

Evaluating the impact of liberalisation on public services

– a critique of the European Commission 2004 report “Horizontal Evaluation Of The Performance Of Network Industries Providing Services Of General Economic Interest” EC SEC(2004) 866

by

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1. Introduction:

The report 'Horizontal Evaluation Of The Performance Of Network Industries' (Horizontal Evaluation Report) consists of a short 11 page summary report, and a 80-page 'technical annexe' which presents and discusses data from a number of sources.

The summary report contains a précis of the evidence from the Technical Annex, presented as broadly supportive of the liberalisation process, with a brief conclusion reiterating the theoretical possibilities of liberalisation.

The Technical Annex consists of a brief background history and then 4 distinct elements:

- the competitive framework (Technical Annex section3), which looks at evidence on entry of suppliers, mergers, market share, market growth, and switching by consumers.
- market performance (Technical Annex section 4), which looks at evidence on employment and productivity, prices, affordability, accessibility, and quality (this section refers selectively to Ciriec data)
- consumers opinions (Technical Annex section 5), which includes
 - o (A) three subsections on consumer views on changing supplier etc, derived from the Eurobarometre flash, and
 - o (B) a fourth section on a qualitative study on consumer views of competition and privatisation in Services of General Economic Interest.

This critique is divided into two sections:

- a critique of the Horizontal Evaluation Report 's conclusions and analysis, following the structure of the Horizontal Evaluation Report itself
- a set of proposals for a better way of evaluating Services of General Economic Interest across Europe.

A summary and conclusions is set out in the final section 4.

2. Critique of the Horizontal Evaluation Report

The report starts with a statement of satisfaction: "*the overall performance of services of general interest in the EU is good in terms of prices, employment, productivity, service quality, fulfilment of public service obligations and consumer satisfaction.*" (Horizontal Evaluation Report p. 4) This statement is remarkable for a number of reasons, (including its mistake in referring to Services of General Interest rather than Services of General Economic Interest), because almost every item in it contradicts evidence in the report itself.

- The claim about prices is at odds with the reports own acknowledgement later that all the liberalised industries, with the exception of air transport and telecoms, recorded price rises higher than general inflation in 2003;
- the claim on employment is at odds with its own data that jobs in these sectors fell by 600,000 (7.5%) between 1991 and 2003;
- the claim on productivity seems to flatly contradict its own observation that "no significant impact of reforms was identified on the **growth** of labour productivity" ;
- the claim on service quality fits poorly with its own assessment, five pages later, which highlights the reliability of supply and environmentally-friendly production as the chosen quality indicators in electricity and declares that "*For both, no significant improvements can be reported.*"
- the assurance of consumer satisfaction sits uneasily with the results of the qualitative survey of consumer opinion, which shows widespread scepticism that consumers will benefit from liberalisation, and a dominant belief in the need for state responsibility in these sectors, including control of prices.

This encapsulates the general problems with the report. It identifies and presents much data of interest and relevance to an evaluation of Services of General Economic Interest, but fails to note some other data of

importance and relevance, and often fails to draw reasonable conclusions from the data that it does. One reason for this is that the report is concerned above all to avoid any criticism of liberalisation. The net result is a statement of ideological complacency pasted over an incomplete review of evidence.

The following sections examine some of the ‘satisfied’ conclusions, the mismatch between the two and the missing elements of evaluation.

2.1. Market share and concentration

2.1.1. Mergers and concentration

The main report states that: *“Despite the growing number of competitors, incumbent operators’ market shares still remain dominant.”* (Horizontal Evaluation Report p.5) This focuses on the question of changes in incumbents’ market shares, - i.e. the market shares of the companies that existed prior to liberalization, and of the share of ‘new market entrants’, without considering whether, in each country, these new entrants are owned by groups with dominant market positions in other countries. This approach ignores the clear evidence that new concentrations have developed, **across countries**, as a result of market opening (and privatisation) – a particularly bad failing in a paper which purports to offer a horizontal evaluation on a European scale.

The report claims (for all sectors) that *“Most entries via mergers and acquisitions have been purely domestic, cross-border mergers and acquisitions being the exception.”*(p.4), and later states that *“The energy sectors have experienced two waves of M&A that were mainly domestic and confined to companies already active in these sectors.”* (Technical Annex 3, p.23). These claims bear no relation to the realities of what has happened in the energy sector. The technical annex offers in support of this tables on the net creation of businesses active in the sectors, and tables on the number of mergers in the sector, classified by country of origin. But in restricting itself to this limited data from stock exchange transactions, the report ignores data which is readily available from reports of the Commission itself, including:

- data on the dominance of a small number of companies in electricity sales across nearly all EU15 countries and the central European new member states: in 14 out of 19 countries a majority of major suppliers are the ‘seven sisters’ – EdF, E.ON, RWE, Suez/Electrabel, Vattenfall, and Enel and Endesa - of whom the big 3 are the most dominant – EdF, RWE and E.ON, with two of these – RWE and E.On – also being dominant gas suppliers in a number of countries (Table 1).
- data which shows that a majority of generating capacity and electricity sales is controlled by 3 or less companies in most countries (Table 2)
- evidence of vertical integration by the private sector companies, most notably in the UK and Germany, whereby generating capacity is matched to the requirements of retail suppliers owned by the same group. The role of the market is thus very small compared with the quantity of power which is supplied on the basis of long-term contracts arranged within the same group.
- this concentration is especially marked in new member states in central Europe where privatization processes have led to the ownership of generation and distribution companies being concentrated in the hands of the same small group of multinationals.

This is not an obscure issue which has recently emerged, but a well documented phenomenon, especially striking on a European scale, and clearly related to the issue of markets and liberalisation. For example, Dutch studies have found that horizontal integration amongst generators leads to higher prices for consumers, that there has been a consolidation of large power producers with a strong incentive for manipulating market prices in wholesale power markets, which are “particularly sensitive to price manipulation... furthermore, it is difficult to obtain evidence of this kind of strategic behaviour”.¹

This evidence indicates the development of an oligopolistic structure both within countries and horizontally across countries, as summarised : *“In EU-15 in the last years, the percentage share of the three largest generators in Member States has increased.....The increasing national market share of the major utilities is driven by a larger trend of the concentration of the European market as a whole, whereby large private and State owned utilities are acquiring other companies across a whole range of utility services and thus the*

creation of utility oligopolies. Although the rate of international mergers and acquisitions in the European energy market slowed in 2002 and 2003, there is still considerable activity. Between 2000-2003 the seven major European utilities – Electricité de France, Eon, RWE, Vattenfall, Enel, Endesa, Suez/Electrabel, have invested €80 billion in mergers and acquisitions in Europe..... Effective competition in the European power markets is just a myth: there is no real competition on more than 90% of the EU electricity market”.²

The problem has since been acknowledged in the annex to the DG Tren report on the electricity and gas internal market, which notes “the possibility that market participants are deliberately acting in a way to inflate prices directly or indirectly by influencing other competitive conditions....”; observes that price regulation has to continue if this problem is not solved; describes the market structure in electricity as “an unsatisfactory position in most states”; notes that “suppliers are becoming more conservative and are unwilling to venture out of their traditional areas or to offer a contract based on a stable long term price rather than the spot market. This is a sign that the market is not functioning properly”; and observes that vertical integration and concentration mean that “where generation capacity is concentrated in the hands of one, or a few companies, it is likely that the real possibility of consumers to switch supplier will be limited.”³

Table 1. Concentration in electricity supply 2004: Big 3, Big 7 and others

E= Large or significant electricity supplier; G = large or significant gas supplier

	EDF	RWE	EON	Total Big 3	EBEL	VF	ENEL	ENDESA	Total Big 7	OTHER	TOTAL
Austria	E	EG	E	3					3	1	4
Belgium	E			1	E				2	3	5
Denmark			E	1		E			2	2	4
Finland			E	1		E			2	1	3
France	E			1	E			E	3	0	3
Germany	E	EG	EG	3		E			4	0	4
Greece										1	1
Ireland		G								2	2
Italy					E		E	E	3	2	5
Netherlands			E	1	E				2	2	4
Portugal								E	1	1	2
Spain							E	E	2	3	5
Sweden			E	1		E			2	1	3
UK	E	EG	EG	3					3	1	4
Poland	E			1	E				2	3	5
Czech		EG	EG	2					2	1	3
Slovakia	E	E	EG	3			E		4	1	5
Hungary	E	EG	EG	3					3	1	4
Slovenia										1	1

Source: Calculated from DG TREN Estimates of Presence Of Largest Companies In Selected Individual Member States Technical Annexes to the Report from the Commission on the Implementation of the Gas and Electricity Internal Market COM(2004)863 final Brussels, 5.1.2005 SEC(2004) 1720

http://europa.eu.int/comm/energy/electricity/benchmarking/doc/4/sec_2004_1720_en.pdf

Table 2. Market share of largest three companies in each country

- percentage of electricity generation capacity controlled by largest 3 generation companies, and percentage of electricity sales controlled by largest 3 suppliers

	Top 3 generators	Top 3 retail sales
Austria	75%	67%
Belgium	95%	c.
Cyprus	100%	100%(1)
Czech	75%	46%

Denmark	40%	67%
Estonia	100%	?
Finland	40%	30%
France	95%	88%
Germany	70%	50%
Greece	100%	100%
Hungary	65%	56%
Ireland	90%	88%
Italy	75%	35%
Latvia	100%	99%
Lithuania	80%	100%
Lux	n.a.	100%
Malta	100%	100%(1)
Netherlands	80%	88%44
Norway	40%	44%
Poland ³⁹	35%	32%
Portugal	80%	99%
Slovakia	85%	84%
Slovenia	95%	71%
Spain	80%	85%
Sweden	40%	70%
UK	40%	60%

Source: **Tables 3.3 and 3.5** Technical Annexes to the Report from the Commission on the Implementation of the Gas and Electricity Internal Market COM(2004)863 final Brussels, 5.1.2005 SEC(2004) 1720
http://europa.eu.int/comm/energy/electricity/benchmarking/doc/4/sec_2004_1720_en.pdf

2.1.2. Inter-connections

The report states that “*interconnection problems between networks hinder cross-border provision of services*”, and calls for a solution to remove congestion. (Horizontal Evaluation Report p.5) The technical section refers to the benchmarking report on cross-border interconnections showing that half of them are usually congested, which also stressed the lack of market-based methods to solve congestion (TA3, p.30). Although the Italian connections are identified as especially problematic in this regard, the report fails to note that cross-border trade itself was identified as a major factor behind the Italian blackout of September 2003 (and also of the blackouts in the northeast USA in the same year). The report by Swiss authority SFO identified a simple conflict: “The underlying causes of the incident that occurred on 28 September 2003 are the unresolved conflict between the trading interests of the involved countries and operators and the technical and legal requirements for safe and reliable operation of the networks.”⁴ . The report also ignores other ways of dealing with the problem: instead of increased public investment in cross-border transmission capacity, policies could concentrate on reducing demand, which will of itself improve the adequacy of existing levels of capacity, and on promoting more decentralised generation near the point of consumption, which reduce the costs of transmission across high-voltage grids.⁵

The paper thus manages to ignore the evidence that cross-border trade brings its own problems, without any attempt at noting, let alone evaluating, alternative ways of dealing with shortages, while acknowledging that markets are poor mechanisms for dealing with congestion problems. By simply calling for more transmission infrastructure to facilitate trade – the core concern of the Commission - the paper ignores the possibility that this is a worse option than others in terms of its impact on the sector as a public and economic service.

2.2. Prices and switching (Technical Annex 3.2)

The trends in prices are discussed both here and later in the report. As noted above, the Horizontal Evaluation Report summary presents an over-optimistic view of actual price trends in liberalized Services of General Economic Interest. The report focuses on the issue of consumers’ choosing to switch suppliers

The paper repeats the general theoretical belief that market opening enables consumer choice, which is exercised through switching to different suppliers to obtain better terms, and this forces suppliers to compete by improving efficiency in order to offer lower prices. It claims that “*The number of users who have actually switched service provider is growing in sectors and countries where opening to competition has allowed significant market changes*” (*Horizontal Evaluation Report p. 5*).

However this is a serious overstatement of what has actually happened, as the paper is aware when it states, more honestly, that “Users switching in electricity has also become a possibility” (*Horizontal Evaluation Report p.5*). The highest figure for small customers’ switching is 12%, in the UK, but even this has been both ineffectual and costly. Studies in the UK showed that most domestic consumers who switched have done so for a combined electricity and gas tariff which is actually more expensive than other options; and the costs imposed by switching have to be borne by all consumers – as is the high cost of creating the retail market in the first place – and companies have entered only by buying existing captive consumers at a price which implies that the risk of any customers’ switching is low.

Moreover, it fails to note that even the largest users, industrial customers, do not believe that the internal market in electricity is delivering price reductions. The industrial consumers group IFIEC warned in 2003 of excessive concentration of ownership: “*As the consolidation of the electricity supply industry has intensified, only a small number of players remain and, together, constitute a de facto oligopoly. As trading on the wholesale market has been taken over by the powerful incumbents themselves, independent traders have abandoned Europe.*” A further IFIEC report in 2004 ⁶ concludes that “*the current wholesale market is ‘dysfunctioning’, with grave immediate consequences in large parts of the EU for energy-intensive industry*”.

2.3. Employment (TA4.1)

2.3.1. Employment and liberalisation

The Horizontal Evaluation Report summary notes that employment in network industries declined from 8.8 million to 7.9 million between 1991 and 1999, and then rebounded to 8.2 million in 2001, that telecoms employment grew by 6.8% between 1996 and 2001, but employment in electricity, gas and water fell by 14% in the same five year period. It then claims that “*Job gains or losses vary across sectors and countries and it is difficult to find any direct link with opening up to competition.*” (*Horizontal Evaluation Report p.6*) – and this last remark is seriously misleading.

The technical annexe has a discussion (Technical Annex 4.1, pp34-37) of a range of evidence on sectoral trends, including a critique of the simplistic conclusions of the 2001 horizontal evaluation, for assuming too readily that observed changes in employment can be ascribed to changes in liberalisation. This discussion reflects the inevitable uncertainty about the interpretation of employment changes over time, taken on their own. But the statement in the Horizontal Evaluation Report summary simply ignores the clear results of a further study which studied the relation between employment and liberalisation in the network industries .

The results come from a recent EC economic study (Griffith and Harrison 2004) ⁷ of the effect of economic reforms – including liberalisation and deregulation – on economic performance. It covers all sectors, but has a specific annex on the performance of network industries. ⁸ In relation to electricity, gas and water the study found that liberalisation and privatisation do have a significant, large, and negative effect on employment: “*the introduction of consumer choice of suppliers was associated on average with a reduction in employment levels of about 12%*” (p. 138). In relation to telecoms, the study found the same results: that liberalisation (to be precise more competition, as indicated by an increase in the market share of entrants) “*is associated with a reduction in employment*” (p. 151). Griffith and Harrison also note that the productivity improvements in all network sectors, except telecoms and air transport, are mainly driven by cuts in labour force.

The Horizontal Evaluation Report technical annexe does refer to this study and its results on productivity (see next section), but without mentioning its results on employment. But any reasonable summary of these results would be the opposite of what the Horizontal Evaluation Report summary claims – there is clear

evidence of systematic links between sector liberalisation/privatisation and reductions in employment. Overlooking this evidence means that the Horizontal Evaluation Report's conclusions are unreliable.

2.3.2. Productivity: no dynamic gains

The Griffith and Harrison study of network industries examined data on productivity changes in network industries following liberalisation and privatisation. They found that the observed gains in labour productivity are nearly all accounted for by a 'one-off' rise in productivity caused by labour-shedding, with no continuing benefit after the initial restructuring: *"no significant results using the growth of labour productivity... [one possible reason] is that deregulation and the transfer of ownership were associated with one-off changes in the level of productive efficiency, without creating any increase in longer-term dynamic efficiency."* Even the telecoms sector shows no dynamic gain in productivity as a result of liberalisation: *"we found no significant results using the growth of labour productivity."* (p.151)

The technical annexes of the Horizontal Evaluation Report do refer in some detail to these results on labour productivity, and the summary notes that the Griffith and Harrison study found no evidence of continuing 'dynamic' productivity after liberalisation or privatisation, after the one-off labour-shedding: *"no significant impact of reforms was identified on the growth of labour productivity and this seems to suggest that deregulation is associated with one-off changes in the level of productivity"* (Horizontal Evaluation Report p.6).

However, the Horizontal Evaluation Report still fails to adequately present the importance of these findings. Firstly, it fails to note that Griffith and Harrison also found no continuing dynamic impact on total factor productivity : *"as was the case with labour productivity, we did not find any significant results using the growth of total factor productivity ."* (p.141), as well as other evidence on the economic effects of deregulation (see next section). Secondly, it fails to recognise that these results seriously undermine the rationale for liberalisation, which rests on the claim that the continuing process of competition will generate continuing 'dynamic' improvements in efficiency (see below 2.3.4).

2.3.3. Deregulation: damaging to economic strategy?

The main body of the Griffith and Harrison report (not mentioned in Horizontal Evaluation Report) found that regulatory reforms are actually linked to *lower* levels of productivity and with a *reduction* in research and development (R&D) and growth rates: *"We found that regulatory reforms that have reduced the level of economic rents appear to be associated with lower levels of labour and total factor productivity. ... most countries appear to have levels of economic rents where a reduction in rents is associated with a reduction in R&D and growth rates"*.⁹

This is a remarkable finding, but was echoed in another EC study published at the same time (Denis et al 2004) which compared EU and USA productivity trends.¹⁰ (also not mentioned by the Horizontal Evaluation Report). Productivity changes in the whole EU economy have been lagging behind the USA since 1995, and Denis et al analysed the differences and possible explanations, including the possible role of deregulation. They found that deregulation makes no contribution to expenditure on research and development (R&D) or to growth in total factor productivity (a slightly better result than Griffiths and Harrison's finding of negative effects), and again emphasised the lack of any dynamic productivity gains: *"The fact that regulation is neither significant for R&D nor for total factor productivity points in the direction that the link between regulation and moving the technological frontier is rather weak and an interpretation in terms of static efficiency gains is probably more appropriate....."* (p.70).

Thus the labour-shedding induced by liberalisation appears to be a one-off event, not a contribution to more fundamental economic development. Indeed, Denis et al emphasised the limited contribution of deregulation to the Lisbon strategy of knowledge-based economic development, stating that their analysis: *"stresses that any gains from deregulation in terms of technological catching-up or from privatisations of state monopolies should be interpreted more in terms of static efficiency gains and not with the dynamic efficiency gains needed to achieve an outward shift of the 'technology frontier'."* (p.59)¹¹

The Horizontal Evaluation Report summary however concludes by simply ignoring the evidence on employment and productivity and the implication for liberalisation policies. Instead, it offers a re-statement

of neo-liberal beliefs: *“Liberalisation of network industries usually starts by inducing a restructuring process in these industries, characterised by entries and mergers and acquisitions. This leads to employment and productivity changes. The productivity gains can be translated into price reductions, which benefit industrial users and households. Increased competitive pressures can also induce companies to be more innovative and this contributes to additional productivity gains. Finally, price reductions and technological developments can stimulate demand, offsetting the initial employment losses due to the restructuring process. However, the net impact on employment can not be predicted.”* (Horizontal Evaluation Report , p.12-13). Unfortunately, this sentence is in the section headed ‘conclusion’, and fails to note that the evidence it has just reviewed casts serious doubt on the third and fourth sentences of this paragraph, in particular. This theoretical causal chain is broken in a number of places – the expected ‘competitive pressure’ does not induce further productivity gains, and liberalisation may actually damage total factor productivity and Research and Development.

2.3.4. Unfounded productivity claims in electricity, gas and water

Since the Horizontal Evaluation Report was published, another EC report has made misleading claims concerning the contribution of the liberalised Services of General Economic Interest to productivity performance. The annual report on the implementation of the gas and electricity internal market ¹² demonstrates a cheerful ignorance of the results of the Griffiths-Harrison and Denis studies when it claims that productivity comparisons between the EU and USA show the “excellent” performance of the EU utility sector, and further claims that the table (reproduced as part of Table 3 below) *“serves to underline the contribution of market opening to driving efficiency improvements in these sectors”*. ¹³

But the data does not show this at all.

- During the first two periods, covering 16 years in which EU productivity growth was more than double that of the USA, there was no market opening in the EU (except, right at the end, in Scandinavia): and in the final period, when the USA does worst, the USA itself was embarked on a programme of liberalisation in its electricity (the California blackouts formed one episode in this), while the EU liberalisation only started towards the end of the period.
- Since the proportion of public ownership in the EU was, and remains, much higher than in the USA, it would be more plausible to claim that the table shows the long-run superiority of public ownership.
- At the level of the whole economy, the loss of the EU’s lead dates from 1995, so one explanation could be that liberalisation of Services of General Economic Interest may have caused the loss of the EU’s productivity advantage in the whole economy.
- Finally, the quoted data is for output per person employed, rather than the more precise measure output per hour: using this latter indicator, which corrects for the effect of changes in hours worked, there is no major change in the long-term relationship between EU and USA productivity trends.

Table 3. Labour Productivity: Gas, Electricity and Water - per worker and per hour

		1979-1990*	1990-95	1995-2001**	
		Productivity % annual growth	Productivity % annual growth	Productivity % annual growth	Liberalisation
Output per person employed	EU-15	2.7	3.6	5.7	Partial
	USA	1.1	1.8	0.1	Partial
Output per hour	EU	3.3	3.7	6	
	USA	1.3	1.8	2.3	

* 1981-1990 for output per hour data **1996-2000 for output per hour

Source: Output per person employed: Annual Report on the Implementation of the Gas and Electricity Internal Market COM(2004) 863 Table 1 .
Output per hour: European Economy. Economic Papers. No. 208. July 2004. Annex2 Table B p. 81

2.3.5. Empirical weakening of rationale for liberalisation and privatisation

These Griffiths-Harrison and Denis results are not obscure details. They are of fundamental significance for the rationale of liberalisation, which rests on the claim that the continuing process of competition will generate continuing benefits in terms of continual improvements in efficiency.

Other evidence questions the wisdom of the liberalisation ‘recipe’ and the supposed superior efficiency of the private sector. A recent comprehensive review of the British experience with privatisation has concluded that there is no evidence that it produced any significant improvement in economic performance – neither output, nor labour productivity, nor total factor productivity¹⁴. A review of evidence from comparative studies in a range of sectors shows that public ownership is at least as efficient in more than half of the studies, and concludes that political intervention may produce better results in oligopolistic markets, even if it creates ‘over-manning’.¹⁵ This body of evidence on the relative efficiency of the private sector is now being acknowledged even by major global promoters of privatisation: the IMF recently offered a robustly sceptical assessment: *“While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed.”*¹⁶

The policy conclusions drawn by bodies in the electricity sector differ sharply from the EC’s self-congratulations on the benefits of liberalisation. A review of energy companies emphasised the need for ‘robust’ planning to ensure that investments are useful under many different scenarios over a long-term period far beyond commercial forecasting horizons: *“unless the industry adopts a more long-term oriented, deliberate strategic planning style, the public goods related to infrastructure and asset spendings, or systems innovation, are not likely to be realised”*.¹⁷ The Dutch energy council has concluded that there was no case for privatisation of electricity networks, given the vital public interest involved and the natural monopoly in the network¹⁸, and that liberalisation was producing greater dangers than benefits: *“The type of competition that can be expected to arise is not the type envisaged at the start of the liberalisation operation. The clients - and in fact, society as a whole – will not benefit from a static oligopoly. This will place too much pressure on the public interests: price, reliability and sustainability.”*¹⁹

2.3.6. Training

The paper fails altogether to consider other dimensions of employment in Services of General Economic Interest and how it has been affected by liberalisation. One such issue is the evidence of an alarming decline in the amount of training being done in liberalised sectors. A study carried out in 2003 for the electricity industry employers and trade unions identified serious problems of skill shortages growing across Europe, linked to the mechanisms of liberalisation and competition through outsourcing, which lead to cuts in training.²⁰ It was also identified by the official enquiry as one cause of the major blackout in the north-eastern USA and Canada in 2003.²¹

2.3.7. Equality

The report does not attempt to evaluate the positive or negative impact of liberalisation of SGEI on women, this despite the clear policies of the Commission that policies need to be gender mainstreamed. A study for the social partners in the electricity industry²² has demonstrated that in some countries the negative effects of restructuring were greater on women’s employment; a more recent report for the social partners²³ shows that the proportion of women working in the electricity industry in the New Member states continues to decline.

2.4. Prices, affordability, and accessibility (Technical Annex 4.2-4.5)

The technical annexe reviews a large amount of data on these issues, including the results of a major study on the contributions to cohesion carried out for DG Regio by CIRIEC.²⁴ Again, the Horizontal Evaluation Report selectively ignores some evidence.

When discussing prices, it considers overall price levels and also the affordability of prices for different categories of households. It does not consider the problem that larger consumers can win better deals than ordinary households – and companies in such markets will pass the benefits of cost reductions onto the larger customers, but not the poorer ones. Yet the Ciriec study, and other reports, contained detailed discussions of this issue. The section on Energy noted that in a free market *“Consumers that are most profitable have the highest value. Small poor consumers, who have difficulty paying their bills and who do not have the*

resources to buy the other services many electricity and gas companies now offer (for example, telecoms and financial services) are not attractive and are likely to be charged the highest prices.... This aspect of the impact of competition on poor consumers seems to be already apparent in the UK, where consumers that use pre-payment meters, generally the poorest consumers, are being charged at least 10% more for their energy than the richest consumers, those that pay by Direct Debit”²⁵

The Ciriec report also pointed out that another risk to small consumers of competition is that large consumers will use their resources, expertise and buying power to get lower prices for their power and gas, but at the expense of small consumers. The UK National Audit Office thinks that companies have not passed on wholesale price reductions to small consumer: ²⁶ between 1999 and 2002 the price paid by large consumers for their electricity had gone down by 22 per cent, while the amount paid by small consumers had actually gone up by 5 per cent. ²⁷

2.5. Consumer views (Technical Annex 5B)

2.5.1. Consumer views: limited value of Eurobarometre data

The report uses two sources of information on consumer views: the Eurobarometre ‘flash’ survey on services ²⁸, and a special qualitative survey on consumer views on Services of General Economic Interest ²⁹. The qualitative survey is of real interest (see below), but the Horizontal Evaluation Report’s uncritical presentation of Eurobarometre flash results gives a misleading impression of high levels of satisfaction and of eagerness to exert consumer choice.

The Horizontal Evaluation Report ignores a general warning in the qualitative survey against overoptimistic interpretation of the data from the Eurobarometre questionnaire survey. The qualitative survey ‘put into perspective the often high apparent satisfaction scores observed in the quantitative Eurobarometer surveys’, for three specific reasons:

- because “failure to understand [abstract evaluation criteria], or difficulty in understanding them, may lead ... respondents to give favourable answers stemming from mere assumptions rather than enlightened opinions.”
- “scores that are by and large high, but include a dominant proportion of “fairly good” answers alongside a low number of “very good” replies, may in fact indicate only qualified satisfaction, accompanied by at times significant and serious elements of dissatisfaction”; and
- results are not necessarily comparable because of “the varying degree with which respondents are inclined to express satisfaction or criticism is clearly linked to cultural factors” (XIV.2 p.207).

Without mentioning these reservations, the Technical Annex publishes a graph (figure 3.6) which shows satisfaction levels, across the EU as a whole, of between 92% and 71% for the different Services of General Economic Interest. But this is the result of bundling the answers in a certain way: if ‘fairly satisfied’ is treated as an indication of ‘some serious dissatisfaction’, as suggested by the qualitative survey, the same scores can be aggregated very differently, as shown in the table below: two-thirds to three-quarters of Europeans may have some serious dissatisfaction with all the services, except for gas and air transport where the percentage is still well over 50%.

This means that there are grounds for challenging the generalisation in the summary report that “EU-15 consumers are, by and large, satisfied with the provision of services of general interest but there are several areas for improvement.” (Horizontal Evaluation Report p. 9)

Table 4. Different presentations of consumer responses to Eurobarometre survey

	Horizontal Evaluation Report /Eurobarometre presentation		Alternative presentation		Original scores in Eurobarometre (very satisfied, fairly satisfied, fairly dissatisfied, very dissatisfied, don't know)				
	Satisfied	Dissatisfied	Very satisfied	Some serious dissatisfaction	Vs	Fs	Fd	D	d/k

Gas	92	5	41	56	41	51	4	1	3
Electricity	89	9	32	66	32	57	7	2	2
Mobile telephony	87	12	34	65	34	53	8	4	1
Air transport	87	8	36	59	36	51	7	1	5
Fixed telephony	83	15	31	67	31	52	11	4	2
Postal services	82	18	34	66	34	48	14	4	0
Local transport	71	27	26	74	26	46	22	6	0
Railways	71	27	19	78	19	51	20	7	3

Sources: Horizontal Evaluation Report , Figure 36; Eurobarometre Flash 150 - la qualite des services- Dec 2003; PSIRU calculations

The qualitative survey throws doubt even on the star ratings given to mobile telephony services in the Eurobarometre surveys. Interviewees were told the Eurobarometre satisfaction scores for their own country, and in relation to the price level of mobile telephone services “we see a clear discrepancy in the United Kingdom and Luxembourg between the (predominantly favourable) replies given in the Eurobarometer and the markedly less enthusiastic assessments given by the interviewees in the qualitative study, and also surprise at the high rating of apparent satisfaction both in other countries where this represents the majority (Austria and Finland) and in Member States where it does not (Italy and Portugal). In the future Member States, the same surprise is expressed by some interviewees in Cyprus (where the Eurobarometer reveals a relative majority of people satisfied), Slovakia (where favourable and unfavourable opinions more or less balance each other out), and in Poland and Lithuania (where the latter prevail). Some Hungarians react in the opposite way.” (p. 201)

The Horizontal Evaluation Report also makes use of the Eurobarometre data in response to abstract questions about customers’ readiness in principle to switch between providers or to pay more for different services. There are obvious problems with such hypothetical answers, (especially when the question may be meaningless to the consumer, as the qualitative survey points out) but the Horizontal Evaluation Report spends pages discussing such issues as “46% of air transport passengers claim to consider service quality more important than price when choosing their airline; however, 47% would change airline if prices were cut and only 30% would be willing to use another airline for an improvement in service quality” or “While 30% of consumers would not be willing to change their postal service provider even if price or quality conditions were improved, only 15% of consumers would remain loyal to their current airline.” (Horizontal Evaluation Report , p. 75). The Horizontal Evaluation Report should surely recognise that using a post office is somewhat different from using an airline, that the idea of choosing a different post office on grounds of quality or price is an unreal one for domestic consumers (as opposed to commercial users), and that choice of flights is likely to be strongly correlated with the consumer’s destination rather than a particular airline.

The Horizontal Evaluation Report summary notes that “*caveats should be made about possible differences between declared preferences and actual behaviour*” (4.2, p.11) but some of these discrepancies could be interpreted as a demand for a political solution which cannot be delivered by market mechanisms. For example, 66% of consumers said they would be willing to pay more for energy from renewable sources, but in reality consumers have been offered such a choice under liberalisation, which has not resulted in significant change, as the Horizontal Evaluation Report notes in the section on the actual performance: “*For the EU as a whole an 11% increase in the share of renewable energy over the last 10 years may be regarded as unsatisfactory given consumers’ preferences. This is all the more true given that the absolute share of 15% is still fairly low.*” (p.67). The conclusion from this data should perhaps be that people clearly would prefer more renewable energy, as a political choice, but the market mechanism is not an effective way of implementing this preference, and may actually be an obstacle to it.

2.5.2. Europeans unconvinced by market logic in Services of General Economic Interest

The qualitative survey of consumer opinion “European Consumers and Services of General Interest”, carried out in December 2003³⁰, contains richer data on consumer views than the Eurobarometre data. The results are summarised in a 10-page section (5.4) in the Technical Annex, in isolation from other data.

This data is of great interest for two reasons, neither of which are explored in the Horizontal Evaluation Report . Firstly, it provides a different background against which to interpret other data – like the

interpretation of Eurobarometre data referred to in the previous section. Secondly, it includes consumer views on their experiences of liberalisation, their expectations of competition and their view of the proper role of the state in these services, which allows respondents to express their views on political aspects of the liberalisation directives. It is in effect the only window in the Horizontal Evaluation Report onto citizens' views on the political issues.

The qualitative survey – and the Horizontal Evaluation Report summary - presents the results sector by sector, following a standard set of headings, but there is no attempt to aggregate the responses across sectors. The responses are often sharply critical, in many sectors, of a number of features of liberalisation, showing that the consumers interviewed often:

- have serious criticisms of a service even when they say it is 'fairly satisfactory'
- state that the concept of a contract between them and the suppliers of Services of General Economic Interest make no sense ;
- do not expect profit-maximising companies to share benefits with consumers;
- feel over-charged, deceived or otherwise exploited by the companies;
- think that making complaints is pointless waste of time with no useful result;
- want the state to retain a strong role in these sectors, including price-setting.
- the poorest are most likely to feel that services are unaffordable;
- countries with most experience of liberalisation in a sector are more inclined to be cynical.

2.5.3. Referenda oppose privatisation and liberalisation

These views represent a serious challenge to the principles underlying the liberalisation directives. They also reflect the consistent result of citizens' referenda on privatisation and liberalisation questions in a number of EU member states, including:

- In Hungary in December 2004 65% of voters rejected privatisation of hospitals³¹
- In Germany, in 2004, a campaign for a referendum to oppose water privatisation proposals in Hamburg amassed so many signatures so quickly that the city council abandoned the proposals without risking a referendum;
- In Slovenia January 2003 in two referendum ballots the Slovenians voted decisively against the privatisation of the state railways and the telecommunications industry.³²
- In Netherlands, in May 2002 Amsterdam voted against the privatisation of the city transport company GVB³³
- In Germany, in May 2001 a proposal to privatise Düsseldorf's energy utility (stadtwerke) was rejected by 90% of voters³⁴
- In Latvia in 2000 the government reversed its policy on privatising the electricity company Latvenergo because of the strength of public opposition and the probability that it would lose a referendum on the subject.³⁵

Similar results are observable in other countries too. In Switzerland, where referenda are part of the political system, a referendum was held in September 2002 concerning a proposal to liberalise electricity markets: the proposal was rejected by 52% of voters.³⁶

2.5.3.1. Distortion of evidence

The Horizontal Evaluation Report summary report notes some of the major points but does not draw any conclusions from these results, and attempts to minimise their significance. In at least three respects the Horizontal Evaluation Report comments seriously distort the evidence of the qualitative survey.

Firstly, it suggests that: "*There is some resistance or fears towards the development of competition in those markets where the role of the State was historically - or still is – strong*" (Horizontal Evaluation Report 4.1, p.10) – with the implication that such resistance is based on a backward looking nostalgia for strong states. But there is no evidence in the survey to support this inference. In fact, the opposite is the case: the survey says that in new member states consumers view the prospect of competition developing in these services as a good thing precisely because "*the criticism of monopolistic suppliers is keener still here since these*

suppliers, as heirs to the communist system, are perceived (even more so than in the Member States) as distant, “overpowering”, “tentacular”, and characterised by a “totalitarian bureaucratic” mindset”

Secondly, the Horizontal Evaluation Report notes the survey finding that: “*The idea that public authorities should retain a degree of responsibility and a substantial supervisory and regulatory capacity is seen as a statement of the obvious*” (Horizontal Evaluation Report 4.1, p.10). The survey however makes clear that these views are not expressing agreement with a consensus position on the regulatory role of the state, but are demonstrating opposition to, or suspicion of, competition, and also demonstrating an expectation of detailed state control of services, for example in relation to public transport:

“The possibility of urban transport services being opened up to competition arouses mixed reactions, ranging in most of the Member States from outright rejections of this prospect to the limited or sceptical expectation of benefits for consumers.....the public authorities are expected to provide for close co-ordination and supervision of the operators’ activity: services with minimum frequencies for the whole of the city, technical co-ordination regarding times, places where stops and connections are made, and uniformity of the price system and ticketing – and, often explicitly, affordable prices for all and/or the maintaining of existing “social prices”” (X.1.5, p.162).

It is worth noting that ‘mixed reactions’ means a mixture of outright opposition and scepticism about consumer benefits – enthusiastic support does not feature at all.

Thirdly, the Horizontal Evaluation Report claims that “*the pressure of competition on service providers is seen as a positive element.*” (Horizontal Evaluation Report 4.1 p.10) . However, the survey repeatedly emphasises “*The ambivalence of expectations regarding services being opened up to competition in respect of most of these services*” (XIII.1 p.193-4), and makes clear that the main attraction of competition is to spur improvement and reform by the public sector body, not the right to choose different private operators:

“In many cases what the interviewees expect of competition, at least as much as the possible falls in prices, is undoubtedly for it to act as a spur forcing the public organisations to make reforms, to pay greater attention to the criteria of sound management of the money received from the people (both users and taxpayers) from whom they draw their means of operation, and to change their mentality and behaviour towards the consumers – without there necessarily being a desire to opt for alternative private suppliers.” (I.1.2, p.52)

The survey also shows that criticisms of the results of liberalisation are often strongest in those countries with most experience. In Germany, attitudes towards competition are characterised by “*mistrust stemming from the frequent disappointment produced by the first round of liberalisation*” (XIII.1 p.195) The summary of the qualitative survey results on electricity notes that: “*In those Member States where the process is most advanced (United Kingdom, Germany, Finland, Sweden) but still rather recent, these attitudes are characterised by an interest in principle, which is tempered by the view that consumers will not obviously benefit from the profits (this is the case in Sweden where consumers do not see the price cuts they expected), or by the development of negative side effects such as commercial harassment from rival operators or the difficulty to compare prices.*” (p.78-79).

The same, in effect, is true in rail, where the actual experience in the UK, in particular, has led to strong criticism of the role of competition, and the same UK experience has become sufficiently well known to affect views in other countries: “*People are very sceptical in three countries: Portugal (where the State is expected to continue to play a major role), the Netherlands (where there has been a negative experience of “privatisation” of the railway company) and the United Kingdom (where a negative assessment is given by a majority following the developments that occurred after privatisation). In the other Member States, a very substantial majority of the people simply opposes the prospect of opening the market, i.e., in Finland, Spain, Sweden and Belgium The expectations of guarantees from the public authorities include first and foremost safety, all aspects of which should remain under public control (the United Kingdom being cited in many other countries as a negative example of the consequences that can be expected if extremely strict conditions are not imposed on private operators).*” (p.84)

This data also serves to emphasise the lack of clarity of the Horizontal Evaluation Report's relation to policy, because there is nothing in the conclusions of the Horizontal Evaluation Report indicating that any of this data will be used to review or revise existing or proposed policies in any way at all. Citizens' experience literally counts for nothing compared with the beliefs of the Commissioners' responsible for liberalisation policies.

2.5.4. Limitation in methodology: no data on citizen or stakeholder views

There is an obvious gap in the report's methodology, because it only takes account of consumer views as represented in European surveys, and makes no effort to take account of people's views as citizens. This means that at least three kinds of input are absent:

- Firstly, there is no data at all on the views of stakeholder organisations, political parties, or other civil society groups.
- Secondly, there is no attempt to identify the extent to which questions of Services of General Economic Interest organisation and performance are politically contested issues at local, regional and national level.
- Thirdly, there is no attempt to gather views of citizens in other roles, for example workers in each sector, which could yield interesting insights into the functioning of the services and the impact on them of liberalisation.

The lack of these inputs is not just a technical deficiency. As noted below (3.1), it contradicts the promise given in the methodology paper that there would be stakeholder involvement and permanent monitoring of citizens' views.

3. Developing a democratic and targeted evaluation

The deficiencies and strengths of the Horizontal Evaluation Report can be used as the basis for constructing a better form of evaluation, which would at the same time meet the original aspirations for evaluation of Services of General Interest and Services of General Economic Interest.

3.1. The need for a democratic process

The report lacks any democratic processes, before, during or after its preparation. This is contrary to the promises of the 2002 methodology paper, and to the specific requests of the European parliament.

The 2004 Horizontal Evaluation Report states that it is produced "*in accordance with the Methodology adopted by the Commission in its June 2002 Communication (COM (2002) 331)*". However, that paper promised "*a permanent mechanism for the monitoring of citizens' opinion and their evolution*", the consultation of stakeholders, including the social partners, and a great expansion of public participation.³⁷ (for full text see Annexe 1). Those proposals were themselves very weak – for example, there was never any systematic role for social partners – yet none of these things have happened, except for two consumer surveys. Thus there has been no process of democratic debate, no mechanism has been created for such a debate, and the 2004 Horizontal Evaluation Report makes no reference at all to any involvement of citizens and stakeholders, or to consultations with stakeholder bodies or associations of regional or municipal authorities.

Nor does the 2004 Horizontal Evaluation Report make any attempt to create or encourage democratic debates after the report. The document itself is not addressed to any of the EU's democratic institutions, but simply designated as a 'Commission Staff working paper'. No response or comments are invited from any body in the EU.

The request from the European Parliament in October 2001 specified that public debate should form part of the process. The European Parliament requested greater public participation and proposed to "organise the debate within the various existing forums (Economic and Social Committee, Committee of the Regions, consultative bodies, associations involved in services of general interest initiatives and consumer associations)". The European Commission's paper on methodology in 2002 endorsed this view and said that "*public participation could be greatly expanded ... The results of this debate should be taken into account*

and provide guidance for the annual horizontal evaluation, and the evaluation should itself be the subject of debate", but failed to make any methodological proposals for creating and using the results of such a debate. The methodology of the 2004 report relies on consumer surveys for evidence of public opinion and makes no reference to public debate before or after the report.

Its lack of democratic process also fails to meet the aspirations of the Commission's own paper on evaluation of policy in the EU in general, which stated, in 2001, that: "*As the implementation of European legislation, policies and programmes necessarily entails co-operation between a number of different stakeholders, evaluation can be used as a method for promoting greater mutual understanding and a shared conceptualisation of problems and solutions. Forms of evaluation entailing consultation and involvement can bring together the different stakeholders in calm, non-adversarial circumstances*".³⁸

The need for a democratic process is emphasised by the responses to the special consumer survey, which shows that the European public has developed views and expectations on the role of Services of General Economic Interest, based on experience, which differ markedly from the official view enshrined in current EC policies. It is also demonstrated by the organisation of a number of meetings, especially in central and eastern Europe, concerned with the impact of EC accession on Services of General Interest in individual countries, including a series of meetings jointly organised by the European Trade Union Congress (ETUC) and the CEEP (European Council of Public Enterprises³⁹). And it is further emphasised by the extent of concern over the damage that could be done to Services of General Interest by the draft Services Directive: concerns which led the Commission to withdraw the directive for further revision in February 2005.

Such a democratic process could be built on:

- consultation of stakeholders at national level in all member states, and at EU level
- organised public meetings in member states
- structured debates in the European parliament

3.2. Need for an independent evaluation

The report also demonstrates the need for an independent evaluation. The misleading conclusions drawn from the evidence reviewed are the predictable result of any organisation evaluating the results of its own policies. This was emphasized by the reported comments at the press conference launching Horizontal Evaluation Report, where the EC spokespersons reportedly stated that they believed it was essential to clarify "*the benefits of liberalization which are often badly perceived by the public opinion*".⁴⁰ The EC cannot itself carry out an evaluation of a policy which it is committed to presenting as favourably as possible in order to counter public opinions on the subject. The EC's opinion should become an important input into the evaluation process, not an outcome.

These points were made forcefully by the European parliament in its response to the green paper on services of general interest, but appear to have been ignored.

Independent evaluation could be based on:

- a European observatory on Services of General Interest/Services of General Economic Interest, consisting of experts at national and European level
- guaranteed independence from EC and governments, and accountable to the European parliament
- producing an annual report, a website, and ad hoc reports, covering the objectives noted below
- open to all stakeholders and citizens - including public authorities, operators, consumers/users/citizens, trade union organisations, professional groupings, civil society, research centres, etc – who should be encouraged to provide inputs to and take feedback from the meetings and consultations
- groups representing vulnerable users of services of general interest should receive technical assistance

3.3. Objectives of evaluation

The Horizontal Evaluation Report is significantly more restricted than the original objectives of the horizontal evaluation, which derived from a series of requests from the Council and the Parliament. These concerned the evaluation of Services of General Interest in general, not only network industries, and the evaluation of the impact of liberalisation, not only its contribution to EU-level public service obligations. The earliest request from the Nice Council covered all Services of General Interest, and asked that the evaluation should cover their performance “particularly in terms of quality of service, accessibility, safety and fair and transparent pricing...”. The Laeken Council also expected that the evaluation would cover the performance of Services of General Interest, and include “citizens' and consumers' opinions on the performance of services of general interest and the impact of liberalisation on them”. The European Parliament in October 2001 called for an “evaluation of the real impact of the policy of liberalisation of services of general interest before embarking upon further liberalisation as well as the use of the Cardiff process for regular evaluation of the functioning of Services of General Economic Interest.

The Horizontal Evaluation Report actually avoids evaluating the impact of the liberalisation policy on Services of General Interest and Services of General Economic Interest, except to generate reassurances. It covers many issues relevant to the assessment of Services of General Economic Interest in terms of European level objectives – efficiency, employment, social and territorial cohesion – but fails to identify the EC policies to be evaluated using this evidence. Further, it fails to identify the broader objectives which member states and local governments seek to achieve through Services of General Interest and Services of General Economic Interest, against which the performance of Services of General Economic Interest can be evaluated, after gathering relevant data.

The evaluation should include at least four objectives:

- assess the expected impact of liberalisation on EU level objectives - e.g. efficiency, productivity, price levels etc - against evidence of the actual developments under liberalisation;
- assess the impact of the liberalisation directives, internal market rules, state aid rules and other EU level frameworks on the ability of Member States to organise Services of General Interest according to policies and structures determined locally and reflecting national and local conditions and histories.
- assess the extent to which Services of General Interest in member states contribute to numerous public policy objectives;
- provide sets of comparative information which can assist member states in improving their own services, and assist collaborative arrangements within and between member states.

A clear framework of objectives also makes clear what responses should follow the evaluation. The EC should be prepared to re-assess its policies on liberalisation in the Services of General Economic Interest, and to respond to the results of the evaluation with comments and proposals for action to address the issues identified; member states can use the results for internal review of services, and develop collaboration between member states where appropriate. This cooperative model for improving public service performance is already being used within member states, for example in water services within Netherlands and Austria - liberalisation may make this process more complicated because of commercial motivations to keep information confidential.

3.4. Data and coverage

The Horizontal Evaluation Report has collected some of the data relevant to some of the issues which are relevant to the objectives of evaluation, including data on productivity, employment, ownership, prices etc. It still fails to cover a number of issues, for example transparency, accountability, quality of employment, and equity in financing.

Above all, it fails to do justice to the importance of its subject. The SGEIs include sectors which are amongst the most vital to people and the economy – it is not credible to claim to analyse the performance of public transport, electricity supply, and telecoms in such a small report, even in one country, let alone across Europe. Also, government policies in these sectors are frequently politically contentious, with different

policies associated with different political parties: the Horizontal Evaluation Report however presents it all as a long series of uniform technical issues.

One way of developing the work of evaluation would be to develop extended lists of benchmarking data, but this suffers from a number of problems. First, the benchmarking exercise itself distorts what it attempts to observe, because managers aim to achieve a good benchmark score even at the expense of service. Second, it is impossible to anticipate all data of potential interest, and so such a list risks being out of date. Third, process, functional and strategic benchmarking, which provide a more comprehensive and detailed comparison of performance but are unlikely to be feasible on a European level except in specific sector studies. Fourth, detailed data requirements on all services place a heavy demand on resources, which would be made worse by limited availability, and limited comparability, of some data. Fifth, an insistent search for benchmarking data can obscure more important information which is readily available: a good example of this is the Horizontal Evaluation Report discussion of interruptions in electricity supply, which complains about the lack of data, and resolutely fails to mention that the whole of Italy suffered a complete blackout for hours, only 9 months before the Horizontal Evaluation Report was published.

There is a further problem with a strictly sectoral approach, because the important objectives of public services in a part of the European Union may be satisfied by more than one service. An example of this is heating, which may be provided through electricity, gas or district heating services – the key issue to evaluate is whether affordable heating is available, not whether it is being delivered in the same way throughout the EU. Similarly services may substitute for each other over time: letter post, fax and email are examples of this, as are fixed line, mobile and now internet telephone services.

3.5. Subsidiarity and objectives

It may be better therefore to pay greater attention to the issues relevant to the objectives of evaluation rather than the precise items of data to be collected. On this approach, it is important to specify, for example, that the performance of public transport systems should be assessed by reference to their success in reducing pollution and congestion, and their success in providing anxiety-free mobility to all regardless of income.

It is also clear that the evaluation of these services should be carried out as specified by the public authorities responsible for providing the services to their citizens. But these objectives will be cumulative, so that there will also be national objectives relating to public transport (for example regional development) and EU-level objectives (territorial cohesion, employment, etc).

So a realistic approach could be for the EU, together with representatives of member states and public authorities, to identify a set of basic data required for all Services of General Economic Interest, and then identify further data, annually, as a result of the stakeholder discussion process, and through ad hoc studies in more detail.

The data requirements and coverage could thus be specified in the most general form as follows:

- identify key subjects for annual reporting in each sector (employment, affordability etc)
- identify basic data in each subject area and sector for annual collection (number of employees, price levels, etc)
- identify key subjects for recurrent special reports e.g. financing
- identify other ad hoc subjects for special reports as a result of stakeholder discussions e.g. blackouts

4. Summary and conclusions

- The report identifies much data of interest and relevance but fails to note other data of importance and relevance, and often fails to draw reasonable conclusions from the data that it does. One reason for this is that the report is concerned above all to avoid any criticism of liberalisation. The net result is a statement of ideological complacency pasted over an incomplete review of evidence. (2)

- The data on employment shows that there **is** clear evidence of systematic links between sector liberalisation/privatisation and reductions in employment. - the opposite of what the Horizontal Evaluation Report claims.
- Results from surveys suggest that observed gains in labour productivity from liberalisation and privatisation are a ‘one-off’ rise in productivity caused by labour-shedding, with no continuing benefit after the initial restructuring; and that deregulation may be linked to *lower* levels of productivity and with a *reduction* in research and development (R&D) and growth rates. These findings seriously undermine the case for liberalisation.
- The report includes survey results which show that consumers often have serious criticisms of a service even when they say it is ‘fairly satisfactory’, do not believe in a meaningful ‘contract’ with their suppliers, do not expect profit-maximising companies to share benefits with consumers, feel over-charged, deceived or otherwise exploited by the companies, think that making complaints is a waste of time with no useful result, want the state to retain a strong role in these sectors, including price-setting, some – most of all the poorest – feel that services are unaffordable: and people in countries with most experience of liberalisation in a sector are more inclined to be cynical.
- There is nothing in the conclusions of the Horizontal Evaluation Report indicating that any of this data will be used to review or revise existing or proposed policies in any way at all. Citizens’ experience literally counts for nothing compared with the beliefs of Commission officials.(2.5.2)
- The report is not addressed to any of the EU’s democratic institutions, and no response or comments are invited from any body in the EU. Evaluation should be a democratic process, as requested by the European parliament, built on consultation of stakeholders, organised public meetings in member states, structured debates in the parliament.
- The report also demonstrates the need for an independent evaluation. The misleading conclusions drawn from the evidence reviewed are the predictable result of any organisation evaluating the results of its own policies.
- Independent evaluation could be based on a European observatory on Services of General Interest/Services of General Economic Interest, consisting of experts at national and European level, producing an annual report, a website, and ad hoc reports, all open to all stakeholders and citizens - including public authorities, operators, consumers/users, unions, etc –to provide inputs to and take feedback from the meetings and consultations
- The evaluation should cover different objectives, including assessment of the expected impact of liberalisation against evidence of the actual developments; assessing the impact of the liberalisation directives, internal market rules, state aid rules and other EU level frameworks on public service objectives as specified by the public authorities responsible for providing the services to their citizens.; providing sets of comparative information to assist member states in collaborative improvement of services.

Notes

- ¹ Position of Large Power Producers in Electricity Markets of North Western Europe. Report for the Dutch Energy Council on the Electricity Markets in Belgium, France, Germany and The Netherlands M.J.J. Scheepers, A.F. Wals, and F.A.M. Rijkers. April 2003 ECN-C--03-003 <http://www.ecn.nl/docs/library/report/2003/c03003.pdf> ; Boots M. and Scheepers M. 2004 "Modelling concentration on the electricity market" Paper for 6th IAAE European Conference 2004: Modelling in Energy Economics and Policy <http://www.sae.ch/sae2004/Boots%20and%20Scheepers%20Paper.pdf>
- ² A good summary of the problems is set out in "The Myth of Effective Competition in European Power Markets" EREC (European Renewable Energy Council). 2004. By C. Kjaer and O. Schäfer http://www.ewea.org/documents/Myths_final.pdf
- ³ Technical Annexes to the Report from the Commission on the Implementation of the Gas and Electricity Internal Market COM(2004)863 final Brussels, 5.1.2005 SEC(2004) 1720 http://europa.eu.int/comm/energy/electricity/benchmarking/doc/4/sec_2004_1720_en.pdf
- ⁴ Report on the blackout in Italy on 28 September 2003 November 2003 . <http://www.energie-schweiz.ch/imperia/md/content/energiemrkteetrgerotechniken/elektrizitt/strompanne03/3.pdf> English press release at <http://www.energie-schweiz.ch/imperia/md/content/medienmitteilungen/mm06-122003/89.pdf>
- ⁵ "Why Europe will face more US-style blackouts - Background paper by Claude Turmes, Member of the European Parliament and rapporteur on the electricity liberalisation directive. October 2003.
- ⁶ Electricity Market Design: An analysis of the current dysfunctioning of the wholesale market in major parts of the EU September 2004 International Federation Of Industrial Energy Consumers. <http://www.ifiec-europe.be/electricity/Elec16.htm>
- ⁷ European Economy Economic Papers N° 209 August 2004 The link between product market reform and macro-economic performance by Rachel Griffith (IFS and CEPR) and Rupert Harrison (IFS) . http://europa.eu.int/comm/economy_finance/publications/economic_papers/economicpapers209_en.htm .
- ⁸ European Economy Economic Papers N° 209 August 2004 The link between product market reform and macro-economic performance by Rachel Griffith (IFS and CEPR) and Rupert Harrison (IFS) http://europa.eu.int/comm/economy_finance/publications/economic_papers/economicpapers209_en.htm
- ⁹ Griffith and Harrison p.105
- ¹⁰ European Economy. Economic Papers. No. 208. July 2004. European Commission. Brussels. An analysis of EU and US productivity developments (a total economy and industry level perspective) Cécile Denis, Kieran McMorro and Werner Röger (Directorate General for Economic and Financial Affairs). http://europa.eu.int/comm/economy_finance/publications/economic_papers/2004/ecp208en.pdf
- ¹¹ Denis et al argue that their results and those of Griffith and Hqarrison are more reliable than those of a 2003 OECD report which claims there is a positive link: "an OECD (Nicoletti and Scarpetta (2003)) study which finds a positive effect of deregulation on total factor productivity . However, the results presented by the OECD are not clearcut and are open to some interpretation. The study finds that productivity gains are mostly associated with privatisations and not with levels of regulation in general. The study also finds that deregulation mostly facilitates technological catching-up but that there is little evidence that it leads to outward shifts in the technological frontier. Whether productivity gains from privatisations can be interpreted as true dynamic efficiency gains is also questionable in the light of the CEPR-IFS study which also finds productivity gains from privatisations (in network industries for example) but these are associated with reductions in employment. Thus the effect of privatisations could be temporary productivity improvements related to a reduction of economic slack in previously publicly owned companies."
- ¹² Annual Report on the Implementation of the Gas and Electricity Internal Market COM(2004) 863 final Brussels, 5.1.2005
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