The economic impact of enforcement of competition policies on the functioning of EU energy markets

This study was prepared by ICF Consulting Services in association with DIW Berlin at the request of DG COMP. The objective was to examine whether EU competition policy enforcement has led to stronger competition in European gas and electricity markets and hence to better market outcomes at both the wholesale and retail level. The study includes a descriptive analysis of energy market functioning, an econometric analysis of the impact of competition policy enforcement at the sector level and two case studies using quantitative ex-post evaluation methods.

The study provides several pieces of evidence which together make a convincing argument that EU competition policy contributes to the good functioning of energy markets in the EU. Its main conclusions are:

- EU merger policy enforcement is consistently and significantly related to better market outcomes, especially in energy markets with lower levels of regulation. A more active EU merger control is associated with stronger competition, increased investment and higher total factor productivity. For antitrust and State aid policies, the relatively low frequency of occurrence makes it more difficult to identify consistent relationships.

- The first case study concerns the Commission Decision in the E.ON antitrust case. It investigates the impact of the Decision on wholesale electricity prices in Germany, using daily data on peak and off-peak prices from the European Energy Exchange (EEX). The study shows that the commitments accepted in this case led to a reduction of E.ON’s market power, which was reflected in a reduction of wholesale electricity prices in Germany. This reduction in wholesale prices may in turn have contributed to price reductions in the downstream, retail market for electricity.

- A second case study dealt with the GDF-Suez merger. It provides evidence that the merger and the associated remedies had a downward impact on wholesale gas prices at the Zeebrugge Hub. This would suggest that the remedies imposed by the merger decision were effective in limiting the potential anti-competitive effects of the merger.

This study also aims at supporting future ex-post evaluations of Commission decisions by improving our knowledge of methodologies to be used to get robust results. It illustrates the importance of good quality data for sound ex-post evaluations.