Belgium fights off French stranglehold

The merger between French energy producers Suez and Gaz de France has been received with criticism in Belgium, where subsidiaries of the two companies control the power and gas markets. But countermeasures are being taken.

by Remco de Jong

In early May, the board members of energy company Nuon in Belgium laughed heartily upon reading Electrabel's defence in the morning papers against the umpteenth allegation that it is abusing its dominant market position. Belgian supervising authority Creg had stated in a report that Electrabel, like its much smaller competitor SPE, had passed on more than €1 billion worth of CO2 levies to its end-users, allowing both companies to pay nothing for their CO2 emission rights. The fit of laughter was brought on by Electrabel's official comment. Its spokesperson said that the Belgian market has been liberalised, that customers are free to choose a supplier and that electricity can also be purchased on, say, the French, Dutch or German markets. In short, even if Electrabel were to have passed on any CO2 levies, the electricity prices are evidently not too high considering the large number of customers the company still has. 'Of course they are correct in saying that the market is free and that electricity can be purchased on other markets,' says Roberte Kesteman, the new chief executive of Nuon Belgium. 'But everyone also knows that the capacity of the cross-border grids is much too small to accommodate bulk consumers. They have no other choice but to purchase electricity locally and thus from Electrabel. This response is a typical example of the arrogance of a market leader.'

Windfall profits

Smaller producer SPE denies that CO2 costs are passed on to its customers. 'Obviously, the people at Creg don't know what they're talking about and forget to distinguish between producer and supplier,' says chief executive Luc Sterckx. 'They are two separate business lines. One produces, the other supplies to end-users. It is out of the question that we booked any windfall profits in that way.' Tom Vande Borre, spokesperson for Creg, stands his ground. 'Let the companies open up their books so that we can substantiate our claim.'

Belgian chemical companies and bulk electricity consumers vented their anger via their interest group Essenscia. 'The report proves that electricity producers enrich themselves through the CO2 emission rights system. Furthermore, this demonstrates once again that there is not enough competition on the Belgian energy market. Bulk consumers of electricity are the victims here,' says a spokesperson. Peter Claes, general manager of Essenscia, wrote a letter to the editor of a Flemish daily paper stating that the prices bulk consumers pay increased by 80% between 2002 and 2007. Of the 72 largest consumers of electricity in the country, 65 are supplied by Electrabel. 'Last year not one of them changed supplier,' he says. One of the reasons, according to Claes, is the lack of cross-border grid capacity, which means only a small amount of electricity can be imported. And so he advocates the formation of a unified European high-voltage grid, a "Eurogrid", with one operator.

> *Consumers have no other choice but to purchase electricity locally*

Dominant position

The fuss about the Creg report occurred at a critical moment for the future of the Belgian energy market. With their plans to merge, French companies Suez and Gaz de France must relinquish some of their interests on the Belgian market. Under pressure of the European Commission, Gaz de France must sell its 25.5% interest in the small electricity producer SPE. At the same time, Suez had been told to sell its majority interest in gas seller Distrigas, whose share of the Belgian market is close to 80%. Suez complied with this demand and Italian energy producer ENI bought the 57.25% stake for €2.7 billion at the end of May.

The sale of these interests is meant to provide new players access to the Belgian market, which in turn should improve competition. Years after the liberalisation of the energy market, Suez-subsidiary Electrabel is still the main supplier with an 87.5% market share and Distrigas controls the gas market with an 80% share. Creg's annual report dryly states, 'the historical player was again able to maintain its dominant position in 2007.'

Last year, former Prime Minister Guy Verhofstadt used the merger plans to negotiate with Suez on measures for improving the performance of the Belgian market. This resulted in a so-called Pax Electrica. In accordance with these agreements, Suez will withdraw from gas grid company Fluxys. Furthermore, Electrabel will make 30% of its production capacity available to other players in two parcels of 15%. These interests will not be sold but "swapped" for capacity on other markets. The first parcel has been promised to SPE, which holds approximately a 10% of share of the Belgian market. According to the agreements, electricity generated in Belgian nuclear power plants is part of that capacity. That electricity is relatively cheap because Electrabel was able to accelerate depreciation of the plants. New players on the Belgian market need a share of that cheap electricity in order to go up against Electrabel.

French monopoly

SPE had expressed an interest in taking over Distrigas. 'We are a company that works with gas-fired power plants and so we are always on the lookout for gas. Now a gas company with long-term wholesale contracts is up for sale in Belgium. That is very interesting for us,' said Sterckx before the ENI deal was announced. He points out that the Belgian municipalities that own half of the SPE shares also have interests in Distrigas. 'They must realise that it is important for us that the supply of gas is secured. Conversely, Distrigas has an interest in fixed customers. That creates shareholder value.' But Sterckx knows that his chances are slim. 'This is a very important matter in which the higher political authorities are engaged. We will have to wait and see.'

It was clear to most market observers that those higher authorities would opt for the entry of a new player on the Belgian market. ENI was the favourite all along. In exchange for acquiring Distrigas, the Italian group has offered to award Suez the gas supply to Rome. French energy company EdF, along with Germany's Eon, was also a candidate but was met with great resistance in Belgium's political circles. Politicians were able to influence the transaction because Belgian municipalities own a minority interest in Distrigas through shareholder Publigas, which has the right of pre-emption. The main objection against EdF was that it was another French party. If EdF had entered the market, Paris' influence in Belgium would have increased exponentially. 'There is no sense in exchanging the monopoly of Suez for a monopoly of the French state,' said an insider. The French state, after all, will have a controlling minority interest in the company resulting from the Suez-Gaz de France merger and also has a majority of shares in EdF.

Pax Electrica

It is still possible, though, that EdF will turn up at the sale of Gaz de France's 25.5% share in SPE. Another 25.5% belongs to British company Centrica. 'But I do not rule out that the British also wish to sell their interest to EdF,' says another well-informed source. 'SPE shares have yielded little return during the past few years.' In that case, EdF would get control over SPE. Eon is also on the look-out for opportunities in the Belgian market. That company will possibly be elected to take over 15% of Electrabel's capacity via a swap operation as per the Pax Electrica. 'Eon may then possibly relinquish capacity in Germany. Electrabel is interested in the German market,' says a former chief executive in the sector.

Dutch company Nuon has also made an offer for Gaz de France's 25.5% of SPE shares, says Kesteman. 'We have offered a good price and hope to succeed. It would be a pity if EdF wins the battle. I have nothing against France but it would only result in too big a French influence on the Belgian market.'

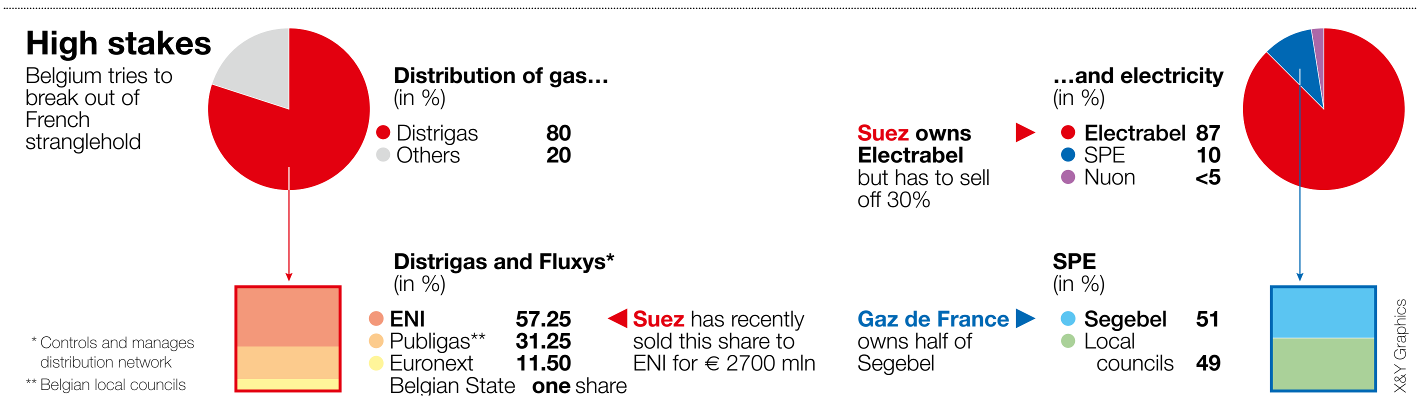
According to Kesteman, it is essential that new players build up their own production capacity in Belgium. 'We are building a power plant in Walloon and are installing wind turbines in the port of Antwerp, but a share in SPE would truly anchor us in the Belgian market.' Nuon would then also be able to trade cheap electricity produced in nuclear power plants. 'That electricity is cheap because the power plants were depreciated at an accelerated rate. Cheap electricity can be produced there for another ten to fifteen years.'

> *'The process of opening up a market is by definition a slow one.'*

Inordinate profits

It is for that reason that Belgian political parties wish to impose what has been referred to as the 'mothball tax'on Electrabel. After all, it was the small electricity consumers who financed the accelerated depreciation and who enabled Electrabel's inordinate profits. The Belgian government adopted the idea because it is urgently looking for additional resources to balance the budget. The current government under Prime Minister Yves Leterme is aiming for an amount of €250 million but it is unclear whether it is a once-only contribution or whether it will be a regularly recurring levy. Suez expressed their willingness to negotiate on this topic, no doubt because it weakens the position of the Belgian government. Belgium wishes to open up the energy market further but at the same time needs money from the group that it sees as dominating the market. 'It's a tough balance,' says the ex-ceo. 'The politicians need money from Suez and they can get it, but if they want it they need to be obliging.'

Nuon has a 5% market share in Belgium and its largest customer base is in Flanders where the market was liberalised in 2004. The districts of Walloon and Brussels followed in 2007. Kesteman experienced the full strength of Electrabel's position when the company was preparing to



commence business in the French-speaking part of Belgium. ‘At the end of 2006 wholesale prices were higher than the prices charged to end-users. They tried to squeeze out new players.’
Kesteman hopes that in the end the Suez-Gaz de France merger will have the effect of opening up the Belgian market to competition. Not immediately dividing up the production capacity of Electrabel over several players was a big mistake, she says. ‘Nor was a supervising authority appointed that has power, that can inspect the players’ books.’

Defaulters in European capital

Nuon has another problem in Belgium: it routinely gets bogged down in intricate Belgian rules. The three districts – Walloon, Flanders and Brussels – each have their own rules for energy suppliers. Brussels carries things the furthest. ‘Suppliers must continue to supply gas and electricity to defaulters for three years,’ says Kesteman. This measure is to protect the financially weak but has resulted in only one new player supplying energy on a large scale in Brussels. Nuon only canvasses customers in ‘the better neighbourhoods’, says Kesteman. ‘The risk of defaulters is just too great.’ It does not actively solicit in the European capital although there is a market of one million people. ‘We are not allowed to refuse customers under penalty of losing our supply permit – a risk we do not wish to run because many professional customers operate in all three districts. If we can no longer supply energy in Brussels, they will switch to another supplier.’
Dutch company Essent is also active on the Belgian market. In 2007, the company was quickly able to build up a market share of 10% in Walloon. Essent, too, is staying away from the Brussels market because the demands made of suppliers are too high, says senior executive Erwin van Laethem. He says the success of his company is due to the government’s enormous publicity campaigns informing citizens of the possibility of changing suppliers. Essent also found it difficult in the first few months to establish a presence in Belgium due to Electrabel’s strange pricing policy. ‘Distrigas’ wholesale gas price was higher than what was charged to the end-user.’ Van Laethem denounces the Belgian regulator’s lack of influence on, for instance, the determination of energy prices. ‘Electrabel uses one wholesale rate, whereas electricity generated in a nuclear power plant is much cheaper than electricity produced in a gas-fired power plant.’

Suez chairman Gerard Mestrallet chats with Suez' Senior Executive Vice President Jean-Pierre Hansen. Photo: Eric Piermont/AFP/Getty Images

Total black-out

Essent has shown interest in purchasing capacity from the nuclear power plants, says Van Laethem. Selling some of the capacity by auction is a good thing, he says. ‘But two times 15% is not enough. With the remaining 70% Electrabel continues to be a dominant party. Their share should drop to less than half the total capacity as in other countries and as is essential for a successful liberalisation.’
Electrabel’s senior executive in Belgium, Jean-Pierre Hansen, was not prepared to give his opinion on the liberalisation, successful or otherwise, of the Belgian energy market.
His fellow senior executive, Luc Sterckx, says that data of gas and electricity consumers often turns out to be incorrect when consumers wish to switch from one supplier to the other; a major obstacle in the proper functioning of the market. It restricts consumer mobility and therefore market forces. He would like to set up an independent national data clearing house where customer data can be made available from one central point. ‘That will benefit the liberalisation of the market.’

Sterckx, as chairman of the association of Belgian gas and electricity producers Febeg, stresses that Belgium is heading towards a total black-out if it does not quickly invest in more production capacity. ‘We are currently 2,000 MW short and so we import from abroad. That shortage will double in a couple of years. Belgium needs an investment pact, agreements for being able to quickly build new power plants, otherwise the supply of electricity will be at risk.’
Sterckx feels it is still too early to express any opinion on the liberalised market. ‘The process of opening up a market is by definition a slow one. It is incredibly complicated. Electricity or gas is not something you deliver to the customer in a van. We are working on a level playing field, also under pressure of European commissioner Neelie Kroes. You cannot maintain that nothing has changed in Belgium. But has it changed enough? I don’t know.’ ■