SUSTAINABLE GOVERNANCE FOR DURABLE DEVELOPMENT OF ENERGY MARKETS

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Abstract

This paper emphasizes the need for a new approach in the management or governance of creating fine-tuned frameworks that help the government or private contractors in reaching durable development when it comes to energy markets and the way they are built. The approach on energy markets will reach the issues of vertical and horizontal integration, this way the research was a bias towards a qualitative side with the perspective of creating new pathways for reaching equilibrium from the economic perspective by taking care of the social factor.

Keywords*: development, energy markets, governance, sustainability*

1. Introduction

This research is disclosed by shaping the example of a company that creates only one good and scales its business, this way the higher the production, the lower the production costs, and by using allocation efficiency on almost perfect markets we could discuss about a higher than usual profit without increasing revenues, just profit margins. Is this possible in large, state owned enterprises? Many of them operate with losses that are assumed by the state, and in theory their losses are seen as negative externalities that hit the market, being in the same management pool as poor corporate governance and implementation. Poor corporate governance is the antithesis of sustainable governance, the latter one being a main characteristic of the private sector, but first one is "achieved" when politics and especially politicians get involved. Another view on the subject could be seen through the fact that in monopolies developed by the state, but run privately, although the profit margins are larger than usual, on the long run, those companies tend to bleed money, not accumulate large financial capital.

2. Inefficiency – the name of the game in state owned enterprises

State-owned enterprises are shadowed by inefficiency, be it because of the lack of interest from the state managers (named through a political algorithm), or be it by the fact that these companies don't see the horizon of budgetary constraints, a barrier that makes or brakes a company on the long run. In some countries local governments try to create stimulus packages for state managers, but it is quite hard to make a connection not only with the profits side, but also with the trends and perspectives of the company, especially when it comes to the energy sector [1]. Another moral issue is when to connect wages and bonuses with the state payments framework, because there will be state managers, especially in the critical infrastructure sector of the energy

markets that will earn several times more than the president of the country he works for [2].
Efficiency in the private sector couldn't be compared with the more diluted efficiency of the public sector (where the state owned companies reside), so when it comes to the energy sector we should discuss the basic situation: from where do we start calculating efficiency in the energy sector? Well, it all start with the process behind the way that energy is obtained, so the initial costs and the way first hand profits are obtained, the operational profits [3]. When it comes to the fact of reaching profits, developing the process of obtaining energy and distributing it, are two different processes that are surrounded of different profit enhancing techniques, to which we add the fact it the energy company is state owned or publicly traded (as a majority of stakes), because in this case there are issues signaled, the main one being that the state owned enterprises don't have as main targets reaching some certain profits, breaking even being also acceptable, but also some early targeted losses being susceptible.
In 1988, Joseph Stiglitz [4] stressed the idea that there are sectors of the global economy that are filled with state owned enterprises and are faking the game by following the long run as making profits, but on short run they have huge losses, fact impossible to achieve or target by profit based companies (known as companies that are part of the private sector).
Research shows that sustainable governance goes hand in hand with country' development and the exponentially with the number of investors and innovators.
Large scale privatizations are targeted to reach new profit margins for the new ventures [2] [3]. Post privatization should create positive externalities in almost all macroeconomic conditions, without having any asymmetries, everything based on input-output flows, market liberalization and efficient regulation.

3. Durable development of energy markets

Sustainable governance is a trend that should be reached through (almost) perfect market conditions, but from the macroeconomic perspective durable development is the main work flow that should be reached. A market to behave almost perfect needs mechanisms that work in tune, the most important one being privatization procedures that are sane, fast and clear. If all these are checked then allocation efficiency kicks in and the market stabilizes on the long run [1].
To achieve perfect market conditions and this way to reach sustainable governance, you need to have a fine tuned and soft regulated market. In the case of utility companies price ceilings (for waterworks and so on) are targeted and not wanted to skyrocket after movements on the market, even if this fact will create negative externalities and on an average cycle decrease investment in the sector or even the national economy [2].
If we'll discuss the perspective of vertically integrated mechanisms, in Romania's energy strategy of 2016 the natural gas industry is seen as a new approach on creating energy. If the consumption will increase fast, then a price ceiling will come in handy, not to kill the demand from private consumer (the households) [5] [6]. Energy markets have the tendency to get liberalized and because of this, through regulations and privatization there are new outputs on the consumer side to be considered, all depending on policies created through state governance.
The economy could be downshifted by looking at its sectors and realize that privatization comes with a cost, it is possible that some energy and natural gas producers could have costs lowered after privatization, market regulation or after

introducing better or sustainable governance, these being the positive externalities resulted in the market. In some specific sectors, like utilities or telecommunication, some issues arise which could be considered as negative externalities. In the utilities sector all the environmental measures and healthcare policies increased the costs for utilities delivered to the end consumer. In the telecom sector, the costs and the prices decreased exponentially because new technologies are always discovered and implemented.

The energy sector is integrated in the utilities sector and this way we should discuss sustainable governance as a result of restructuring not only from the privatization perspective. When it comes to the European Union, we need also to discuss the 20% landmark for renewable energy that was targeted through the Horizon 2020 strategy, which was reviewed and transformed into a 24% landmark for renewable energy, milestone which is quite hard to reach for the 28 members of the Union. Each 1% increase in the landmark creates an increase in the invoice for the end consumer, only the nuclear energy sector could reduce instantly monthly invoices, but it is considered immoral, although it is safe.

When it comes to monopolies, privatizing them doesn't stop the effects of the initial issue. In the energy sector, we often see monopolies transformed into oligopolies on the production and trading side, all done by a new entity which is privately owned, and this way a private contractor controls the entire market [3].

State governance should offer efficient policies that could eradicate issues that could result in monopolies or oligopolies on state owned or state generated resources. So in this case sustainable governance is a byway that leads to efficiency, but comes from well-established state governance and the other way around.

4. Conclusions

Sustainable governance in energy markets comes together with durable development. There are cases in history (Great Britain, 1989-1995) in which we could observe that this goal of reaching durable development and with positive externality the sustainable governance come together with market regulation and sometimes deregulation, also with privatization of monopolies and integrating vertically the norms of entities like the European Union, despite the fact that on the short run there could be some spikes in costs for producing energy [1]. Efficiency comes as an output of the policy and results into lowering the production costs, which means as principal effect, decreasing the invoices for the end consumer. Another path is that you could create larger entities that include an entire industry and this mix of vertical and horizontal integration results into lowering costs and signs of sustainable governance in the new business.

If we highlight an overview of the entire sector we could observe that privatization, market regulation as main effect, and allocation efficiency and decreasing prices as second tier effect result in the idea that direct intervention of the state in the economy results in to huge losses for the community, so feasibility is given from market equilibrium, reduced costs, normal paced revenues and normal profit margins, all these being another economic way to say the positive externalities resulted from efficiency at its best.

The evolution of the energy sector or market from state-owned to privatized or publicly traded is similar to a qualitative evaluation of work processes seen from a macroeconomic perspective, especially in emerging economies and their political power distribution and the perspective of the money flow.

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