MISSION REPORT BY DARRYL BIGGAR ON SEMINAR ON COMPETITION IN NATURAL GAS

-- Porto Alegre, Brazil, 6-8 December 2000 --
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Seminar on Competition in Natural Gas
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Summary

1. This event both provided valuable policy dialogue for Brazil and provides an excellent example of a theme that both the CLP Division and CCNM have been emphasising – the integration of the OECD’s work for Members and its work for non-Members. The event focused on policies for promoting competition in Brazil’s nascent natural gas sector. It was stimulated by the roundtable on Natural Gas regulation held in CLP Working Party 2 in February 2000. Brazilian delegates to that roundtable took home documents and ideas that led to significant debate within the Brazilian government and a decision by a Brazilian competition authority to organise this event. (They graciously credited the OECD as a co-sponsor.) During the event, which was attended by about 100 delegates (mostly from regulatory agencies), two of the Brazilian speakers referred directly to other documents that WP2 has been considering, particularly those relating to “vertical separation” of natural monopolies, thus providing further evidence of the impact of OECD competition policy work.

Background

2. This event, organised by SDE (one of Brazil’s three entities with competition policy responsibility) was focused on policies for promoting competition in Brazil’s nascent natural gas sector. Natural gas regulation in Brazil is partly a federal government responsibility and partly a state government responsibility.

3. This event was attended by about 100 delegates, mostly from regulatory agencies, including ANP (the petroleum regulator), ANEEL (the electricity regulator) and numerous state-level regulatory agencies. Industry representatives, lawyers and academics were also present.

4. I was one of two international guests. The other guest was Ed Murrell, a natural gas expert from FERC (the US Federal Energy Regulatory Commission).

5. Natural gas was little used in Brazil until last year when a major new pipeline opened from Bolivia. This pipeline is regulated by the federal government. Its major customers are local distribution companies which are regulated at state level. The distribution networks are still largely in their infancy. Only Sao Paolo and Rio have sizeable existing distribution networks. The government has plans to increase the use of gas in Brazil’s energy supplies up to 12-15%, primarily through substantial investment in new gas-powered electricity generation facilities.

6. The interest of the Brazil competition authorities in this topic is a result of their role in the privatisation process. Under Brazilian competition law, the competition authority must approve the purchasers of privatised assets. In this case SDE, one of the competition authorities, has recommended conditioning the privatisation of distribution companies on substantial competition-enhancing measures at the state level. There remains a jurisdictional question on the extent to which a federal agency can require changes to state-level regulatory regimes.
7. In preparing for this seminar, I liaised with Sylvie D’Apote, who is a specialist in Latin American energy policy at the International Energy Agency.

**Highlights**

8. This event was stimulated by the roundtable on Natural Gas regulation held in CLP Working Party 2 in February 2000. Apparently the Brazilian delegates to that roundtable took home documents and ideas which has stimulated significant debate within the Brazilian government. This seminar was one expression of that. Ed Murrell, the other international guest at this seminar, was introduced to the Brazilian’s at our roundtable in February.

9. Other aspects of the work of CLP Working Party 2 are also having an impact. Two of the speakers made direct reference to Working Party 2 documents, particularly the work on vertical separation, using the arguments in our recent paper to argue the importance of separation.

10. Two clear debates emerged – the first was over the question of vertical separation. The state regulators were much more open to allowing integration of distribution and “marketing” companies, on balance. The competition authorities (drawing on WP2 work) argued strongly for separation. The second debate was over the need for granting a period of exclusivity (monopoly) to the privatised distribution companies. The competition authority was sceptical of the arguments.

11. My presentation focused on the policy steps necessary to promote competition in the natural gas sector, drawing on the examples of the UK, US, Australia and, importantly, Argentina. This message was very well received, particularly from the competition authorities. I also distributed copies of our roundtable GDs and other IEA documents. Copies of my presentation were circulated to all participants in the materials handed out at the beginning of the event.

12. I have asked to be sent copies of the other presentations, which I will pass on to the IEA.

13. The Director of the SDE was very grateful for the OECD participation in this event. He repeatedly raised the possibility of a further event of this kind, on pharmaceuticals, in the first half of 2001.