

Preface

Since the 1990s the role of public services, relabelled Services of General Interest (SGI) in the European Union (EU) legal jargon, has been subject to intense scrutiny and critical evaluation. One driver was the increased political attractiveness of liberalisation policies as part of the ‘common market’ approach to building a European economic space; another driver was the desire to create a shared social model in the construction of the EU. These two drivers did not necessarily converge in the proposed reforms, despite some consensus about the need to move away from the former approach based on public sector monopoly in service provision.

Today, SGI (some of which, to complicate the wording, are considered Services of General Economic Interest – SG EI) are formally recognised in the EU legislation as a key aspect in fostering European social and territorial cohesion and in ensuring the enjoyment of fundamental rights to the EU citizens.¹ Nevertheless, to many economists and policy makers these are just ‘industries’, with some characterised by a core segment under natural monopoly, physical or virtual networks.

Although the understanding of what the policy framework for network industries should be is affected by differences in national traditions and practices, the wider notion of SGI is based on a set of overarching values and goals. These include an important concern of legislators and regulators about social affordability, accessibility, sustainability, safety and security of supply. This is because often, even if not always, the network industries provide essential services. Such ‘essentiality’ notion goes well beyond the universal service obligations as regulatory remedies, which are specific obligations for specific providers, and poses a problem to governments and legislators in the first place: To what extent do the European citizens have the right to enjoy these services, even if they are poor, or live in remote regions or are, in other ways, disadvantaged? This question calls for a critical perspective on the functioning of the industries providing such services to the European citizens. The crucial policy issue is that, in the perspective of the EU project, a network industry providing a service of general interest should contribute, as far as possible, to the European inclusive social model, and this makes the role of competition in this area different from what it would be in other markets, where efficiency and profitability are the sole or main concerns.

This book aims to contribute to such EU policy debate on SGI in several ways. It seeks to expand the existing literature on the empirical evaluation of policy reforms in network industries, focusing particularly on the European policy paradigm and its three main pillars: privatisation, unbundling, (regulated) market entry and liberalisation.² Two aspects of the book stand out as possible contributions to the literature. Firstly, reforms are analysed through the lenses of the past and possible future welfare effects on citizens as users, given an evolving panorama, consistently with the notion of SGI. Secondly, the role of State-owned or State-invested players is evaluated in this new perspective.

The chapters included in the book mainly cover six network industries – electricity, gas, railway, local public transport (LPT), telecommunications and postal services. The authors, after taking stock of the notion that such services are in fact essential for EU citizens, discuss to what extent changes in the organisation of these industries promoted by the ‘European reform paradigm’ are beneficial to consumers. In particular, the authors focus on unbundling of vertically integrated network services, liberalisation and market opening, privatisation of State-owned enterprises. The typical ingredients of reforms, as identified by a well-established literature, are here updated and extended; moreover, countries and sector-specific peculiarities are discussed.

An innovative aspect of this book is the analysis of the role of State-owned or State-invested enterprises (SIEs) that, outside the UK, are still significant players in the market. This is a rather neglected topic in the literature, as if privatisations had wiped away such government-owned players. However, this is not true, and different issues arise about their current role in liberalised markets. Hence, the main research question addressed by this book refers to the impact of these reforms on the welfare of citizens, which sometimes has been unexpected by the initial advocates of reforms.³ For example unbundling may be necessary in some network industries to promote competition; however, vertical disintegration per se increases transaction costs and when the market tends to oligopolistic equilibrium, even without explicit collusion, the final outcome on consumer prices may be well in excess of marginal costs. Privatisation, in turn, changes the objectives of the former State-owned enterprises and may lead to cost decreases, but also to price increases if regulation is ineffective. Perhaps for these and for other reasons (including substantial revenues accruing to the public budget from profitable public enterprises), the State at central or local level still controls or has important stakes in industries such as energy, transport and telecommunications. What is the role of these players in the liberalised markets? More generally, some network industries are based on critical infrastructures, and the role of government

in the provision, management and regulation of infrastructure is still important.⁴ Again, what can we say, in an empirical perspective, about the role of governments in this area?

In a methodological perspective, the concept of Policy Framework Reform (PFR) may be helpful. By a PFR we understand here a set of reforms, for example, a ‘package’ of EU directives and their implementation laws at national level. This is clearly different from the evaluation of the marginal change in a specific provision, for example, a change in the X element in the $RPI-X$ price-cap formula, as for the early regulatory arrangements in some network industries, where RPI is the retail price index and X the estimate by the regulator of productivity change.

The advantages of using the empirics of PFR is that reforms of SGI are too complex to be traced by a myriad of marginal changes, and it is sometimes preferable to look at the general picture, possibly making comparisons over time and across countries. Of course one needs to be particularly careful in dealing with potential errors in what are essentially snapshot pictures of the reform process, given the fuzzy nature of the main variables of interest. Time and effort are needed to understand the historical, political and social circumstances that supported an actual or proposed policy shift in the first place, and its impact.

The material presented in this book draws from the research activities carried out by the Jean Monnet EUsers network,⁵ a three-year project linking six universities together (Università degli Studi di Milano, Åbo Akademi University School of Business and Economics, University of Greenwich, Universität Leipzig, Université de Rouen, WU Wirtschaftsuniversität Wien).

The book is divided into two parts. Part I begins with a methodological chapter while subsequent chapters deal with the evaluation of cross-cutting issues arising from the reforms of networking industries to provide meaningful examples; these include privatisation, unbundling, performance of State-owned enterprises, determinants of prices, impact of reforms on citizens and so on.

Chapter 1 discusses possible errors and pitfalls of the empirical evaluation of PFR, such as biases related to the research design and to the interpretation of results. More specifically, the chapter deals with issues of measurement of variables representing the PFR; it presents a taxonomy of possible errors along this procedure and turns to the selection of proxies for changes in consumers’ welfare, a necessary step for any evaluation of policy reforms.

Chapter 2 focuses on the traditional missions of public services, discussing their performance in an empirical perspective. The authors also critically discuss the privatisation policy and contrast it with a theoretical analysis on

how public and private enterprises are likely to perform when it comes to cost efficiency and social welfare (and possible tradeoffs), with and without the potential intrinsic motivation of managers. Moreover, the future of public ownership and the possibility of renationalisation are discussed.

Chapter 3 provides an overview of the unbundled energy businesses – characteristics, ownership, technical and commercial synergies – including a review of the literature that analyses the impact of reforms on market performance, power prices and, more generally, social well-being. The main message is that policies are often contradictory and their outcome less beneficial for citizens than expected.

Railway is another archetypal network industry, where the involvement of governments in service provision is still wide. Over the past 25 years railways in Europe have experienced substantial changes in terms of legislative measures and Chapter 4 provides an overview of the outcomes with particular emphasis on passenger transportation. The author examines the outcomes of these changes in terms of market structure, competition and State involvement explaining how the reforms have impacted the overall performance of the railway sector across EU Member States. The chapter puts forward future perspectives in terms of how the railway industry in Europe may develop in the future.

Evidence of the persistence of public enterprises, even within the industry where privatisation started, is provided in Chapter 5 on the major SIEs operating in the telecommunications industry. This chapter shows that modern SIEs, while not different in size from private companies, have achieved significantly higher profitability. This result is confirmed by an econometric analysis accounting for firm- and country-level characteristics, regulatory constraints in the industry and time fixed-effects. Regression results show that, even when controlling for the full set of covariates, SIEs display higher margins than their private counterparts. An additional determinant of firms' profitability is the probability of being listed on the stock exchange and market regulation, described by the ETCR aggregate indicator (Energy, Transport and Communications Regulation) for the telecom sector.

The issue of public mission is discussed in Chapter 6 with the example of the postal sector, where opening up to competition and the decrease in traditional mail activity resulted in profound changes. The chapter analyses the transformations of operators' ownership and behaviours in a new environment, and the role of the public service obligations assigned to the operators by national authorities. The author shows the great structural diversity of service providers and the variety of national public authorities' visions of the role of this sector, leading to the coexistence of multiple models in Europe.

While Part I largely deals with thematic issues arising from a broad picture of network industries, Part II focuses on the empirical analysis of the PFRs in six industries – electricity, gas, telecommunications, railway and LPT. The aim is to assess changes in PFR from the consumers' point of view and to provide a comparative country analysis. These assessments rely both on a review of the relevant literature and econometric analyses of panel data,⁶ financial data from Bureau Van Dijk,⁷ quality satisfaction from Eurobarometer,⁸ prices data from Eurostat and so on.

The aim of Chapter 7 is to investigate whether reforms in the electricity sector have generated welfare benefits for household consumers across four countries – France, Germany, Italy and the UK. In particular, the chapter investigates the issue of affordability of electricity supply and the reliability of services by considering the proportion of real disposable income spent annually on electricity by households and the severity of service interruptions. In this regard, the authors show that privatisation and liberalisation did not have a consistently positive impact on household consumers.

With respect to the telecommunications industries, Chapter 8 provides a picture of the reform paths at both the EU level and individual Member States' level. The authors show that, despite differences across countries, the privatisation and liberalisation processes have contributed to the development of this sector ensuring more variety in consumer choice, lower prices and higher quality.

Chapter 9 focuses on the transformations of the rail sector over the last two decades. It provides a historical overview of the reform context through outlining the most important regulatory innovations introduced by the EU. The chapter also empirically investigates how regulatory innovations have influenced price, investment and quality of European rail services, using Organisation for Economic Co-operation and Development (OECD) data from 1996 to 2013, showing that prices are very weakly correlated to reform indicators.

The objective of Chapter 10 is to examine the main policy reforms promoted by the EU and adopted by the Member States in the LPT industry. The chapter identifies the existence of different reform patterns across countries and performs an evaluation of the role of enterprises controlled by local governments. The authors also investigate whether European citizens have been served by the evolution of policy reforms in this area and present both positive and negative examples of Member States' policy experiences.

Finally, for the gas industry Chapter 11 discusses the transition from State-owned enterprises to mixed ownership, its rationales and impacts. The author raises general issues about the role of ownership in network industries; in particular, the objective of increasing profitability for mixed

ownership enterprises that has prevented States from pursuing some policy objectives such as achieving large-scale plans of economic and technological development or ensuring consumers' price affordability.

There are three main messages arising from this book. Firstly, network services are still 'political industries', meaning that the market-driven approach has been overstated as there are persistent overarching policy concerns in terms of access, affordability, territorial cohesion, continuity of supply, environmental impact. Secondly, the push by the EU institutions for the adoption of a homogeneous paradigm across the Member States conflicts with the variation in national policy goals. Thirdly, the benefits for citizens of the reforms are visible in some cases, not detectable in others, or even reversed by social costs in others, particularly when privatisation has led to price increases for households. Within this complex panorama, in those countries in which public enterprises are still playing a major role, their performance is usually no worse than their private competitors; it also seems that public enterprises are able to complement the efforts of governments in securing social objectives such as fairness of tariffs and long-term sustainability.

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NOTES

1. See, for instance, https://ec.europa.eu/info/topics/single-market/services-general-interest_en (accessed May 2017).
2. See, for instance, M. Florio (2013), *Network Industries and Social Welfare*, Oxford: Oxford University Press; M. Finger (ed.) (2014), '20 years of liberalization in network industries', *Utilities Policy*, Special issue.
3. See, for instance, D. Newbery (2000), *Privatization, Restructuring and Regulation of Network Utilities*, Cambridge, MA: MIT Press; M. Florio (2004), *The Great Divestiture*, Cambridge, MA: MIT Press.
4. See, for instance, A. Picot, M. Florio, N. Grove and J. Kranz (2016), *The Economics of Infrastructure Provisioning: The Changing Role of the State*, Cambridge, MA: MIT Press.
5. For details see <http://users.unimi.it/eusers/> (accessed April 2017).
6. Including policy reforms indicators from the OECD/ETCR, <https://stats.oecd.org/Index.aspx?DataSetCode=ETCR> (accessed April 2017).
7. <https://amadeus.bvdinfo.com/version-201739/home.serv?product=amadeusneo> (accessed April 2017).
8. http://ec.europa.eu/public_opinion/index_en.htm (accessed April 2017).