MARKETS

- If companies grow, they have a good reason,
- Indeed, they have many good reasons
- **Some** are good for the company and good for the system (“**socially good**” reasons)
 - ✓ *Scale economies in production*
 - ✓ *Ability to serve multinational customers*
 - ✓ *Capacity to take risks in construction (nuclear) or in fuel procurement (world oil and gas markets)*
- **Some** are only good for the company (“**company-good**” reasons)
 - ✓ *Conquer a dominant position in a regional market*
 - ✓ *Maintain a degree of control over margins*

**THE PROBLEM FOR THE POLICY MAKERS: TO
DISTINGUISH THE TWO TYPES OF REASONS**

The point of view of the Commission :

- **the main problem is not concentration (which is subject to the EU competition policy anyway)**
- **The main problem lies with the obstacles to the Internal Market (insufficient interconnections, barriers to access)**
- **If these can be overcome, the concentration process (as long as compatible with articles 81 & 82 of the Treaty) is not harmful**

Which are the stumbling blocks with respect to interconnections, access?

- Insufficient interest and activism of the network operators
 - REMEDY: **ownership unbundling (or ISO)**
- Insufficient incentives
 - REMEDY: **stronger regulation, new agency**
 - REMEDY: **EU finance for network construction**
- Environmental and local opposition
 - REMEDY: **new coordinators, obligations on MS governments**

Will the EC strategy work?

- I see no alternative
- The present formulation is minimal
- Yet it risks being further weakened in the negotiation under way