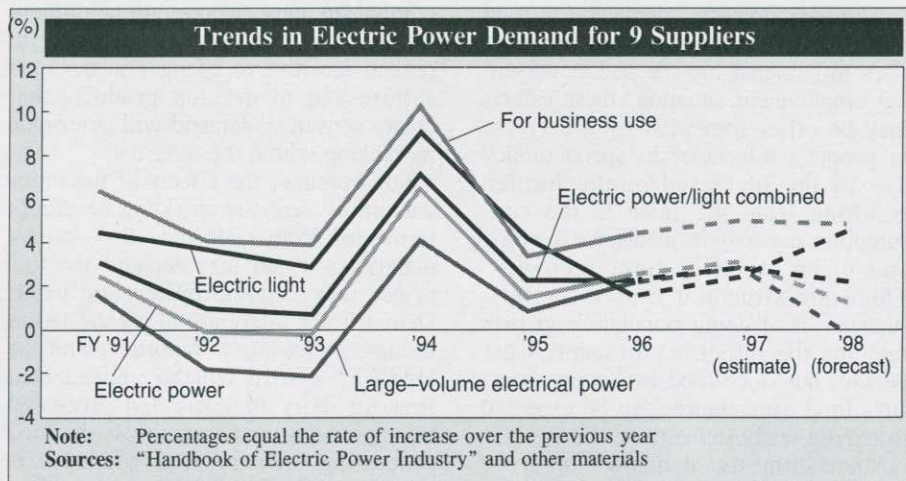


# Calls for Deregulation Sure to Grow Louder

Although demand for electric power for industrial use decreased significantly in the latter half of fiscal 1997, a rise in demand for household use resulted in a 3% increase in total demand for electric power and light in fiscal 1997. The effect of price increases based on the Fuel Price Adjustment System, in conjunction with increases in electric power sales, yielded significantly increased revenues and profits.

Forecasts for electric power demand in fiscal 1998 predict that demand for household use will see a continuation of the steady rise in the number of consumption units, the number of contracts, and the volume of contracted electric power. Demand for industrial use, however, is expected to reflect the overall economic climate, and thus to show a slight decrease from fiscal 1997. The predicted result is that total demand for electric power and light will grow by only 2%. Increased electricity sales will bolster business revenues, but these will be offset by the price decreases that took effect in February 1998 (an average 4.67% in price in total electric power and light among 10 suppliers), resulting in an estimated 1% decrease in income. Profits are likely to see an even greater decrease still, as they are subject to the pressure of fixed fees, such as repair fees, and will remain unable to compensate for the effects of the price decreases.

The push for deregulation in the Japanese electric industry will be accelerated by these conditions. The globalization of the world economy requires greater international industrial competitiveness, and emphasizes the need for modification of Japan's high-cost structure. Since electric energy is one of the most important elements of industrial investment in terms of industrial site competitiveness, internationally comparable price levels are a must. The push for modifications to the high-cost structure in the electric utility industry has been accelerating since 1996, when the debate over structural reform of the



Japanese economy (one of the six major reforms of the Hashimoto Cabinet) began gaining momentum. In January 1997, the Minister for International Trade and Industry reported that "Japan must conduct studies on the separation of power generation and transmission" to reform its high-cost structure, even as the trend toward electricity liberalization in Europe and the United States is approaching completion. Prompted by these trends, the government established a Basic Policy Committee under the Electricity Utility Industry Council in July 1997 to study deregulatory measures for decreasing medium- and long-term costs in the electric utility industry. This committee is currently studying how to switch the acquisition of new thermal energy sources over to the principle of competitive bidding, and how to expand network usage.

Electric utility liberalization has been a worldwide trend throughout the 1990s. Many European countries and the U.S. have changed the major principle underlying the electric utility industry from the heretofore prevalent configuration of a regional monopoly serving the "public good," to a structure emphasizing "efficiency," that is, a structure that introduces the principle of competition to the electric power generation and sales sectors.

Demands for greater efficiency in the electric utility industry are escalating in Japan as well as in Europe and the U.S. Although implementing a principle of competition is expected to increase the efficiency of electric power management and to create new business, careful studies are still needed. The fact that there are still demands in Japan for the electric utility industry to serve the "public good" as one of its "major goals" is the greatest point of difference between Japan and these other nations. It is becoming increasingly important to promote a comprehensive energy policy that utilizes an efficient combination of power sources, including atomic energy, to strike a balance between resource limitations and demands for energy and security, and to achieve solutions to problems relating to the global environment. There are concerns that if electric power development were to be completely converted to a market principle, petroleum and coal thermal energy would become dominant because of their potential for short-run investment recovery. Future debate should thus focus on how to integrate liberalization into a comprehensive energy policy. ■

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