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Barriers need to be lifted for an integrated market

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Cross-border moves in regulated sectors have brought out the protectionist instincts of several European governments. When Italy's Enel eyed Suez, France reacted by proposing to merge the utility with state-run Gaz de France. When Germany's Eon launched a bid for Endesa of Spain, naively solicited by the company to defend itself from Gas Natural, Spain reacted by asserting its regulatory capacity.

When Spain's BBVA and the Netherlands' ABN-Amro attempted to take over, respectively, the Italian banks BNL and Antonveneta, the former governor of the Bank of Italy opposed the deal. He was finally replaced and, in the end, BNL was acquired by BNP Paribas and the Antonveneta bid succeeded. But when Spain's Abertis proposed a friendly merger with Italy's Autostrade to create one of the world's largest motorway groups, former officials of European institutions such as Romano Prodi, Italian prime minister, and Tommaso Padoa-Schioppa, finance minister, put obstacles in the way, going against their previous principles.

The reaction of governments is at first sight all the more surprising since in regulated sectors the national regulator controls companies' activities and can protect consumers' interests. National governments and regulators have considerable leeway to affect the profitability of regulated companies. If the industry has natural monopoly segments, the regulator will keep power over investment in those areas, such as transmission and distribution of electricity or the motorway part of a roads concession. In industries with no natural monopoly segments, such as banking, the competition authorities' role is more direct in making sure that a company created by a merger has no excessive market power. The UK is a good example of such an approach.

The ideal for Europe would be to have a market with no artificial barriers to entry in regulated sectors. This would benefit consumers. However, there are many apparent inconsistencies in the way rules are applied. Brussels, for example, blocked a joint bid by Energias de Portugal and Italy's Eni to acquire Gas de Portugal, on the grounds that the merged company would have a dominant position; but earlier in Germany it had not been able to prevent Eon taking control of the Ruhrgas pipeline company. The energy market in France, meanwhile, remains closed and government-controlled. Governments and companies from big countries often have stronger lobbying capacity in Brussels than small countries. Furthermore, the tools of European competition policy are limited because of the different national ownership and regulatory structures. This makes the position of Brussels delicate.

The playing field looks uneven and this fuels protectionist reactions. Is this to the benefit only of some narrow interest groups close to political power? The broader question is whether a government should respond in kind to protectionist measures or disarm unilaterally. This dilemma has already been posed in trade policy. The UK seems to have opted for the second option and much of continental Europe for the first. There may be a strategic calculus here. A country that disarms early puts the consumer first but may give away the opportunity to have some global players, strong enough to compete in an integrated market, that generate local positive spillovers in the national economy and capture profits abroad.

In any case, the perception that companies from large countries such as Germany or France - and even Italy - have a chance to become global players, well protected by their governments and (implicitly) by Brussels, while others face insurmountable obstacles, except in the open UK, seems damaging to integration prospects. The latest example is Brussels' go-ahead for the French government to keep a golden share in a privatised GdF.

It is urgent to establish an even playing field for European companies, particularly in regulated sectors. What is and is not "strategic" must be clarified and the rules for everyone must be implemented. This would mean a unified regulatory corpus at the European level, badly needed in the energy sector as stated in the plan put forward by José Manuel Barroso, European Commission president, for example. The ideal of an integrated market needs the simultaneous lifting of national barriers, since a piecemeal approach is vulnerable to the strategic games of large companies and countries. The end of uneven treatment would eliminate any excuse not to put the consumer first; it would defeat protectionist instincts and benefit European citizens.

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