

## Corporate concentration in the EU energy sector

by

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## 1. Introduction

There is wide agreement that the EU's energy Directives have led to a marked concentration in the sector as well as an internationalisation of previously nationally based companies. In 2002, Thomas penned the term, 'the Seven Brothers' to describe the companies that were becoming increasingly dominant across Europe<sup>1</sup>. In fact, the Seven Brothers then comprised 'three big brothers', EDF of France, and RWE and E.ON of Germany, plus a handful of significantly smaller companies all jostling to reposition themselves so they could compete with the big brothers. This set of companies included Endesa, Iberdrola, (both of Spain) ENEL (Italy), Vattenfall (Sweden) and Suez/Electrabel (Belgium/France). By 2007, if the three major takeovers and mergers are completed, the main competitors will be the same 'three big brothers' (E.ON is trying to take over Endesa) with four smaller brothers, Electrabel/Distrigaz/GDF, Iberdrola/Scottish Power, Vattenfall and ENEL (see Table 1). Note that changes in group turnover can be misleading, sometimes being caused by major movements in consumer prices and sometimes by acquisitions and divestments.

**Table 1. Financial size of the 'Seven Brothers'**

	Turnover 2006 €bn (% annual increase)
<b>E.ON + Endesa*</b>	67.8 (+21) + 18.2 (+33) = 86.0
<b>EDF</b>	58.9 (+15)
<b>RWE</b>	44.3 (+12)
<b>Iberdrola + SP†</b>	11.0 (-5) + 8.2 (+19) = 19.2
<b>Electrabel* + Distrigaz* + GDF</b>	12.2 (+7) + 3.8 (+29) + 27.6 (+21) = 43.6
<b>ENEL*</b>	34.1 (+10)
<b>Vattenfall</b>	16.1 (+18)

Sources: Annual reports and accounts

Notes:

1 Figures marked \* are for 2005 and figures marked † are for FY 2005/06

2. €1=\$1.33

3. €1=SEK9.05 (2006), €1=SEK9.43 (2005).

**Table 2. Financial size of the major national and regional energy companies**

	Turnover 2006 €bn (% annual increase)
<b>Centrica◇</b>	24.8 (+22)
<b>Scottish &amp; Southern*</b>	15.2 (+37)
<b>Essent/Nuon</b>	6.4 (+9) + 5.6 (+12) = 12
<b>EDP*</b>	9.2 (+36)
<b>Union Fenosa</b>	6.1 (-1)
<b>Fortum</b>	4.5 (+16)
<b>CEZ*</b>	4.5 (+22)
<b>Verbund</b>	2.9 (+35)
<b>DONG</b>	4.8 (+103)
<b>EVN</b>	2.1 (+29)
<b>Statkraft</b>	2.0 (+8)
<b>PPC</b>	4.3 (+5)

Sources: Annual reports and accounts

Notes:

1 Figures marked \* are for 2005

1 Figures marked ◇ are preliminary results for 2006

2. €1=\$1.33

3. €1=NOK8 (Statkraft)

4. €1=CZK28 (CEZ)

5. €1=DKK7.5 (DONG)

There were four major mergers in this sector in March 2007 (see below for more details):

- A takeover of Endesa (Spain) by E.ON (Germany);
- A takeover of Scottish Power (UK) by Iberdrola (Spain);
- A merger of Suez (France/Belgium) with GDF (France); and

<sup>1</sup> S D Thomas (2003) 'The seven brothers' Energy Policy, vol 31, 5, pp 393-403.

- A merger of Essent and Nuon (both Netherlands).

The analysis in this paper is mainly based on an assumption that these deals will be completed, although there were significant problems to be resolved for all these changes, especially the Endesa/E.ON and Suez/GDF moves.

This paper examines developments for these companies since 2003, including takeover and merger activity and changes in corporate focus. For these purposes, we can divide the EU up into eight main regional or national markets: The UK, Germany, France, Italy, the Iberian Peninsula, the Nordic market, the Benelux countries and Eastern Europe. The Member States that do not fall into these markets tend to be small and/or isolated markets that cannot realistically contribute to Single European electricity and gas markets. We focus only on the seven companies that have a significant presence in more than one of these markets. Other significant companies are primarily national or regional companies (see Table 2), such as Fortum (Finland), Statkraft (Norway), EVN and Verbund (Austria), DONG (Denmark), Essent/Nuon (Netherlands), CEZ (Czech Republic), Union Fenosa (Spain), EDP (Portugal/Spain), PPC (Greece) and Scottish & Southern and Centrica (UK).

## 2. The Seven Brothers

### 2.1. EDF

At the start of 2007, EDF was the largest of the Big Brothers but will be overtaken by E.ON in 2007 if the takeover of Endesa is completed. In 2002, it was still fully owned by the French State and was a significant player in electricity markets outside Europe as well as in Europe. In particular, it was a major player in Latin America through its control of the main electricity distribution company in Rio de Janeiro (Light) and the main Buenos Aires distributor (Edenor). In Europe, its main activities outside France were in UK, where it had holdings in generation, distribution and retail, Germany, through its control of one of the four main companies, EnBW, Sweden, through its holding in Graninge, Spain, through its holding in Hidrocantabrico and Italy through its attempts to gain control of Edison.

Since then, EDF has been part-privatised with the sale of about 13 per cent of the shares in an IPO in October 2005. It remains to be seen whether further shares will be sold. The main strategic development was EDF's withdrawal from markets outside Europe, following heavy losses in their South American holdings and, in the 2005 Annual Report, EDF characterised itself as 'a group focused on Europe'. It had also had mixed fortunes in its attempts to expand in Europe. In 2003, it sold its stake in Graninge to E.ON leaving it with no significant presence in the Nordic market and, in 2004, it sold its stake in Hidrocantabrico to EDP, the Portuguese utility, leaving it with minimal presence in the Iberian market.

However, in May 2005, after a long political battle, it took joint control (with AEM Milan) of Edison, the second largest player in the Italian electricity market and the third largest player in the gas market. In the UK, by 2002, it already had major holdings in generation, distribution (London and Eastern), retail (London and SWEB). It added the retail and distribution business of SEEBOARD in 2002. In Germany it has also increased its stake in EnBW from 33 per cent to 45 per cent since 2002.

In Eastern Europe, it has a limited presence. In Hungary, it has a majority stake in a distribution company, Demasz and a minority stake (through EnBW) in two further distribution companies as well as stakes in various generation plants. It also has minority stakes in power plants in Czech Republic, stakes in various companies in Poland, a minority stake in a distribution company in Slovakia.

In France, EDF has legally unbundled its transmission network (RTE) but there are no plans for EDF to sell its stake in RTE and it has yet to meet the EU requirement to legally unbundle the distribution network.

EDF is not currently linked with further merger and acquisition activity in Europe and appears to be consolidating so it has a position of strength in the contiguous markets of Italy, UK and Germany.

### 2.2. E.ON/Endesa

E.ON has been the most aggressive company on the mergers and acquisitions front since 2002. In 2002, its main foreign holdings were in the UK through its ownership of the UK generator Powergen, which already had interests in distribution (Midlands and East Midlands) and retail (Eastern, Norweb and East Midlands). Its other significant holdings were in Sweden (29 per cent of Sydkraft and 13 per cent of Graninge), Finland (34 per cent of Espoon Sakho) and the Netherlands (ownership of the generation company, EZH)

E.ON sold its shares in Espoon Sakho back to Fortum (it had acquired them from Fortum in 2002) after a very politically-driven process. However, it took control of both Sydkraft and Graninge to make E.ON the second largest electricity company in Sweden (behind Vattenfall). In 2005, it complemented its purchase in 2000 of the Dutch generator, EZH with the purchase of the fifth largest electricity company, NRE, which had 275,000 electricity and gas consumers.

It also has a strong presence in Eastern Europe. It was one of the first Western electricity companies to move into Bulgaria acquiring 67 per cent of the distribution companies, Varna and Gorna Oryahovitsa at the beginning of 2005, which distribute power to more than a million consumers. The Bulgarian government still holds the remaining shares. In the Czech Republic, E.ON consolidated all its majority holdings (JME and JCE) into E.ON Ceska, E.ON Energie and E.ON Distribuce. E.ON made its first major acquisition in Romania in 2005, when it took 51 per cent stakes in the gas distribution company, Distrigaz Nord, which has over a million customers and the electricity company, Electrica Moldova with about 1.3 million consumers. In both cases, the shares were acquired from the Romanian government.

However, its most audacious moves have been in Western Europe. It attempted to take over Scottish Power in 2005, but this effort failed. For the future, the major development will be the acquisition of the largest

electricity company in Spain, Endesa. This had been subject to a takeover bid by the Spanish gas company, Gas Natural, but in February 2006, E.ON outbid them with a cash offer worth €29.1bn. By January 2007, E.ON had raised its bid twice, to €41bn, most regulatory hurdles appeared to have been cleared and Gas Natural had withdrawn its offer. However, by March, the takeover was in doubt, with ENEL, the Italian company, taking a rival position in the company and potentially blocking majority control. If E.ON succeeds in its takeover of Endesa, the combined group would leap-frog EDF of France as Europe's biggest power company. More significantly, it would give E.ON its first significant footholds in the Spanish, French and Italian markets, giving it positions in all the main markets of Europe.

Endesa is one of the two large utilities that dominate the Spanish electricity market owning 22,400MW of generation. It was created in 1983 from the merger of a number of companies and was fully state-owned. In 1988, the Spanish government began to sell shares and now it holds less than 10 per cent of the shares. It is the number one private sector multinational electricity company in Latin America with 14000MW of generation, being the largest company in Chile, Argentina, Colombia and Peru. However, in Europe, outside Spain, its activities are limited. Its main activities are in Italy, Portugal and France.

In Italy, its subsidiary Endesa Italia (80 per cent owned by Endesa, the rest being held by ASM Brescia) owns 6590MW of generation acquired from ENEL in 2001 as part of the forced divestment of generation from ENEL. In March 2004, it acquired a further 35 per cent of the French generation company, SNET (2600MW) to take a 65 per cent controlling interest. The other shares are owned by CDF and EDF, the major French coal and electricity companies respectively.

### **2.3. RWE**

Like E.ON, in 2002, RWE's main foreign base was the UK where it held a comparable holding through its ownership of the UK generator National Power, which brought with it ownership of retail businesses (Yorkshire, Northern and Midlands). It has no network businesses in UK.

Unlike E.ON, RWE has not developed its position in mainland Western Europe to any great extent, apart from a small gas business in Netherlands (Obragas). Outside Germany and UK, its main activities are in Eastern Europe. It controls distribution companies in Hungary ELMU (55 per cent) and EMAZS (54 per cent) and a generating company (MATRA, 51 per cent). In the Czech Republic it owns Transgas (the gas transmission company) and 6 regional utilities. In Poland it controls STOEN (85 per cent), the major distributor in Warsaw.

In 2006, it finally sold its main water company, Thames Water (UK) and is expected to sell American Water in 2007.

### **2.4. Iberdrola**

Iberdrola, Spain's second-largest generator, is currently completing an agreed £11.6bn (€17.5bn) takeover of Scottish Power that would create Europe's fourth-biggest electricity company by market capitalisation, but still only the sixth largest company by turnover. This would be Iberdrola's first significant acquisition in Europe outside its home Iberian market, although it does have investments in Latin America.

Scottish Power was present in two main markets, the UK and USA, where it controlled Pacificorp (Pacific North West), but Scottish Power announced the sale of Pacificorp in 2005.

### **2.5. Electrabel/Distrigaz/GDF**

The Suez-GDF merger may go ahead, as no other investors have offered a bid, but it still remains politicised and is an issue in the French presidential elections. The prospects for a merged business are difficult to evaluate because it is not clear what businesses it will choose to divest and which assets it will be required to divest to satisfy the competition authorities. Suez's water and waste business is large but has few synergies with the energy businesses, so it is probably more appropriate to omit it from the analyses. If the merger is completed, it may well be that the water and waste business will be sold off.

Electrabel is the largest power company in the Benelux region, being the dominant company in Belgium, but having a strong position also in the Netherlands. It has recently taken significant positions in France and Italy. In total, it employed 15794 people at the end of 2006. Its main shareholder is Tractebel (100 per cent owned by Suez), the energy arm of Suez which had 50.1 per cent and in 2005, increased its stake to 98.6 per cent. Important energy assets include Tractebel's shares in Distrigaz (47 per cent), the main Belgian gas

company and Fluxys, the Belgian gas network company, although Tractebel's main electricity activity in Europe is consultancy, services and engineering.

Outside Belgium, where Electrabel owns about 13000MW of plant, its main activity in electricity is generation. It has about 4.7GW of capacity in Netherlands mainly from the takeover of the EPON generation company. In France, it owns about 4.8GW of plant and its activities include: its control of CNR; control of SHEM and its share of two nuclear plants. In Italy, it owns 2.2GW, Hungary, 1.7GW, Poland 1.7GW, Luxembourg 0.4GW, and in Germany, Spain and Portugal it has a small amount of plant.

Over the period from March 2006, developments have been dominated by the attempt, apparently backed by the French government, by Suez and Gaz de France (GDF) to merge. This appears to have thwarted an attempt by ENEL to take over Suez. French backing for the GDF/Suez merger caused considerable opposition, notably from the Italian government. However, the French courts and the Parliament delayed the merger on grounds that workers at GDF had not been properly informed on the consequences of the merger. By January 2007, it was still not clear who would end up owning Suez and, indeed, GDF. Potential bidders for Suez include RWE, E.ON and ENEL and perhaps even private equity firms (for example, Francois Pinault).

GDF is the main French gas company and has significant holdings in Eastern Europe. Until July 2005, it was fully publicly owned by the French State, but then, about 20 per cent of the shares were sold by IPO, 17.5 per cent to investors (11.4 per cent to institutional investors, the rest individuals) and 2.3 per cent to employees. If the proposed merger with Suez was to be completed, the group would have to be fully privatised. Its major downstream foreign holdings are in gas distribution:

- Germany, where it owns 31.6 per cent of Groupe Gasag and 43 per cent of Megal;
- Hungary, where it owns 99.8 per cent of the Degaz and 99.4 per cent of Egaz;
- Portugal, where it owns 12.8 per cent of Portgas;
- Slovakia, where it owns 43.4 per cent of Pozagas and 24.5 per cent of SPP; and
- Romania, where it owns 51 per cent of Distrigaz Sud.

It owns 25.2 per cent of SPE, the second largest energy supplier in Belgium, which owns power stations as well as retailing electricity and gas to final consumers and employees about 1000 people.

It took a stake in Gasag in 1998, the largest end distributor of gas in Germany that serves Berlin, when the City sold 52 per cent of the stock. GDF initially took a majority stakes in Degaz and Egaz in the 1990s, but increased this to nearly 100 per cent in 2004 buying 35 per cent and a 27 per cent stakes respectively from Mol (stakes Mol bought in 1998). In July 2006, it merged the two companies to form Egaz-Degaz.

GDF took a 30 per cent stake in the Slovak storage company, Pozagas. SPP is the monopoly Slovak gas distribution company, 51 per cent owned by the Slovak government, with the rest split between GDF and E.ON since 2002. Gazprom had an option to take a third of the GDF/E.ON stake but has not exercised it. Distrigaz Sud is the largest Romanian gas distributor, based mainly in Bucharest. Distrigaz Nord, the other large Romanian gas distributor is controlled by E.ON.

Distrigaz is majority (57 per cent) owned by Suez, which also owns 57 per cent of Distrigaz's former networks division, Fluxys. The remaining shares are held by Publigas (the holding company of the Belgian municipalities) 31 per cent and the rest are traded on the Brussels stock exchange. The Belgian government owns a Golden Share. About 12 per cent of its sales are outside Belgium but most of its foreign activities are in part ownership of pipelines, for example, 14 per cent of the Interconnector from Belgium to UK.

It is not clear what would happen to Distrigaz if the merger of GDF and Suez was to be completed, although it has been reported that GDF and Suez have agreed that Suez would sell its share in Distrigaz if the merger was completed. Gazprom and ENI (Italy) have been mentioned as possible buyers.

## 2.6. Vattenfall

Vattenfall is the main Swedish energy company. It is 100 per cent owned by the Swedish state. While privatisation of Vattenfall (and other Swedish state-owned assets) has been proposed by some political parties, there are no immediate plans to privatise Vattenfall. It is the largest power company in the Nordic region and the fifth largest in Europe. It has a strong presence in Germany through its Vattenfall Europe subsidiary, in Finland and in Poland. It acquired its position in Germany by taking over the Berlin electricity



company, BeWAG, the Hamburg electricity company, HEW and the East German electricity company, VEAG.

In 2005, Vattenfall acquired 35.3 per cent of the shares in Elsam, then the largest Danish electricity company with a view to taking it over. After negotiations with the Danish natural gas company, DONG, which also wanted to take over Elsam, Vattenfall exchanged the shares for a number of Danish CHP and wind power plants with a total generation capacity of approximately 2500MW (e) and 2100 MW heat.

## **2.7. ENEL**

ENEL is the major electricity company in Italy. It was fully state-owned until 1999 when 34.5 per cent of the shares were sold. In 2003, a further 6 per cent was sold and by 2007, the state holding was 30.6 per cent. Its main activities outside Italy are its ownership of:

- the Spanish utility, Viesgo, bought from Endesa in 2001;
- control of Bulgaria's largest power plant, Maritza East III (840MW, lignite), 2003;
- control (51 per cent) of Slovenske Elektrarne (SE), the largest electricity generator in the Slovak Republic, 2005;
- control (51 per cent) of Electrica Banat and Electrica Dobrogea, electricity distributors in Romania with 1.4 m customers;
- operation in partnership with the local private group ESN Energo of the North-West Thermal Power Plant in St. Petersburg, Russia in June 2004.

Its attempts to derail the takeover by E.ON of Endesa in March 2007 and its interest in Suez, not pursued, indicate the high ambitions of ENEL as an international player, but it has a lot of ground to make up in terms of international coverage to rival some of its competitors.



### 3. Corporate policies

#### 3.1. Competitive positions

The record of the corporate policies of the energy companies in the last decade has been poor and attempts to build multi-utilities and to move outside Europe have often been expensive failures. The priority for the major companies would be to move into new markets to compensate for the likely loss of their network assets and, for companies with dominant national positions, loss of market share in the home markets. The large increases in turnover for the Seven Brothers (see Table 1) in the past year or two are driven by major increases in energy prices rather than any increase in scale and are rather misleading. In this light, the modest increases in turnover of RWE, ENEL and Electrabel suggest a relative weakening of these groups. The key priorities for most of the Seven Brothers therefore seem to be to increase geographical coverage, especially in contiguous markets and to strengthen positions in gas.

**Table 3. Market positions of the ‘Seven Brothers’**

	UK	Germany	France	Italy	Benelux	Nordic	Iberia	E Europe
<b>E.ON + Endesa</b>	S	H	L	S	S	S	H	S
<b>EDF</b>	S	S	H	S				L
<b>RWE</b>	S	H						S
<b>Iberdrola + SP</b>	H						H	
<b>Electrabel + Distrigaz + GDF</b>		L	H	S	H			S
<b>ENEL</b>				H			L	S
<b>Vattenfall</b>		H?				H		S

Note

1. Entries marked ‘H’ are home markets, ‘S’ are significant holdings and ‘L’ are limited holdings.

We can divide Europe up into eight regional/national markets (see Table 3)<sup>2</sup>. While there has been a scramble by most of the Seven Brothers to acquire businesses in Eastern Europe, the markets are rather small and the competition to buy them has more to do with the expected profitability of these businesses and the fact that they were available to buy than any great strategic advantage. The Nordic market is much larger but the gas market is small and the energy market is carved up between the major national players, Vattenfall (Sweden), Statkraft (Norway), Fortum (Finland) and DONG (Denmark). It seems unlikely that companies from outside the Nordic region will be able to establish themselves in the region (except E.ON, which already has a significant market position). The Iberian market is large, but relatively self-contained so is also perhaps less important than the Central European markets of Germany, France, Italy and the Benelux countries. The UK market is also large and relatively self-contained, but entry by foreign companies is the easiest in Europe and the existing companies UK operations have been highly profitable. There are also two major UK companies remaining, Centrica and Scottish & Southern Energy that look attractive take-over targets to companies with sufficient resources to mount a bid

The proposed new E.ON/Endesa group has by far the best coverage with a presence in all eight markets, as ‘home’ supplier in two of them and is probably the only non-French company to have a position that could form the basis of a significant energy business in France. It is strong in gas in most of these markets.

EDF is also strong in the five main markets although its roots in France as the national electric utility mean it is much weaker in gas than E.ON. Its efforts to acquire significant positions in the Nordic and Iberian markets failed and it suffers from suspicions that its strength has more to do with strong French government backing than its corporate virtues.

Apart from its holdings in Eastern Europe, RWE only has a presence in two markets, but it has a strong position in gas. Iberdrola stands out as being inexperienced in Europe outside its home markets, having a limited position in gas and, if the takeover of Scottish Power is completed, its main markets are totally disconnected from each other. It remains to be seen whether the two constituent businesses will amount to more than the sum of the parts.

ENEL has been plagued by changes in management direction with abandoned forays into telecoms and the media and may have missed the chance to acquire major companies in the significant markets. Its positions

<sup>2</sup> The categorisation of what is a ‘significant’, what is a ‘limited’ and, in some cases, what is a ‘home’ market is necessarily somewhat arbitrary.

in Spain and France do not seem to have added much to the group and even in Eastern Europe, it may have entered too late to acquire the best companies. It remains to be seen whether its attempts to enter the French market by participating in the new French nuclear programme will be more successful.

By comparison, the proposed Electrabel/Distrigaz/GDF grouping looks to have much better geographical grouping of markets, strength in gas and scope to develop positions in Germany and Italy. It seems to have much the best position to develop a strong position in electricity as well as gas in France.

Vattenfall had to stretch its resources to acquire its position in Germany and it is only in the last year or two that it has begun to be mentioned again as a possible predator. It failed in its attempt to acquire an integrated position in the Danish market. Whether government ownership and limited resources will mean that Vattenfall will find it difficult to expand beyond its present size remains to be seen.

### 3.2. What will happen to networks?

From a strategic point of view, the utilities that are still integrated in networks and competitive activities will fight to retain ownership of the networks as a matter of principle. However, if Regulators are able to enforce open and fair access to networks, what benefit will there be to companies in owning the network? There will be no commercial synergies with their retail and wholesale businesses and the technical synergies are very limited. What they offer is a 'bulk' and a low-risk, low rate-of-return business to balance the more cyclical and risky wholesale and retail energy businesses. So unbundling networks is a battle the Commission could fight with some expectation of being successful. Whether it is a battle they should be fighting is another matter. The decision of the EU Energy Council not to explicitly advocate 'ownership unbundling' has been widely interpreted as an indication of a lack of political support for ownership unbundling.<sup>3</sup> Until legal unbundling has been given a chance to work (many countries have not been implemented yet it fully yet), the decision to increase unbundling seems premature.

This is in contrast to the issue of unbundling wholesale and retail activities. Here there are massive commercial synergies and integrated wholesaler/retailers will not allow this form of de-integration. On grounds of security of supply, if not competition, there are strong reasons from a consumer point of view why forcing a separation of wholesale and retail should not happen.

If the Commission is able to force through a requirement for full ownership unbundling of networks, this will raise at least two major questions:

- What will the companies do with the money they earn from selling off the networks? and
- Who will take over ownership of the networks?

The former question is discussed in the Section 3.3. The latter question is much more difficult to answer. For the transmission networks, the scale of the assets is relatively limited and the strategic importance of an efficient and reliable network so overwhelming that this will be a major national political issue. Some countries will follow the trend of bringing the transmission networks into national ownership. Other countries may create private national transmission companies, as the UK and Spain have done. So far, no national transmission company has fallen into foreign ownership and the political discussions that arise when this does happen will be interesting.

The distribution networks are much less politically contentious. The UK has most experience of unbundled distribution companies and the companies that have been unbundled have been bought by a diverse range of companies, including relatively small Pacific Rim energy companies, e.g., YTL, venture capitalists, e.g. MacQuairie and pension funds. It is too early to judge how effective their stewardship of these important assets will be.

Unbundling will almost certainly lead to a massive wave of mergers and take-overs. It is difficult to see a future for a small network-only company. Local authorities will see little benefit in owning a network that is no more than a common carrier for competing companies. It seems likely that most countries that at present have a large number of publicly-owned distribution companies will see a quick collapse into just a handful of privately-owned companies.

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<sup>3</sup> [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/trans/92802.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/trans/92802.pdf)

### 3.3. Who are the prime take-over targets?

Inevitably, in the frequent rounds of take-over activity, the medium size companies, that offer significant positions in national markets are discussed as take-over targets (see Table 2). At present, the two remaining UK companies, Centrica and Scottish & Southern energy seem to be at the top of the list, although their size means that only the largest of the 'Seven' will readily find the cash to make a bid. Other potential targets are Union Fenosa and EDP (Iberian market), former municipal companies in Italy and the main Dutch companies. Some of the other companies are likely to be seen as strategic national resources, for example, CEZ, in its 2005 annual report, the headline on the front page is: 'Czech national champion with international reach'<sup>4</sup>. This, and public ownership, may mean that companies like CEZ, DONG, Verbund, Statkraft and, perhaps, Fortum will not be receptive to offers.

If unbundling of distribution/retail is enforced, there will be a large number of small retail-only companies up for sale. A small retail-only energy company seems even more unsustainable than a small distribution only company and locally-owned companies in particular will be sold to private investors as public authorities seek to exit such a highly risky and unstable business.

If the main companies are forced to divest their networks, this will provide them with resources to make new acquisitions and competition could be intense amongst them, especially those companies, like ENEL and Iberdrola that have entered late and have ground to make up. From outside the EU, it seems highly unlikely that the shareholders of the US companies will allow them to come back given their inept efforts 5-10 years ago. The other non-European companies are probably not large enough to compete except for the Japanese companies, but these have shown no interest in European markets so far. This leaves the Russian companies, especially Gazprom, as the most likely non-EU predator. If Gazprom does finally make a concrete bid for a significant European company, the political discussions will be politically highly charged.

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<sup>4</sup> [http://www.cez.cz/presentation/eng/instance\\_view.jsp?instance\\_id=90985&folder\\_id=9307](http://www.cez.cz/presentation/eng/instance_view.jsp?instance_id=90985&folder_id=9307)

#### 4. What are the consequences for stakeholders?

While the strategic issues discussed above are interesting, the most important issues are the consequences for the stakeholders, especially energy consumers and employees. The positive factors for allowing the market to become dominated by a handful of large companies are that it is easier to put pressure on large companies to fulfil their social obligations of being good employers, fulfilling training needs, carrying out R&D and behaving ethically. The large companies will also have the good sense not to allow the system to collapse in the way the energy companies in California did where exploitation of the system effectively 'killed the goose that laid the golden egg'.

From a consumer point of view, they are much more problematic. A handful of giant companies will not need to collude to know that their best interests in terms of profits will be to limit competition, not indulging in aggressive pricing whilst still maintaining a façade of competition. Entry by significant new competitors seems implausible and every company taken over will be a company that is not replaced. For the smallest companies, this will mean consumers will lose a local supplier, often publicly owned, that has served them well over several decades. The middle-sized companies will be swallowed by the large companies and not replaced by new entrants and in many cases, national businesses will be swallowed by multi-national companies.

Large electricity and gas multinational companies also pose a democratic problem due to their large size, plentiful resources and influence. This should imply that if such large companies are allowed to exist, new ways of democratic control should be explored both internally and externally. Internally the rights of workers and the trade unions to information and consultation should be considerably strengthened, possibly requiring a separate regime also at the European level with strengthened powers for the European Works Councils in the multinational companies. External control will come through strengthened stakeholder processes and serious Corporate Social Responsibility and Corporate Governance programmes that involve communities and other stakeholders. To prevent such companies 'capturing' the regulators, also these need to be democratised and given ample resources to allow for stakeholder scrutiny of corporate strategies and company business plans.

While it is easy to argue for the break up of these large companies, the alternative may be a series of smaller regionally based companies that have near monopolies in their geographic area. A series of smaller companies that do battle with each other could drive prices below marginal costs and bankrupt companies.

The Commission seems to have an agenda in favour of creating strong European companies to compete in world markets coupled with a belief that it can handle oligopolistic markets. In this case, this does not seem a good policy. Experience to date suggests that markets outside will not be profitable or attractive to European companies and it is questionable whether the Commission really does have the skills, the political will and the power to deal with oligopolies.