

Note on the Milan results on the impact of liberalisation
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The IA rightly warns that “If one intends to quantify the effects of a further liberalisation of the energy (electricity and gas) sector one should be aware of significant data, statistical and model uncertainty” (p.61). In the estimates that follow, however, it assumes that the direction or sign of these effects is certain, and that this direction is positive. The paper relies on an ECB forecast of potential 20% future price reductions from further liberalisation, and on the Copenhagen Economics study carried out for the Commission, and uses these to predict substantial gains to EU GDP after 5 years.

But the paper seems unaware of the existence of more detailed empirical studies from a major research project led by professor Florio of the University of Milan which have concluded that there is no demonstrable benefit to consumers from the impact on prices of liberalisation in the energy sector.

The most recent summary of these results was presented by professor Florio at a conference in Brussels in November 2007 (also attended by Commission representatives), available at http://www.etui-rehs.org/research_fr/Evenements/Evenements-recents/Ateliers-et-conference-Une-alternative-au-marche-Bruxelles-19-20-novembre-2007/Plenary-papers-and-presentations, and includes references and links to papers with the detailed results from this research. The Milan results have been presented for professional and public debate on a number of occasions, including an academic seminar in Milan in June 2007, attended by a speaker from Copenhagen Economics and a representative of the Commission, and a debate organised by the EU Economic and Social Committee in Brussels in September 2007, attended by a number of Commission officials. The studies are based on much larger data sets than the Copenhagen Economics study. They used the OECD Regref indicators as measures of liberalisation.

The Milan findings on electricity show that market entry has a beneficial but insignificant effect on prices, that vertical unbundling appears to have the effect of increasing prices, and that private ownership appears neutral. Energy imports, population and GDP, by contrast, were all found to have significant effect on prices. For gas prices, entry regulation has no effect, and although vertical unbundling is correlated with price reductions, the effect of this on consumer prices is negligible. Consumer satisfaction in both sectors is positively correlated with public ownership and vertical integration. The studies also covered other sectors, including telecoms, where there has been an undisputed fall in prices, but the study found that technology was the key factor explaining both price reduction and productivity growth in telecoms, and that entry regulation had no significant impact on either price or productivity.

These results affect not only the estimates for the direct impacts but also the indirect effects, which are simply whole economy consequences of the direct price effects. If the direct effects are zero, negligible or negative, then the whole economy effects will also be zero or negative.

Thus if the IA’s own warning about “significant data, statistical and model uncertainty” is taken seriously, this uncertainty clearly extends to the direction and scale of the effects of policy. An estimate of macroeconomic effects, re-based on the Milan results, could be expected to produce a zero or negative effect.

List of papers

Bacchiocchi et al. (2007), Bacchiocchi, E., Florio, M. and Gambaro, M., 2007. “Policy reforms in the Telecommunication industry and consumers: empirical evidence for 15 EU countries” Working Paper presented at the Sixth Milan European Economy Workshop www.economia.unimi.it

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Brau et al. (2007), Brau, R., Doronzo, R., Fiorio, C. V. and Florio, M., 2007. “*Welfare Effects of Gas Industry Reforms in the European Union: An Empirical Analysis*” Working Paper presented at the Sixth Milan European Economy Workshop, www.economia.unimi.it

Ferrari and Salini (2007), Ferrari, P. and Salini, S., 2007. “*How to measure Service Quality: the case of Services of General Interest in Europe*”, Working Paper presented at the Sixth Milan European Economy Workshop, www.economia.unimi.it

Fiorio, Florio and Doronzo (2007), Fiorio, C., Florio, M. and Doronzo, R., 2007. “*The Electricity Industry Reform Paradigm in the European Union: Testing the Impact on Consumers*” Working Paper presented at the Sixth Milan European Economy Workshop, www.economia.unimi.it

Fiorio et al. (2007). Fiorio, C. V., Florio, M., Salini, S. and Ferrari, P., 2007. “*European Consumers’ Attitudes on Services of General Interest: Accessibility, Price and Quality*” Working Paper presented at the Sixth Milan European Economy Workshop, www.economia.unimi.it

Poggi and Florio (2007), Poggi, A. and Florio, M., 2007. “*Utilities deprivation dynamics and energy sector reforms in Europe*” Working Paper presented at the Sixth Milan European Economy Workshop, www.economia.unimi.it

Puglisi and Grassi (2007), Puglisi, R. and Grassi, S., 2007 “*Explaining consumers’ satisfaction from public services: a methodological note*” Working Paper presented at the Sixth Milan European Economy Workshop, www.economia.unimi.it