

MARKET OPENING IN NETWORK INDUSTRIES SUPPLYING SGEI – STAGE 2
ETD/2004/IM/B3/83

Explanatory Note to Part II of the Final Report

The final report of stage 2 on the analysis of Economic Effects of Market Opening in Network Industries supplying Services of General Economic Interest (SGEI) is the result of two separate contracts. The report presents in fact a consolidated version of stage 1 and stage 2 of the project and is organised in a modular way. This allows the reader to easily concentrate on the area of his interest without missing details addressed in other chapters.

It is important to bear in mind that the two parts of the report are based on different methodology to achieve different objectives. Therefore, different econometric models have been specified and estimated. While throughout the project the objective was to analyse the economic effect of market opening, different specific tasks require the application of distinct econometric approaches in each part of the report to study the problem adequately.

Thus, it is important to remind that each model should be used for the specific purpose for which it was designed for. The sectoral analysis presented in part II of the final report aims at identifying the key drivers behind changes in economic indicators like the price for the service of the network industry, or various measures of productivity. The main result of this part is the *identification of those market opening milestones* to which changes in prices or productivity can be attributed.¹

The analysis set forth in part I aims at *quantifying* the short-run and long-run economy-wide *effect of market opening* in the different network industries as well as *forecasting the impact* of market opening. These tasks ultimately require the application of a different econometric technique.²

The switch in econometric methodology may seem confusing at first sight, but is justified by the different tasks to be analysed. For the reader, it is important to note that the result of interest of part II is the *identification of those regulatory changes* that had an impact on price and productivity in network industries. Complementing this analysis, the proper *quantification of price and productivity changes* is presented in part I of the report.

¹ In principle, this part of the analysis focuses on the significance of the right hand side variables, the explanatory variables.

² In this task, the focus is on the quantification of the overall change in the left hand side variable.