10 Integrating Regulated Networks Markets in Europe

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10.1 Introduction

The process of creating a single European Union (EU) market for goods and services has gone through several stages, from the early removal of tariff barriers to trade in merchandises, to an increasingly complex period of integration in services provision. The integration of services provided over networks is probably one of the last and most sophisticated phases in the long journey towards the integration of the European market.

This chapter argues that in regulated network markets, integration should not be an end in itself. The conventional gains from trade or freedom of establishment, which are at the root of the traditional case for economic integration, may be outweighed by significant welfare losses in regulated markets, if integration involves the choice of a misguided deregulation model. Moreover, the design of the integration process will affect the distribution of the gains from integration, and this may be unacceptable to some of the countries and/or social groups involved.

The chapter suggests that depending on the industry under consideration, the design of the deregulation cum integration process should ensure the maintenance of a level playing field and the protection of country-specific strategic interests, to varying degrees. This may lead to the use of a variety of integration tools, combining sometimes strong harmonization

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1 Comments by conference participants and an anonymous referee are welcomed.
of some regulations with a large degree of freedom at the Member State level in other domains.

The chapter is organized as follows. Section 10.2 reviews the ways in which product and service markets may be integrated and considers the experience of EU integration regarding product markets and unregulated services markets. Section 10.3 highlights the distinctive features of network markets and discusses how those peculiarities affect both the evaluation of the gains from integration and the choice of the most appropriate integration strategy. This general discussion is illustrated in Section 10.4 with a brief analysis of the experience so far in the integration of three key network markets: banking, telecoms and electricity. Based upon this industry-specific analysis, Section 10.5 concludes with recommendations for the strategy of the EU in the integration of this type of service industries.

10.2 Strategies for market integration

The achievement of a single market, beyond the simple formal elimination of trade barriers and the impediments to the establishment of foreign providers, requires that the authorities decide upon the general rules that will be applied to the products or services exchanged in the marketplace and to the firms that provide them. This is the case even in lightly-regulated product and service markets for two reasons. First, because even for the less regulated goods, there may be technical or safety standards that have to be satisfied for the general acceptance of a good in trade. And second, because the existence of these minimal regulations may in fact be used by countries as protectionist devices. That is, as artificial obstacles to trade that maintain market segmentation.

These basic regulations or standards may be of two types: product and process standards. Product standards refer to conditions imposed on final goods, say for reasons of safety or technical compatibility. In services, these standards may refer to the quality of the service being provided, for example. Process standards, on the other hand, deal with the conditions that have to be satisfied within the firm, for example in terms of taxes, environmental controls or the use of some types of inputs (labour).

10.2.1 Strategies

The creation of a single market may be achieved by a full harmonization of all these rules. This is, of course, the most stringent type of integration strategy. It guarantees the free flow of goods and services and the subse-