

The case of French utility EDF in Europe :
Privatization or not ?

Sophie MERITET
sophie.meritet@dauphine.fr
Assistant Professor
CGEMP
Université Paris Dauphine
www.dauphine.fr/gemp/

Introduction

- **The French electric utility EDF is**
 - accused by its competitors and the European Commission to be protected in its home market
 - and in the same time, accused to use its dominance to follow an aggressive strategy outside France buying assets in Europe.
- **The presentation is divided in 3 parts :**
 - The European liberalization in the electric power industry
 - EDF group
 - The future of EDF : privatization or not ?



1/ European Electric Industry Restructuring : The French position

1 - European Liberalization

✓ Since the beginning of the 90ies, the EU's liberalisation program called for open competition in the generation and distribution of electricity and fair access to high voltage transmission lines throughout the EU.

✓ The first Directive of December 1996 lays down the common rules governing the implementation of the single electricity market for the generation, transmission and distribution of electricity, as well as the organisation and operation of the power sector.

3

1/ European Electric Industry Restructuring : The French position

1 - European Liberalization

Table 2 Implementation of the Electricity Directive In 2002

	Declared market opening (%)	Full opening date	Unbundling: transmission system operator/owner	Unbundling: distribution system operator	Regulator	Overall network tariffs	Balancing conditions favourable to entry	Biggest three generators' share of capacity (%)
Austria	100	2001	Legal	Accounting	ex-ante	above average	moderate	45
Belgium	52	2003/7	Legal	Legal	ex-ante	average	unfavourable	96 (2)
Denmark	35	2003	Legal	Legal	ex-post	average	favourable	78
Finland	100	1997	Ownership	Management	ex-post	average	favourable	45
France	30	-	Management	Accounting	ex-ante	average	moderate	92
Germany	100	1999	Legal	Accounting	NTPA ¹	above average	moderate	64
Greece	34	-	Legal/Mgmt	Accounting	ex-ante	average	moderate	97 (1)
Ireland	40	2005	Legal/Mgmt	Management	ex-ante	average	moderate	97 (1)
Italy	45	nhh ² in 2004	Own Legal	Legal	ex-ante	average	moderate	69
Lux	57	-	Management	Accounting	ex-ante	above average	unfavourable	n.a.
Neth	63	2003	Ownership	Management	ex-ante	average	moderate	59
Portugal	45	2003	Legal	Accounting	ex-ante	average	moderate	82
Spain	55	2003	Ownership	Legal	ex-ante	average	favourable	83
Sweden	100	1998	Ownership	Legal	ex-post	average	favourable	90
UK	100	1998	Ownership	Legal	ex-ante	average	favourable	36

¹ NTPA=Negotiated third party access ² nhh= non-household customers

1/ European Electric Industry Restructuring : The French position

Electricity

Market fully open already	Full opening planned	No date for full opening	Regulator in place
AT, FI, DE, SE, UK	BE, DK, IR, NL, PT, ES	FR, GK, IT, LX	All except DE

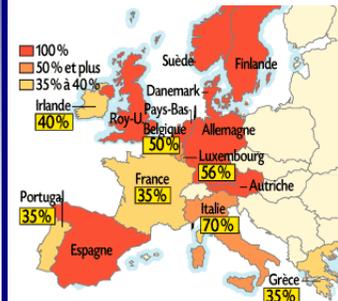
Source : European Commission (2003)

- ✓ The second Directive adopted in June 2003 sets the schedule and stages which will lead to the full opening to competition:
 - 1 July 2004**, for professional customers,
 - 1 July 2007**, for residential customers.

5

1/ European Electric Industry Restructuring : The French position

Degree of competition (% of the consumption) In 2002



The most important producers in Europe (Revenues in 2001)

1	E.ON (Allemagne)	79,7
2	RWE (Allemagne)	62,9 (*)
3	Suez (France, Belgique)	42,4
4	EDF (France)	40,7
5	Enel (Italie)	28,5
6	Edison (Italie)	15,8
7	Endesa (Espagne)	15,6
8	Iberdrola (Espagne)	8,1

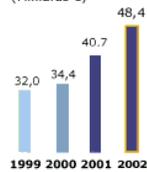
=> EDF is facing a strong "demand of reciprocity".

6

2/ EDF Group: a multi market strategy

- ✓ The EDF Group covers all the energy activities in more than 20 countries : energy management (generation, trading, and optimisation), transmission, distribution, supply, energy services and development.

Chiffre d'affaires
du Groupe EDF
(Milliards €)



	2003
Employees	117 249
Number of customers in France	31 million
Number of customers outside France	20 million
Power output	Nearly 470 TWh
International assets	Installed capacity 32,700 MW

7

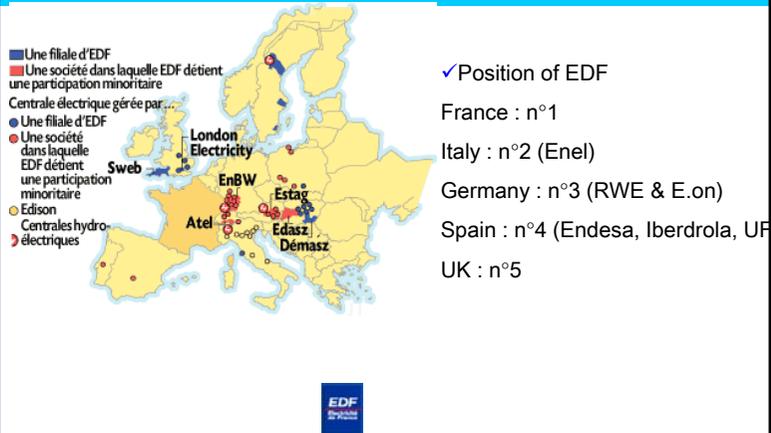
2/ EDF Group: a multi market strategy

- ✓ EDF is following a multi market strategy in the EU by purchasing assets in UK (London Electricity, Seeboard and 24 seven), Italy (Edison via Italgas), Germany (EnBW) and Spain (HidroCantabrico).

Total revenue	2000	2001
In France	26 399	26 810
Outside France	8025	13906
<i>Continental Europe</i>	<i>1887</i>	<i>5832</i>
<i>Italy, Spain &UK</i>	<i>4657</i>	<i>5607</i>
<i>Others continents</i>	<i>1481</i>	<i>2467</i>

8

2/ EDF Group: a multi market strategy



✓ Position of EDF

France : n°1

Italy : n°2 (Enel)

Germany : n°3 (RWE & E.on)

Spain : n°4 (Endesa, Iberdrola, UF)

UK : n°5

3/ Which « future » process of privatisation?

- ✓ In 2002, French Prime Minister said that the ownership of the two government energy operations EDF and GDF would be gradually opened within the National Assembly's 5 year term .

The French government would keep 51% stake at least in the near term.

- ✓ Why Talking about privatization of EDF ?

- Source of income
- Calm European Commission
- Access to capital markets

3/ Which « future » process of privatisation?

- ✓ One proposal circulated by a think tank would put only 12% of EDF in private hands including 2% for EDF's current European utility partners in Germany and Italy. The rest would be held by employees, GDF and 3 external funds.
- ✓ Three Main Obstacles :
 - 1 - Existence of EDF – GDF services
 - 2 - The status of EDF
 - 3 - EDF's pension liabilities and its accounts.

- *EDFS liabilities for the back end of the nuclear fuel cycle and nuclear plant decommissioning amount to 51.1 billion euros*
- *Another 20.7 billion euros are set aside for replacement of distribution infrastructure which devolves to local governments upon a change in EDF status.*
- *EDF's obligations to its present and future retirees are estimated at 42 billion.*

11

Conclusion : A process under the close control of Brussels

- ✓ Mario Monti, has "*made it clear that it would be difficult for EDF to win approval for new acquisitions elsewhere in the EU if it carried on with this stance [of not liberalizing the French energy market]*"
- ✓ If privatization and liberalization continue at the current pace, EDF will not be able to claim for much longer that it is isolated European stronghold of public monopolies and state enterprises
- ✓ The European Com called France to cut state aid to EDF slammed by rivals as an unfair advantage in foreign markets.



END

12