

Competition Through Regulation: The Case of Turkey

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1

Reasons for Regulation

Two Alternatives

- Economic Approach
 - Decreasing AC, Network Externalities etc.
- Political Approach
 - Eliminating rent extraction
 - Or, creating new rents

2

Slowing Liberalization in Electricity

- Many countries slow down restructuring and liberalization
- More reservations about the social consequences of liberal market structure
- Turkey's experience
 - 2001 Law aims liberalization
 - 2004 Strategy Paper increases government role
 - 2008 A New Strategy Paper, probably more government control

3

Economics vs. Politics or Kaldor-Hicks vs. Pareto

- Two metaphors
- Kaldor-Hicks: Improve social welfare, even though some get worse
- Pareto: Try to make everybody happy, which definitely costs some efficiency

4

Turkey's Dilemma

- In the beginning, economic considerations were dominant. Everybody wanted efficiency

(A coalition government and a deep crisis helped independent regulators and liberalization)

- Then, political factors weigh in. After all, we have elections.

(AKP have had supermajority for the last 5 years, which reduced the independence of EMRA)

5

Why do We Want Regulation?

- **EML article 1** – The purpose of this Law is to ensure the development of a financially sound and transparent electricity market **operating in a competitive environment** under provisions of civil law and the delivery of sufficient, good quality, low cost and environment-friendly electricity to consumers and to ensure the autonomous regulation and supervision of this market.

6

Competition Policy in Electricity

- EMRA or Competition Authority? Which one will be responsible over competition policy?
- Complements or Substitutes?
 - Theoretically complements
 - Practically substitutes
- Pro-regulator arguments
- Pro-competition authority arguments

7

The Trends

- As markets liberalize, we expect the role of the Competition Authority to increase.
- But, even the generation segment does not fare well in competition.
- The Competition Authority shies away from dealing with anti-competition issues in electricity boldly.
 - Political reasons
 - Heavy government involvement in electricity
 - Legal ambiguity

8

Competition: is it here?

Three major variables:

- Prices
- Market Power
- Market Access

9

Prices

- We expect them to fall with competition
- Yet, prices do not fall.
 - Political behavior explains better the timing of price increases in Turkey.
 - Prices rose in Europe and the US as well.
- The United States example.
 - Prices rose more in the restructured markets.

10

Market Power

- EUAS has around 60 percent of the installed capacity
- TETAS stays as a monopoly, likely to be permanent.
- There is an upper limit to private companies' market share.
- In an oligopolistic structure, which authority will supervise strategic behavior of large generators, public or private?

11

Market Entry

- There is potential for new entry because of excess demand
- Long-term contracting
- Stranded costs as a barrier to entry
- New entrants will likely to accommodate to the existing market structure.

12

A Reality Check?

- What does the Competition Authority Do?

A number investigations

CEAS case

TEDAS case

ERE case

13

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- A Passive attitude toward energy markets
- CA approved all mergers in the industry
- Electricity is a 'political good' before it is an 'economic good'.
- Political preferences always dominate economic considerations.
- In a majority government, CA will be aligned with political preferences.

14