

## EXECUTIVE SUMMARY

Extract from:  
Jacques Pelkmans and Giacomo Luchetta,  
"Enjoying a Single Market for Network Industries",  
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**I**n the beginning of 2013 the EU can look back at some **25 years of efforts to develop and deepen a single market for network industries**. It is therefore worthwhile taking stock and trying to assess how far this endeavour has proceeded and what benefits and costs may be identified.

The **seven network industries today dealt with at the EU level** (broadcasting, telecoms, postal services, gas and electricity, as well as air and rail transport) **used to be strictly regulated, state-owned monopolies with overriding political influence**. In addition, they **tended to be inefficient in production and supply**, and hopelessly **unresponsive to customers and citizens preferences**, whether expressed in long waiting times, little choice or simply bad service. Taken together, these reasons made the building of the internal market a lengthy and complex process. (*pages 13-16*)

The present Study provides a **brief survey of the logic and state of the single market in network industries today**, reminding readers of the economic and EU rationales underpinning this transformation. The internal market implies a difficult simultaneous task of introducing national and cross-border competition, containing the initially overwhelming market power of dominant incumbents and preserving service obligations for consumers, including poor ones and peripheral regions. (*pages 17-20*)

Although there are **EU regimes in all seven sectors**, this **does not mean that there is a single market for the services (or the infrastructure) in these sectors**. In several sectors, national markets do not even function in a sufficiently pro-competitive manner, let alone that the EU market would have no "barriers" inside and few or no competitive distortions. These processes take a lot of time and efforts, in markets by business players and otherwise by EU and national policymakers. (*pages 20-22*)

The Study provides a **detailed analysis of two network sectors in which liberalisation is often held to be quite successful** (air transport and telecommunication), and **of two sectors where the benefit/cost ratios would seem to be more problematic** (electricity and rail services).

- **Air transport** is the only one of the four studied industries that **basically does enjoy a single market**. Air transport liberalisation was instrumental in ensuring a vibrant and growing market for both passengers and cargo. Liberalisation allowed the low-cost carriers to enter the market, which eventually conquered about one third of the passenger market in Europe, contributed **to constrain prices and to open new routes**. Extremely low profit margins suggest that the EU airline market became truly competitive, possibly coming close to cut-throat competition. At the same time, **territorial cohesion has been strengthened** by the emergence of many new routes and the safety standards have been preserved. (*pages 23-31*)
- The **liberalisation of the market for electronic communications is considered another success story**. Even though the **single market has not been achieved at all, but numerous and major economic benefits have nonetheless been acquired** thanks to increased national competition resulting from European liberalisation. The data about penetration rates, incumbents' market shares, new services and prices presented in the Study consistently points to a success story. All the benefits acquired at the national level could be larger still if a true single market was achieved. (*pages 31-43*)
- The **electricity sector has proven more difficult to liberalise** than some other network industries, **due to intrinsic features of this industry**. Today the overall picture is that of a single market split into major sub-markets. **Persisting price disparities** among these sub-markets are the clearest signal that more cross-border trade would take place if interconnection capacity were sufficient. For electricity the single market is still at some distance, although many efforts are under way to arrive there in the next five years or so. (*pages 44-55 and 65-68*)

- **Implementation of the railway liberalisation packages was slow and difficult.** EU law prescribing liberalisation is a necessary but hopelessly insufficient condition to accomplish a properly functioning EU freight rail market: one has to tackle **physical and infrastructural barriers**, a very costly undertaking and taking decades. There are still far too many and at times **severe obstacles to developing genuine European freight rail services**, despite the incredible potential gains in the sector and the potential for indirect gains inside value chains for European business. *(pages 58-68)*

We conclude that **the EU has finally become more determined to pursue the single market for network industries.** The opening up of network markets has proven to be both complex and adventurous, and the path of liberalisation is highly uneven among the different network markets discussed. The ample empirical evidence in this Study demonstrates **the EU has come a long way along this path** and that, **with sustained political, regulatory and anti-trust enforcement, investment, and entrepreneurial efforts, the single market for network industries can be perhaps achieved within a decade from now.** *(pages 69-72)*