

Energy Markets
The need for Fully Liberalised and Well-functioning Markets in Europe
Energy Committee

01/03/2007

THE ISSUE

Over the past two years, energy prices have risen dramatically – by around 40% on average – and they are still increasing. As a result, the competitiveness of the European pulp & paper industry – an energy intensive industry – has deteriorated sharply. Pulp and paper prices are set on worldwide markets and our industry cannot pass on higher regional costs to its customers.

The liberalisation of the energy markets has not fully materialised and one cannot talk about a single European energy market yet, far from it. In both electricity and gas markets, old monopolies remain dominant and the structure of the supply is oligopolistic with little room for new entrants. The lack of competition and transparency in the price setting mechanism and the unambiguous unbundling of network operators is obvious. The possibility of having long-term supply contracts is under threat to be replaced by the prospect of short-term contracts and peak prices.

The European Commission launched a competition investigation and an inquiry in June 2005 with the aim of assessing the competitive conditions operating in the European gas and electricity markets. The overall objective of the inquiry was aimed at addressing barriers that impeded the development of a fully functioning, open and competitive EU-wide energy market. A deadline of the 1st of July 2007 was set.

IMPACTS ON THE INDUSTRY

The preliminary report of the European Commission's inquiry into the energy sector confirms the initial findings and identified five main barriers to the creation of a fully functioning, internal energy market: market concentration; vertical foreclosure; lack of market integration; lack of transparency; and distorted price formation.

Energy accounted for 19% of the total operating costs of the European pulp and paper industry in 2005, compared to 15% in 2001 – a difference of more than €10 billion. Increased uncertainty about the energy markets and related legislation has made the EU a high-risk area for new investment.

CEPI'S POSITION

European and national competition authorities must improve the current regulatory framework and secure immediate, full and strict implementation of existing legislation. This should help create a more competitive and transparent environment for electricity and gas supply, making full use of competition policy.

Public authorities should evaluate current initiatives related to pooled generation, long term contracts and partnerships. Possible solutions and good practices that conform to competition and internal market rules should be identified and promoted. Binding guidelines relating to cross border electricity and gas transmission should be encouraged, with a view to facilitating the creation of well functioning regional markets. This will support a vital step towards a single European energy market with harmonised rules for all key operational aspects such as non-discriminatory grid access, transmission tariffication, capacity allocation, congestion management, transparency and network operating.

Long term policy predictability is essential for energy-intensive industries such as the pulp and paper industry, as well as for energy suppliers, since investment cycles are typically rather long. To secure long-term energy supplies at competitive prices, Member States must shorten the time needed to authorise investments in electricity generation capacity, gas import infrastructure, internal interconnections and strengthened distribution grids.

ADDITIONAL INFORMATION

Additional information can be received on request.

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