Concluding Remarks for

Energy Markets in the 21st Century: Competition Policy in Perspective

by

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These comments reflect the views of the speaker and not necessarily those of the Federal Trade Commission or any individual Commissioner.

I am delighted – and I at least think it is appropriate – that economics gets the last word at this conference. When I talk to people about energy policy, I often hear two quite distinct approaches. One is to forecast our energy needs, survey the available resources and supply, and then describe what investments we as a nation need to make. That is the planning approach. The other is to assess whether markets provide proper incentives for businesses and consumers to address our energy needs efficiently and, if not, whether the problem is an inherent imperfection in market mechanisms or, alternatively, the result of distortions created by unwise government policies. That is the economic approach.

It won't surprise you that I lean heavily toward the latter. In part, that reflects my choice of career. I would also argue though that the economic approach lies at the heart of the mission of the Federal Trade Commission. In the United States, the broad strategy for arranging for adequate energy supplies is to rely on markets to do the job.

The reliance on markets requires something of a leap of faith, albeit one that is supported by the available evidence. As was discussed Tuesday morning, the United States experienced two major oil shocks in the 1970's. Those experiences provide evidence of the difficulties of trying to manipulate markets. The gray-haired among us remember well the gas lines. And, viewed over a longer horizon, the oil shocks provide evidence of the power of the market to generate solutions. When gasoline prices were high, Americans started driving smaller cars; and the more recent trend toward large cars reflected both a decline in the real price of gasoline and regulatory distortions created by, for example, CAFE standards. The hurricanes of 2005 provide another dramatic example of the power of markets. Yes, prices went up; and yes, there were shortages. In light of the extent of the devastation, however, it is remarkable that prices did not go up higher than they did and that they returned to pre-hurricane levels so quickly.

And, yet, even with this evidence, the notion that markets will continue to provide solutions, that they will provide appropriate incentives to conserve and produce and generate new technologies to manage our long run energy needs, and that they will help minimize the problems created when future disasters strike, requires a leap of faith. If I were to point to one lesson that I have learned at my time at the Commission, it is that the argument that we should rely on energy markets can be a tough sell. It is not such a tough sell when prices fall; but when prices increase, people complain and allege a failure of competition.

The Federal Trade Commission's principal role in energy policy is to make sure that markets are competitive. It reviews mergers to make sure that they do not alter the structure of markets so as to create an incentive to exercise market power. It also attacks anticompetitive practices as when it challenged Unocal's abuse of the standard setting process with respect to CARB gasoline.

Important as these activities are, the premise behind this conference was that competition policy is just one piece of energy policy. Understanding the broader context of energy markets and energy policy will help the Federal Trade Commission in its enforcement of the antitrust laws. In addition, the job of the competition agencies is easier the more the public at large understands how competition and markets work. I hope that this conference will have informed the public as much as it has informed us.

This conference reflects the hard work of many people at the Commission. Time does not permit me to acknowledge all of them now, but I think we owe a special debt of gratitude as well as hearty congratulations to John Seesel, the main organizer. Like the belief in markets, putting on a program of this sort requires something of a leap of faith. John kept the faith and also accepted ultimate responsibility for making sure that the program was a success both substantively and logistically.

Most of all, though, I would like to thank all our speakers, panelists, and moderators over the last three days for the interest you have shown in this conference and for the thought and effort you have put into your participation. Thank you for sharing your expertise with us and with the public. From our standpoint, we have found it to be most worthwhile, and I hope that you have found it worthwhile as well. For those of you who have traveled a long distance to join us, have a safe journey home.

Thank you.