The final shape of the European energy market is emerging: an oligopoly

AFTER years of legal fights, hurt pride and face-saving compromises, the saga of Endesa, a Spanish utility, and Enel, an Italian energy giant, came to an end on February 20th. It had started when the Spanish government tried to engineer a merger of Endesa with another Spanish utility, Gas Natural, in an effort to create a national champion. The eventual outcome, however, is that Endesa is now owned by Enel, Italy’s leading energy firm. One lesson is clear: attempts by politicians to create energy champions can have unexpected consequences, and can make the governments in question look foolish.

In 2005-06 Endesa fought off the Spanish government’s clumsy attempt to merge it with Gas Natural. Sensing an opportunity, E.ON, a German energy giant, made a bid for Endesa in 2006. Spain did everything it could to fend off E.ON, prompting the European Commission to intervene. In the end Enel won Endesa by bringing in a Spanish partner, Acciona, to appease local feelings. Remarkably, Enel, which had bought 67% of Endesa’s shares, allowed Acciona to keep voting control of the Spanish company. This compromise proved disastrous: the two firms fought over strategy and Endesa suffered from a lack of direction. This week Enel finally took proper control of Endesa by buying out Acciona’s 25% stake for €11.1 billion ($14 billion).

The Spanish complain that, whereas the government privatised Endesa in 1997-98 with the aim of improving efficiency and reducing electricity prices, the firm has now fallen back into government hands—Enel is 31.2% owned by the Italian state. Xavier Vives of IESE Business School doubts whether there can be a fair market for corporate control when some European governments keep stakes in energy firms and others do not. The Spanish failed to create a national champion, with the result that another country’s champion has become far more powerful in the European market. “The Spanish are justified in feeling miffed,” says Dieter Helm, an energy economist at the University of Oxford.

Another issue is the separation or “unbundling” of energy-production and transmission. Some countries, such as Spain, the Netherlands and Britain, have gone further than others, such as France and Germany, in unbundling their energy companies. The unbundlers think it is unfair for vertically integrated firms with superior firepower to come in and snap up smaller, unbundled companies. Last October the European Commission inserted a new “level playing field” clause into its draft energy-liberalisation package, the final version of which will be adopted this year, to allow countries that have fully unbundled to block acquisitions by more vertically integrated companies. The European Union’s energy commissioner, Andris Piebalgs, commented that the Spanish government could have used such a clause to justify blocking E.ON’s bid for Endesa, though he added that the courts might not have accepted the argument (E.ON agreed to unbundle its transmission operations some time after it made its bid for Endesa).

There was another big European energy takeover this week. Vattenfall, the largest utility in the Nordic region, bought the production and supply unit of Nuon, a Dutch energy firm, for €8.5
billion. And there have been other recent deals. In January RWE, a German giant, agreed to buy another Dutch firm, Essent, for €9.3 billion. This month the Spanish government also waved through the merger of Gas Natural with Union Fenosa, which will create a smallish national champion. With these deals, analysts say, the consolidation among European energy firms triggered by the liberalisation of the industry is drawing to a close. Apart from Scottish and Southern and Centrica, two British firms, there are few targets left.

What will the result look like? After several years of frenetic mergers and acquisitions, Europe is dominated by a few cross-border giants, such as France’s EDF, which is 85% owned by the French state, Germany’s E.ON and RWE, and Enel. Some countries have powerful national champions; others, such as Spain and the Netherlands, do not. Competition within markets may be largely unaffected—from a national point of view, two foreign utilities buying Essent and Nuon is better than the two Dutch firms merging, as they planned to not long ago—but at a European level, consolidation and concentration may be pushing energy prices higher, analysts say. “We’ve got an oligopolist electricity and gas market which looks a lot like the oil market—not at all what was intended,” says Mr Helm.