

## Market Functioning in Network industries - Electronic Communications, Energy and Transport

The objective of this report is to assess the state of play of market opening in electronic communications, energy, and transport. One of the main objectives of the liberalisation efforts in network industries has been to bring prices for consumers as close as possible to market prices. This should provide an efficient allocation of resources in the economy, avoid rent-seeking positions, and contribute to delivering diversified choices and an increased quality of services to consumers. In addition, market integration should bring about more homogenous price levels for the same kind of services, creating a level playing field for businesses and citizens across the EU. In 2010, the report on the Internal Market prepared by Mario Monti stated that network industries are among the least integrated segments of the Single Market<sup>1</sup>, mainly due to belated regulations, delayed implementation, and weak enforcement. This is also due to the fact that changes in network industries require long adaptation time and are often dependent on the availability of expensive technologies and infrastructures.

Network industries are generally characterised by high fixed and sunk costs, justifying that some segments, exhibiting features of natural monopolies, are regulated by a sectoral authority. This poses a challenge to regulatory authorities, as the regulatory framework has to ensure competition and non-discriminatory access to the regulatory parts while providing enough incentives for companies to invest in the network. The effective functioning of the market in network industries is even more important because preliminary estimates point to investment needs in broadband, electricity, gas, and transport of between €1.5 trillion and €2 trillion in the EU<sup>2</sup>.

Beyond their economic importance, these industries interact with the rest of the economy, including in terms of policies, which makes their market functioning a key issue. Improving the efficiency of these sectors will translate into greater energy security, smaller trade imbalances, climate change mitigation and higher market integration. Despite the development of a strong EU legislation body over the past decades, a single market has not yet been achieved in these network industries and some sectors are still sheltered from competition. Moreover, energy and transport are still characterised by strong State intervention, which can sometimes lead to distortions.

The assessment of sector-specific market functioning is provided in three annexes. In conclusion, all the network sectors have been reshaped by regulatory reforms over the past two decades, but, despite the presence of a strong EU legislative body, the degree of competition and market conditions vary significantly across countries and across network industries. This is reflected in the still high dispersion in prices and concentration in these markets.

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<sup>1</sup> Monti (2010).

<sup>2</sup> COM(2011)276 final.