Utility Globalization

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Not too long ago I met with two young representatives of a Brazilian utility. They looked at me strangely when I told them they should be prepared for US utilities to enter their market. Why, they wondered, would the weak Brazilian market attract money, time, and attention from a huge, well developed one?

Probably they had not thought through the implications of US utility deregulation. Perhaps they were not fully aware of the make-up of consortiums which bought generating plants when neighboring Argentina privatized its system in the mid-1990's. Most basically, they probably failed to pay attention to forecasts of long-term worldwide economic growth rates.

These forecasts project average annual growth of 1-2% for mature, developed economies while developing economies are projected to grow at 4-6%. This growth rate differential acts as a siphon for capital. In developing economies population growth continues apace and markets are far from saturated. Growth means expanding operations and new projects, requiring new infrastructure and investment. And the investments are justified by higher than normal returns. Since these countries are capital poor, they become net borrowers, attracting and utilizing funds from the developed economies.

On the other hand, the mature economies offer huge revenues but limited growth. Population and energy demands are stable and traditional energy markets saturated. Moreover, deregulation has made protected and assured profit margins a thing of the past. Competition promises to reduce profit margins towards zero, a textbook phenomenon seen in increasingly competitive offers for commodity supply. In this context, is it a surprise that the utility industry sought reform of laws restricting

foreign activities? Finding new markets is an essential strategy in the newly competitive, cannibalistic environment.

Deregulation is also ending protection of smaller, weaker utilities which fall prey to acquisition. The industry's capital is becoming less fragmented. Increasingly large and concentrated asset bases provide the resources necessary for global expansion. The boundaries between energy sectors are breaking down: gas pipeline giant Enron enters electric markets and British Petroleum acquires the world's largest interest in photovoltaics. Meanwhile, multilateral institutions such as the World Bank promote policies which facilitate international financial flows.

So my Brazilian colleagues need to be ready, need to plan ahead. If they are not prepared for an influx of foreign capital, they will be swallowed up by it. To avoid this they will need to study foreign utilities, new technologies, and competitive practices. They can develop plans and projects, based on superior knowledge of their customers and their local situations, which can offer attractive returns with minimized risk. In the process they will be planning new infrastructure for their nation and new services for their people. Or they can remain passive pawns of international capital flows, sit by, …

and see what happens.

ABOUT THE AUTHOR

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