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European or national champions are certainly more a blessing than a burden if customers do have a choice between at least two or – preferably more – champions. The definition of the term 'champion' depends very much on the nature of the business. In highly capital-intensive industries employing technologies with large economies of scale, members of the Champions League need to be quite sizable.

In my statement I shall deal with today's subject from the perspective of an energy manager.

When the European Union designed the Lisbon Strategy, the goal was to become the world's most competitive and dynamic economy by 2010. A drastic change process had already started in the European energy sector. It was in 1998 when the liberalisation of the electricity and gas markets constituted a new legal framework for energy suppliers.

Before 1998, there was hardly any competition in the energy market: utilities were active within clearly defined supply areas and customers did not have the possibility to choose their energy supplier. I admit that this was a rather convenient situation for the whole energy industry.

In Germany, the market was not opened step by step. The right for customers to choose their supplier came "overnight", and the energy companies were forced to reflect upon their strategy and to define new entrepreneurial goals. The first objectice was to increase competitiveness.

This process very often led to a reorganization of the company structure. When, in 2000, the former companies VEBA and VIAG merged, each of them was a broad conglomerate, active in different branches of industry. It became clear that concentrating on one core business would be the key to future success. Thus E.ON was born.

During the last five years, the E.ON group sharpened its profile and, step by step, became a member of the international "Champions League" in the energy industry. Today E.ON is the world's largest private energy supplier with a clear focus on electricity and gas.

Its subsidiary, E.ON Energie, representing the largest of five market units within the E.ON group, is responsible for the entire electricity and the downstream gas business in Central Europe.

E.ON Energie

Let me now focus on E.ON Energie:

The opening of the European energy markets meant to us a unique chance for transformation and growth. What did we do to reach this ambitious goal? How did E.ON Energie develop from a national to a European player?

In Germany, further acquisitions are rather limited for us due to cartel restrictions. Seven strong regional suppliers belong to our group as well as a number of shareholdings in German municipalities.

Concerning our international activities, the political changes in Eastern Europe opened the door for growth. Step by step, E.ON Energie increased its radius of extension. Today, we are active, besides Germany, in the Benelux countries, Switzerland, Austria, and in most of the EU accession states in Eastern Europe. Our latest acquisition took place in Bulgaria, and we also expect Romania to become a new regional member of our European family. After almost ten years of engagement in East European countries, we are proud to be the leading energy supplier there.

Our philosophy follows an integrated business model. In the electricity sector, we want to be present along the entire value chain, including generation, transmission, distribution, trading, and supply. In addition, we try to exercise power and gas convergence in the downstream sector.

This business model means stability of revenues as well as risk minimization, following the principle: "Don't put all your eggs in one basket."

Despite our growth in Central Europe, E.ON Energie is still regionally bound.

Energy supply cannot be compared to other industries due to its special characteristics. Electricity has to be produced where it is needed, i. e. we are conducting a local business. Being part of a strong group and benefiting from economies of scale enables us to offer premium products and services to our customers.

The energy industry in Europe

The introduction of competition in the European energy markets had one major goal: It was to improve Europe's competitiveness. However, the European Commission is looking with distrust at the development of energy markets and market players in Europe. Especially the big players are being observed suspiciously.

The Commission's distrust is mirrored by major regulating interferences such as the infrastructure package in autumn 2003, by the Commission's benchmarking reports and by its most recent decision to carry out a sector inquiry of the energy market.

I do not share the Commission's scepticism. I am convinced that first of all, liberalisation of the energy markets in principle has been a success story, and, secondly, that we need big, financially sound market players for the challenges the electricity industry is facing.

Liberalisation in principle has been a success story

Large parts of the electricity markets in the European Union today are open for competition, the lacking parts will be opened up by July 1, 2007. The Commission itself, in its fourth Benchmarking Report, has recognised the results achieved concerning growth of productivity and price reduction.

Yet the German market in particular is still under criticism. But if we look at the facts, we see that concentration in generation and distribution is comparably low. We have a considerable share of foreign competitors (with Vattenfall and EDF up front) and the leading power exchange (EEX) in Continental Europe. The interconnection capacity between Germany and its neighbours, i.e. the relationship between import capacity and peak load, is as high as 20 percent. Access to the grid is open to all market players and non-discriminatory and will soon be controlled additionally by a regulation authority.

The competitive market has led to an overall decline in electricity prices – even though the heated debate on recent price hikes may indicate something different. In fact, industry prices in Germany have fallen up to 30 percent between 1998 and 2004 (for households the figure is 16 percent) – without even taking account of inflation.

However, most of the liberalisation dividend has meanwhile been consumed by the sharp rise in state-inflicted costs. Households thus pay about the same today as in 1998, industry "only" 18 percent less.

The message is clear: It is not a malfunctioning of the market that is prohibiting lower energy prices, but the distortion of the market by numerous and often contradicting political aims. To safeguard the competitiveness of European industry, these distortions have to be reduced considerably.

This leads me to my second point.

We need big, financially sound market players

Not only European industry in general needs to be competitive, but also the European electricity industry. Even more so if we consider the big challenges ahead: According to Eurelectric, 520 GW of new capacity will have to be installed by 2030 in the EU-15 Member States, costing more than € 600 billion. Additionally, a major modernisation and extensions of the grid will have to be accomplished.

These giant investments cannot be undertaken by administrative guidelines and regulations. The investments we are facing need to be undertaken by market participants at least cost.

"Small is beautiful", the slogan of the environmentalist movement of the 1970s against modern industrial technologies and mass production, can still be found today in the ideas of policy makers. However, reality has shown that it is more than doubtful whether all big business is bad and whether small is all that beautiful.

In fact, the electricity industry continues to be dominated by economies of scale. This is why big private utilities come into play: In Germany as well as in the rest of Europe, there are many with a strong capital base. It is they who have the engineering know-how and experience as well as the financial background to face the challenges of developing, building and operating modern, efficient and environmentally sound power plants and grid systems.

European and national politicians should take this into account when regulating energy markets in Europe. They should focus on the implementation of current legislation, on guaranteeing a stable and reliable market framework, and on preventing the use of dominant positions. If they do so, a competitive power industry will continue to provide secure energy supply at competitive prices.

Conclusion

Let me finally draw a comparison with the oil industry in which we find a number of global champions:

All oil majors operate the entire value chain from exploration to the filling station. In addition to that, we find a large number of smaller oil companies, e.g. in the transport, trading or retail business. But nobody expects from these companies the exploration of new oil fields in Alaska, off-shore or in Siberia, which is, however, indispensable for the security of oil supply.

Thank you.