Analyses OSW

CENTRE FOR EASTERN STUDIES 21.02.2018 www.osw.waw.pl

# The Chinese in Germany's energy networks?

Konrad Popławski

The company 50Hertz, one of four German power grid operators, has announced that talks are ongoing to sell its shares in the State Grid Corporation of China (SGCC), owned by the Chinese government. The transaction will apparently cover half of the 40% of shares in 50Hertz which belong to the Australian IFM Fund. According to a report from the German Ministry of Economy and Energy, the agreement has already been signed, and the transaction should be completed in the summer, if the second owner of 50Hertz, the Belgian operator Elia (60% ownership) does not exercise its right of first purchase. The report of the intention to sell has caused concern among German parliamentarians. The Christian Democrats' spokesman in the Bundestag for economic affairs has stated that the question must be considered of whether the current legislation on protection against the acquisitions of critical infrastructure in Germany is sufficient. Daniel Caspary, the leader of the Christian Democratic group of German MEPs in the European Parliament spoke in a similar vein; he stated that the European Commission should have the right to interfere in cases concerning strategically significant companies in member states. In response to a request from a Green Party member, the Ministry of Economy and Energy stated that German regulations did offer sufficient protection to the country's critical infrastructure.

**Commentary**

- The transaction which the SGCC is planning does not violate German law on external economic relations. The state has the right to veto the acquisition if the investor wishes to acquire no less than 25% of the shares. However, the threshold will be not exceeded in the case of SGCC's acquisition of 20% of 50Hertz's shares. This means that the German government may be helpless in the face of attempts by several investors informally controlled by another state to obtain smaller shares in strategically important companies.
- China's economic expansion has raised serious concerns in Germany since the 2016 takeover of Kuka, the German leader in robotics, a transaction which the German government opposed. German law offers no protection against takeovers of either technology companies or strategically important companies. The attempt last year to amend the law on external economic relations – which was extended to protect more industries against takeovers, and also increased the government's ability to supervise such transactions – has proven ineffective. There is still no provision for the possibility of blocking the purchase of less than 25% of shares in strategic companies. A legislative

initiative to reduce this threshold can be expected.

- China is trying to modernise its energy system. In this light, it seems that the SGCC's aim is to transfer technologies from 50Hertz related to the management of networks in which 53% of the electricity comes from unconventional sources. Energy is also one of the ten areas in which China wants to become a global leader by the year 2025 and it will compete in this field with Germany. The Chinese have been increasingly active about entering sensitive sectors of European economies, and in recent years they have bought shares in network operators in Belgium, Greece, Portugal and Italy, and in power plants in Portugal and the United Kingdom.