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# **“Evaluation of network industries providing services of general economic interest”**

## **2006 Report**

### **Industry performance and market integration**

Christian Buelens

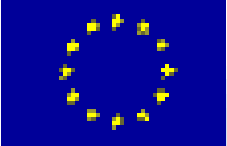
European Commission

DG Economic and Financial Affairs



# Structure of the presentation

- **Market/Industry Performance**  
*(chapter 3)*
- **Market integration in network industries**  
*(chapter 4)*



# Rationale behind market opening

Market opening (“liberalisation”) → free entry of firms



Δ Industry/Market structure → more ‘players’



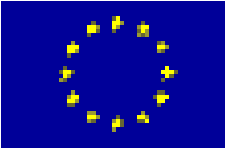
Δ Conduct → effective competition



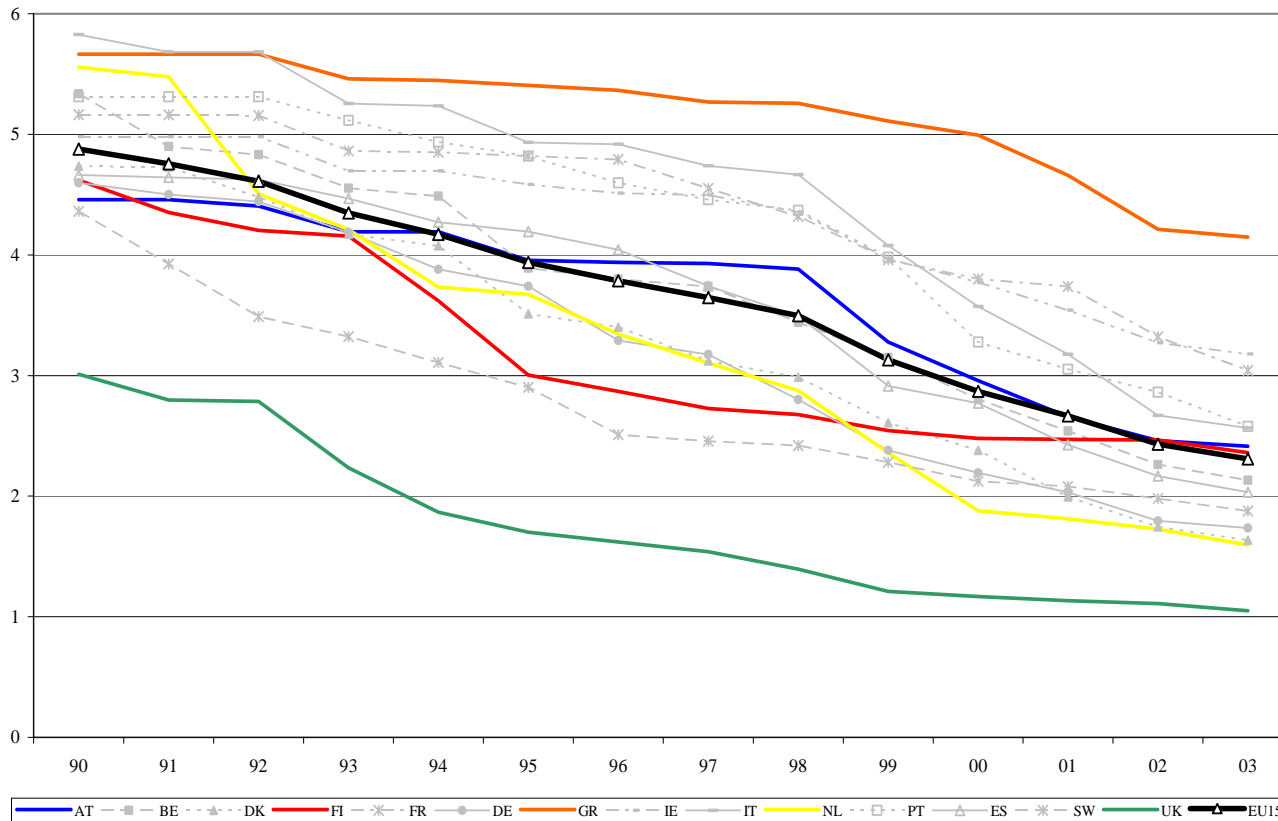
Δ Industry/Market performance → lower prices



Δ Macroeconomic performance (spillovers)



# Market opening 1990-2003



Source: OECD

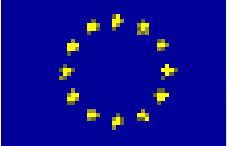
- Reform → impact: lag
- OECD Regulatory Reform Index (REGREF)
- EU15 only
- Market opening
  - Steady & substantial
  - In all Member States
- Heterogeneity across MS
  - Level
  - Timing
  - Speed
  - Depth

⇒ Differential impact  
 ⇒ Structure  
 ⇒ Performance



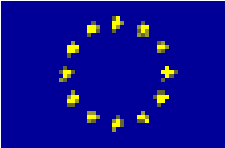
# Market structure: evolution

- Highly concentrated
- Delimited by national borders
- Market structure only changes slowly over time
- Competition develops at different paces
  - Rail transport: concentrated
  - Postal services: concentrated, but 'perceived competition' ↑
  - Energy: dominated by domestic incumbents; lack of real competitive behaviour (cf. sector inquiry)
  - Telecoms: 'major' players ↑ at expense of incumbents
  - Air transport: animated by new carriers ('low-cost') – and airports

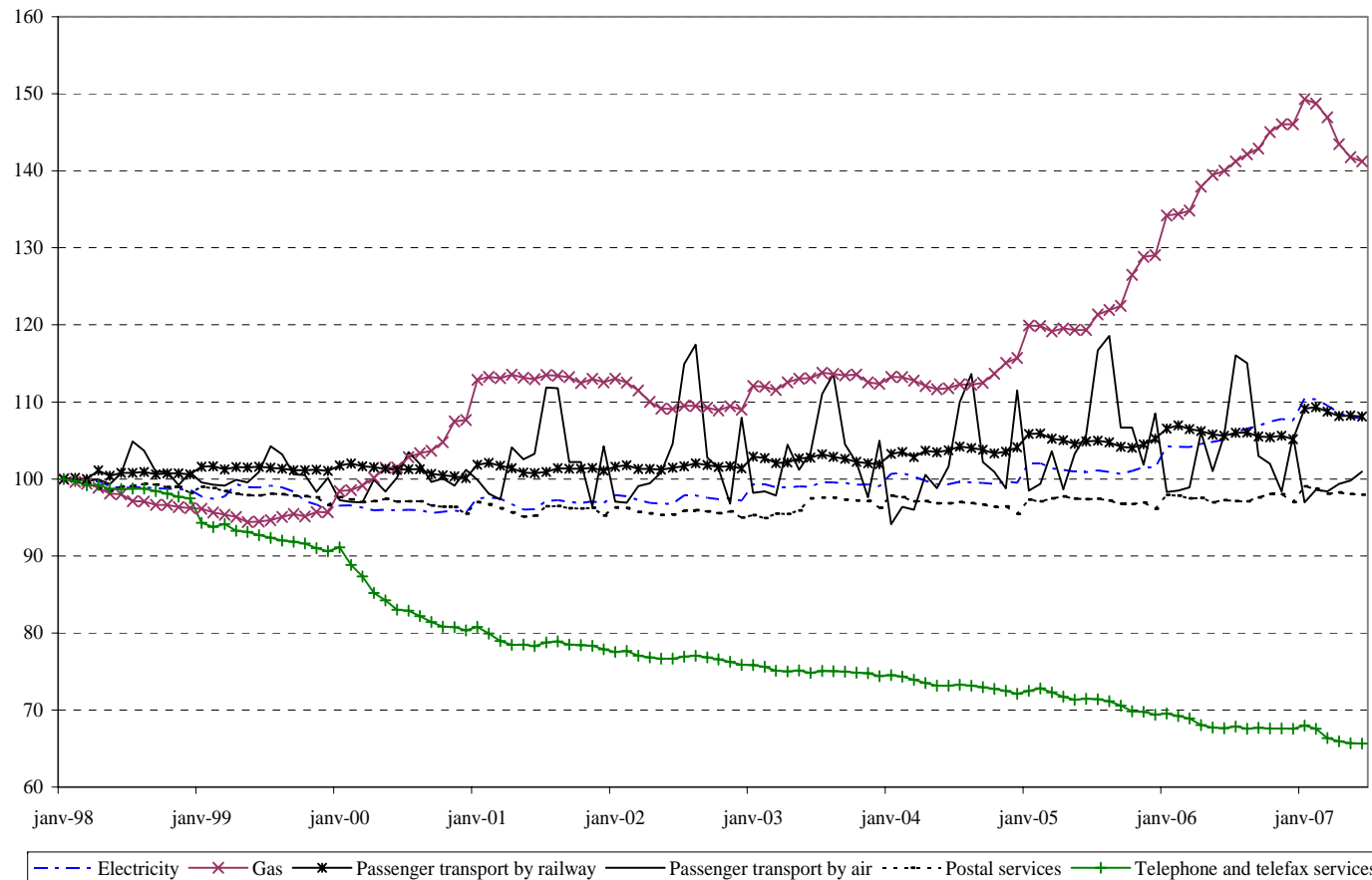


# Market structure

- *Rapid* development of competition in network industries unlikely  
⇒ High entry barriers
- Presence of essential facilities  
⇒ *Simultaneous use and ownership = Incentive and ability to foreclose (E.g. ineffective unbundling)*



# Performance: Prices



Prices determined by a multitude of factors:

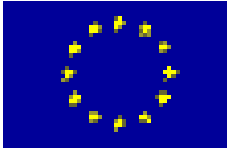
- *Input prices (Oil)*
- *Technology*
- *Competition*
- *Etc.*

Evolution of real price index by sector (EU25)

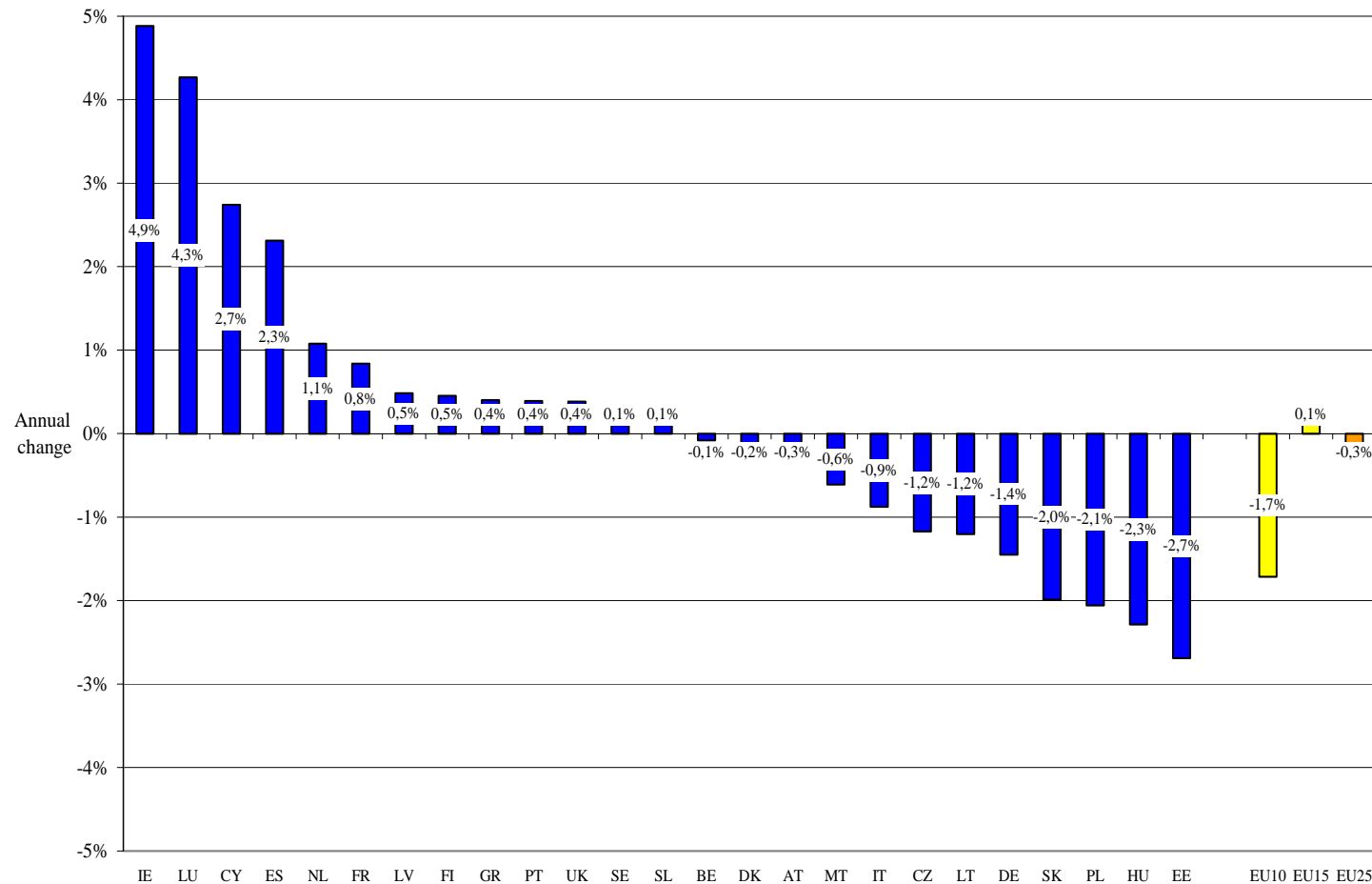
Inflation=100

Strong disparities (magnitude, sign, volatility)

Source: Eurostat



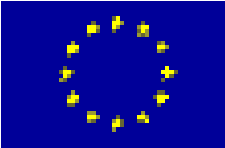
# Performance: Employment



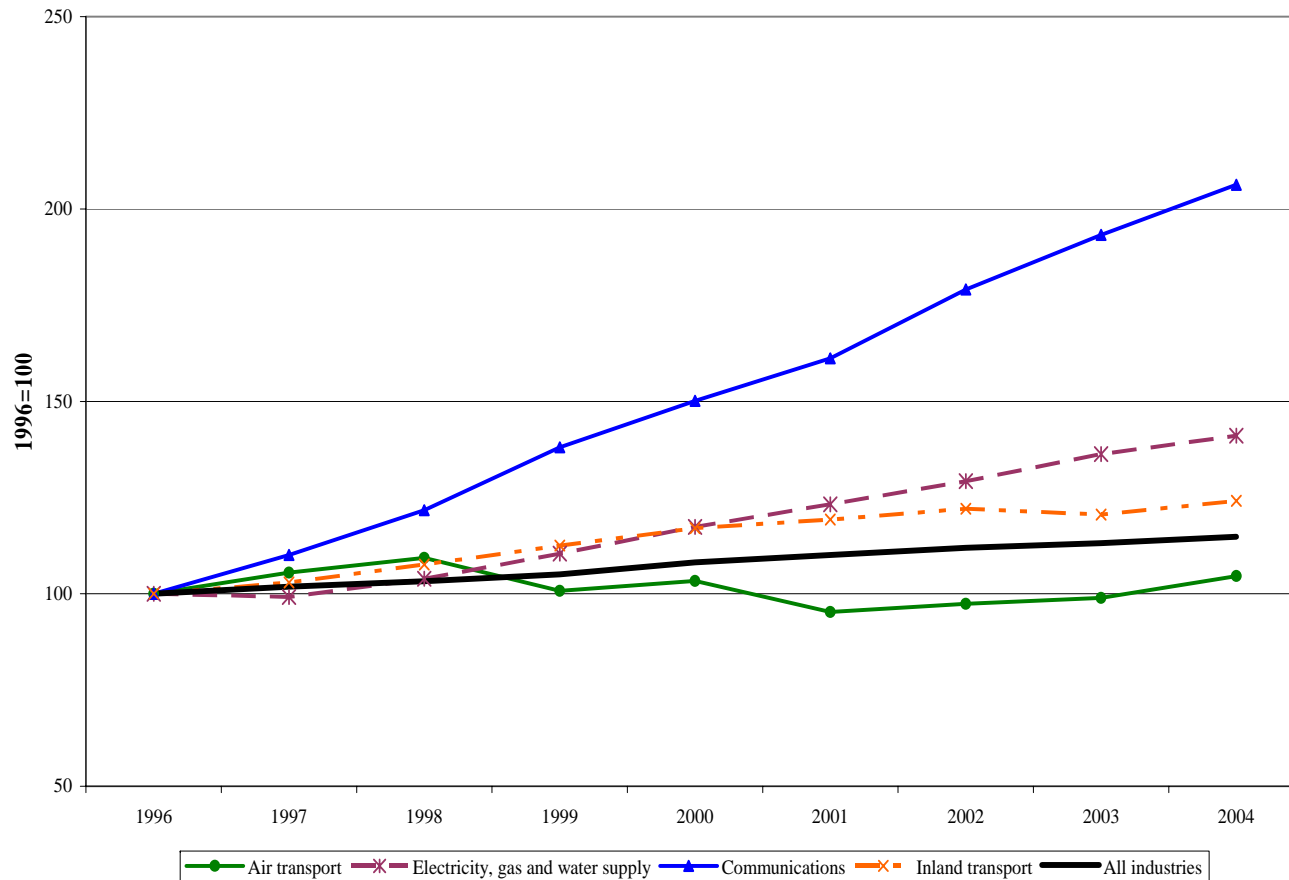
- Employment effects ambiguous
- Change in network industry employment
- 1996-2004
- Employment levels:
  - 1996: 10.7m
  - 2004: 10.5m
- Sectoral disparities:
  - Telecoms, Transport: ↑
  - Electricity, gas&water: ↓

Source: EU KLEMS





# Performance: Productivity



- Hourly labour productivity
- 1996-2004
- Average annual growth rates:
  - All industries: 1.75%
  - Electricity, gas and water: 4.40%
  - Communications (Telecoms&Post): 9.5%
  - Air transport: 0.6%
  - Inland transport: 2.7%
- Not necessarily an employment ↔ productivity trade-off

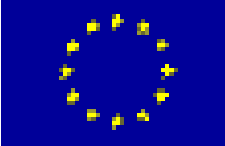
Source: EU KLEMS

Workshop on evaluating performance of network industries – Brussels, 10 September 2007



# Market integration

- Market integration: potential catalyst for the development of effective competition, but...
- ...slowed down by a set of barriers to integration
  - Physical (e.g. interconnection, interoperability)
  - Legal (e.g. inconsistencies in sector-specific regulation, suspensory effects, mutual recognition)
  - Inherited advantages of incumbents
    - “grandfather rights” (e.g. take-off & landing slots)
    - long-term contracts (capacity reserved but unused)
  - Consumer inertia
  - Protectionism and government interference



## To sum up...

- Many gains from market opening still in store
- But: scope for anticompetitive conduct is high
- ⇒ Need for strong sector-regulators and competition authorities
- ⇒ Structural measures if insufficient
- ⇒ Improve incentives to invest (cross-border infrastructure)
- ⇒ Ensure efficient use and non-discriminatory access