The Conseil de la concurrence calls for greater competition in the market for water supply to the Ile-de-France region

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Publishing decision 05-D-58, relative to practices observed in the drinking water sector in Ile-de-France, the *Conseil de la concurrence* draws the attention of the region's local administrations to the importance of introducing real competition into the upstream market for water supply.

The specific nature of the water supply market in Ile-de-France

The water production market is dominated by three operators: the *Syndicat des eaux d'Ile-de-France* (Sedif) with 37% of the market, the *Société anonyme de gestion des eaux de Paris* (Sagep) with 33%, and the *Lyonnaise des Eaux* group with 19%. Between them, these three companies cover 90% of the Ile-de-France region's water needs.

There is a great surplus in water production in the Ile-de-France region, since twice as much water is produced than is consumed. This surplus is far in excess of the margin generally needed to guarantee the security of supply and cover consumption peaks in summer.

In addition, water producers' networks are interconnected by primary or secondary pipelines, mainly to allow emergency supply where necessary.

The water suppliers do not offer any wholesale water sale prices to consumers

located outside their respective distribution zones. This prevents the formation of wholesale prices by market mechanisms.

The market remains therefore partitioned between the various zones controlled by each producer.

Municipalities or associations of municipalities are either small and only own the terminal portion of the distribution networks that serve them, or they form large integrated companies who grant contracts for management of the entire production and distribution chain they own to one of the two biggest operators: CGE (Compagnie Générale des Eaux) for Sedif and Sagep (north side of the Seine), the Lyonnaise des Eaux group for Sagep (south side of the Seine).

Although all the technical conditions (resources and interconnections) needed for the creation of a wholesale water supply market are satisfied, the market is still partitioned between the different zones controlled by each producer.

In the absence of a wholesale market, there can be no competition between water producers when concession contracts are awarded for water distribution, and it is very rare for a concession to be awarded to a company other than that which produces the water.

Municipalities have a special role to play in introducing greater competition into the market for the supply and transportation of water.

The *Conseil* insists that municipalities in the Ile-de-France region have, from now on, the option to separate the water supply market from the water distribution market when they call for competing bids for new public service water distribution concessions.

By unbundling the two markets in this way, municipalities would be able to access the cheapest water resources available, thereby benefiting their users,

whilst also taking advantage of the best distribution services on offer.
Indeed, municipalities are within their rights to:

- cease working exclusively with the wholesale water supplier which holds the monopoly for the medium-flow network serving their area;
- and unbundle their public service concession contracts, when they are put up for renewal, by separating the wholesale water supply aspect from the local distribution service in the municipality.

The behaviour of Lyonnaise des Eaux illustrates clearly and concretely the means by which an operator with a de facto monopoly for the supply of water, has succeeded in winning a concession contract for water distribution from a public association.
The Lyonnaise des Eaux group offered the Syndicat du nord-est de l'Essonne (NEE) a wholesale water price - for supply alone - that was some 17% higher than the price offered in its global "supply + distribution" bid. This amounts to a tied reduction, which was clearly intended to handicap any competing bid for distribution only, since it enabled Lyonnaise des Eaux to act in a discriminatory manner, offering a price lower than that offered as part of its separate wholesale bid.
Meanwhile, the behaviour of the Syndicat des eaux d'Ile-de-France shows how an operator with a de facto monopoly for the supply of water acted to prevent any opening, even temporary, in the wholesale water market. Sedif deliberately put pressure on the final negotiations for a water supply contract between one of its main clients, Semmaris (the company managing the Rungis National Interest Market) and its competitor, Sagep, which was prepared to deliver wholesale water supplies to the Rungis National Interest Market at a price 22.5% lower.

See the decision (05-D-58)