

## **Liberalisation of energy markets and increasing competition:**

### **Technological, social and political consequences**

FECER (the European federation of executives in the sectors of energy and related research) supports the intentions of the European Commission to liberalise the European electricity and gas markets. It asks for continuous efforts to harmonise the pace of that liberalisation between the various countries and even between different areas of activity, in order to create a level playing field. Different levels of liberalisation can lead to serious distortions of competition. The experiences from the ongoing liberalisation of energy markets in the field of electricity in countries such as Germany, Norway, Sweden, Finland, England and the USA should be analysed – and the future development should be evaluated in the light of the experiences already made. Reciprocity clauses have to avoid that companies in countries with a low level of liberalisation take advantage of contrary conditions – namely a high level of liberalisation – in other countries. The FECER welcomes competition, as a means to stimulate European companies, but only if it is fair. The European Commission has to provide the framework for fair competition across borders.

Liberalisation and increasing competition should not lead to an overemphasis on competitiveness as one of the objectives of energy policy, while other objectives such as security of supply and environmental acceptability might suffer. The FECER wishes to stress the need for a balanced energy supply, which has to take all objectives of energy policy into account, without giving priority to one of these objectives.

The process of companies merging and cooperation should lead to increased profit that should allow to take into account the social conditions and salaries in order to maintain them as a whole.

Political decision makers need to be aware that growing competition leads to increasing pressure for companies to cut costs. This can have negative effects on maintenance expenditures and sub-contracting, and consequently on the reliability of energy supply, on safety and environmental standards, and on working standards. Besides that they have to consider the negative effects on research and innovation of new technological solutions in the fields of maintenance and dependability operational reliability.

These effects cannot be in the interest of the European Union and therefore have to be minimised. The European Commission should support energy research, because the increasing pressure on energy companies to cut costs implies the risk that long-term investments – such as research – are neglected.

While the FECER acknowledges the fact that the customers can benefit from reduced costs of production, transport and utilisation of energy, external costs such as environmental and social costs should also be taken into consideration and may well rise with growing competition. These costs often occur at a later time, but political decision makers should be aware of their existence and their scale. Decreasing energy prices might lead to increased energy consumption, but if the involved actors focus on managing decreasing energy prices in a way that doesn't lead to increased consumption, it might be possible to utilize an efficiency gain in the field of energy to increase energy charges.

Energy policy has to be long-term orientated. It would be wrong if growing competition would lead to rapid changes in energy policy. Any changes in that policy need to take into consideration the supply situation, the high level of long-term investment and the possible social implications, which can reach huge dimensions due to the large number of people working, directly and indirectly, in the energy sector.

The European Commission and the Member States should favour the harmonisation of standards across borders – e.g. regarding safety and security of the production, transport and utilisation of energy, regarding the protection of the environment or regarding working conditions.

As regards promoting environmentally desirable production, it is important to consider which tools the individual governments are using to manage this, and in which way. It is also important that the European Union considers the question which tools are to be used in promoting environmentally desirable production, and in which way. Some governments are already using the so-called Public-Service-Obligations Model (the PSO Model). This model imposes on the actors in the field of energy to buy or produce certain parts of the energy needs from particular energy sources. Other models are based on systems of subsidies or taxes, rates and dues. Finally there are models based on a separation of markets for traditional energy and markets for environmentally desirable energy.

From a competitive point of view, the consequences might be lack of incentives to efficiency and development in the field of energy – also in relation to environmentally desirable production. It is important to consider how to manage these and related challenges.

The creation of shareholder value is a major objective of energy companies, and growing competition has increased the pressure for costs cutting as a means to achieve this objective. Companies should always be aware, however, that they have an obligation – at least a moral obligation – to take the interests of others stakeholders – namely those of their customers and employees – into consideration. It is also very important that the European Union considers the occupational and employment related consequences of increased competition and efficiency in the energy sector.

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