

Enhancing Efficiency of Water Supply

Product Market Competition versus Trade

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ABSTRACT

This paper analyses and compares potential efficiency gains induced by the introduction of product market competition and cross boarder trade in the piped water market. We argue that due to the specific circumstances in the water sector product market competition, i.e. competition by common carriage is not expected to be very intensive. The connection of networks could alternatively be used for cross boarder trade between neighboured water utilities. We show that competition by common carriage leads to production incentives for the inefficient supplier. This implies that the retail prices tend to be lower than with cross border trade. However, the efficiency effect dominates and resulting welfare is higher in case of trade.

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