Observatoire Des Multinationales
Enquêtes et veille citoyenne
pour la démocratie économique

Monopoly power versus public service

Veolia's hostile takeover of Suez is a corporate strategy to extract "super-profits" from essential services and the climate transition

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Foreword

Veolia's hostile takeover of Suez in 2022 is in part a reaction to the solid work over 20 years of the Water Justice Movement, a global network of trade unions, civil society organisations, academics, elected officials and public utility managers, amongst others. Our firm and coordinated resistance to the French model of water and sanitation privatisation has forced the two French giants to change their business models. The 25-year 'public-private partnership' contracts are no longer very popular, at least not in countries with strong trade unions and dynamic civil society. Their multiple problems have been well documented and serve as the basis for activist education and mobilisation.

The report by l'Observatoire des multinationales shows the French water giant Veolia and its gamble for continued corporate expansion. It peels back the inner workings of the French water corporations, financiers, governments, lawyers, PR firms, etc. This network has been in existence for generations, with revolving doors, influence peddling, corporate lobbying, even bribes and other forms of corruption and unethical practices. This system is replicated and exported as the companies move overseas to capture public contracts for essential services. To do this they combine with the World Bank, regional and national development banks and UN agencies. All to perpetuate a business model that has been very lucrative and stable for a long time.

That fact that Veolia and Suez spent hundreds of millions of Euros – perhaps even €1b in all – in this hostile takeover is in itself astounding. Add to that the approximately €11bn that Veolia spent (and borrowed) to acquire the assets from Suez. These are corporate funds made from the private control of water and sanitation and other public, largely municipal services. As the report shows, Veolia is making a business projection of many more hundreds of millions to be earned from the new public funds for dealing with the climate crisis, justifying this expensive takeover.

This points to our need to assess how climate funding contributes to privatisation. A PSI report jointly with our Korean affiliate KPTU on the global Green Climate Fund (based in Korea, but operating under the auspices of the UN) shows a structural bias towards privatisation and market-based solutions. Trade unions and allies in the Water Justice Movement need to connect with climate activists to broaden our resistance to climate-related privatisations of water and other services.

We also need to track these two French companies as well as the new privateers in water and sanitation, which are private equity companies eager for the profits they can extract from the water sector.

This document is released during the UN Water Conference 22-24 March 2023. Many of the key global policy makers in the water sector appear convinced that private financial corporations should be induced to invest small portions of their trillions in building and operating water and sanitation services in developing countries. They plan to use whatever public funds are available to subsidise global capital's profits, which need to be especially high in developing countries, as these are risky investments.

This is one further document to use in our collective campaigns for water justice, for people and planet over profit.

David Boys
Public Services International

Key findings

* On top of the direct price tag of the takeover, which added €9bn to Veolia's debt, **the Veolia-Suez merger/spin-off resulted in hundreds of millions of euros and possibly over a billion euros in extra costs**, which went to bankers, corporate lawyers, consultants and PR specialists.

* The Veolia-Suez deal, that comes after several controversial mega-mergers of a similar kind in recent years, is yet another illustration of the **close relations between public authorities and big business in France**, which results in **widespread conflicts of interests** and a permanent confusion between public and private goals. President Macron and key government figures effectively pushed for the deal, which benefitted political allies. French public financial institution Caisse des dépôts et consignations is now a major shareholder of both Veolia and Suez.

* Veolia's core business model remains what it has always been historically: **a rentier business based on the capture of public funds dedicated to essential services**. It is progressively **shifting from being centred on the capture of the "water rent" to the capture of a new "climate rent",** targeting all the recent major investment and recovery plans aimed at accelerating the climate transition.

* One of the drivers of the Suez deal was Veolia's strategy to **capture the narrative** about the future of water and waste services and about the climate crisis, and push the case that **technological solutions are the only way to address ecological crises and that the price of water, waste and other essential services need to increase drastically to meet these challenges**. It is a strategy of "privatisation through technology".

* The Veolia-Suez deal also represents a new step in the financialisation of water and waste services, with **investment funds and private equity playing a larger role in running the services and extracting profits** from them.

* By acquiring large parts of the "old Suez", especially the US assets, **Veolia has become a quasi monopoly with reinforced market power vis-à-vis local authorities and industrial clients**, which it is bound to use to increase prices. Competition authorities gave their approval to the deal by taking a narrow view of its consequences.

* **Veolia recently announced record profits for 2022**, but this has nothing to do with the Suez deal. The growth in profits and revenues is due to the increase in water, waste and energy prices, and most of it comes from Veolia's heating contracts in Central and Eastern Europe countries. In other words, these are **windfall profits from the war in Ukraine, similar to those recorded by oil and energy giants,** at the expense of people facing skyrocketing bills for essential services.

* While there is still a lot of uncertainty about potential job cuts within both companies, in spite of their pledge not to suppress jobs for several years, one thing is certain: **workers will continue to bear the brunt of "synergies" and other cost-cutting measures**. Wages have not increased as much as inflation, while water prices and dividends have.

The Veolia-Suez battle and its outcome

In the middle of the summer of 2020, in the middle of the global Covid-19 pandemic, the chairman of the board of Engie, Jean-Pierre Clamadieu suggested to the media that his group was considering divesting from its 29,9% controlling interest in Suez. Not long afterwards – and it later turned out discussions had probably started well before any public announcement –, the management of Veolia, represented by the then chair and CEO Antoine Frérot proposed a full-scale plan not only to acquire Engie's stake in Suez, but to launch a public bid on the remainder of its capital. Anticipating objections from competition authorities, Veolia had even already come out with a plan to spin-off some of Suez' assets into a new company, for which it had already found a buyer, a relatively unknown investment fund with no experience in the water sector called Meridiam. In other words, **Veolia effectively proposed to acquire its main rival and competitor, Suez, and arrange the creation of a new, diminished, one**.

These public announcements marked the beginning of a months-long conflict, as the management of Suez opted to fight off Veolia's bid by any means. Both sides sought allies at the highest levels of French big business and government, although Veolia had more political backing (see below). Both sides engaged in a series of judicial battles while also vying for the support of public opinion by commissioning expert studies and articles in the press. The management of Suez even tried to "protect" the company by transferring ownership of its French assets to a foundation created under Dutch law.

Eventually, under pressure from various sides, part of the Suez leadership gave in and agreed to a modified take-over plan in the Spring of 2021. The deal was approved by shareholders of both companies in the summer of 2021, and the acquisition was eventually completed in January 2022, after the conditional approval of the EU Commission's Competition directorate.

The contours of the new Veolia and the new Suez

The main assets, activities and contracts transferred from Suez to Veolia are:
- water and wastewater in North America (including United Water and WTS, formerly GE Water)
- the Agbar group, i.e. mainly water contracts in Spain and Latin America
- waste operations in Australia and China, as well as a plastic recycling plant in Thailand

Those remaining within the "new Suez" are:
- water and waste operations in France
- most water contracts in Europe, Africa, Asia and Oceania (Senegal, Morocco, Italy, Czech Republic, Poland, Central Asia, India, Bangladesh, Sri Lanka, China, Australia and New Zealand)
- the so-called SES (smart & environmental solutions) activities dedicated to consulting and smart cities

Initially, Suez' waste operations in the UK were supposed to be acquired by Veolia, but following the veto of UK competition authorities, they were sold back to Suez. It is also not sure that the flagship Lydec contract in Morocco (Casablanca) will be transferred to the new Suez, as the Moroccan government opposes the move.

According to initial estimates, after the merger and the creation of the "new Suez", Veolia's workforce was to increase from approximately 180,000 to approximately 230,000 employees

(+28%), and its annual revenues from €26 billion to €37 billion (+42%). The actual headcount at the end of 2022 is closer to 220,000. The new Suez, on the other hand, was to see its expected turnover decrease to €7 billion (-59%) and its workforce from 88,800 to 40,000 employees (-55%). Engie's 29,9% stake was acquired by Veolia in October 2020 for €3.4bn, and the rest of the capital was acquired for an extra €10bn in January 2022. The net cost of the second stage of the transaction (acquisition of the remainder of Suez including financial costs, minus the product of the sale of some of its activities to the "new Suez" and other divestitures in response to competition authorities' demands) was €8.7bn in 2022, according to Veolia's provisional accounts. The operation was financed through debt (which increased from €9bn at the end of 2021 to €18bn at the end of 2022) and through a share capital increase of €2.5bn in 2021.

In terms of shareholding, the new Suez is controlled by a consortium including Meridiam (39%), the Global Infrastructures Partners (GIP) fund (39%) and a public financial institution, Caisse des dépôts et consignations and its subsidiary CNP Assurances (19%). The remaining 3% have been reserved for employee shareholding. The new Suez was delisted from the Paris Stock Exchange in February 2022.

Veolia's current shareholding structure is as follows (end of year): 6.7% of the capital held directly and indirectly by Caisse des dépôts et consignations; 6.1% held by BlackRock; 5.6% by Crédit Agricole; 4.3% by Natixis; 3% each by Norges Bank and Vanguard. At the beginning of 2023, it was announced that after the latest employee share plan, employees had become the largest "single" shareholder of Veolia, with 6.5% of the capital.

Timeline of main events

1 August, 2020	Engie Chairman Jean-Pierre Clamadieu publicly declares that "everything is possible" regarding his group's stake in Suez.
30 August, 2020	Veolia CEO Antoine Frérot announces a plan to buy Engie's 29.9% stake in Suez and then acquire the rest of the company - before selling Suez's French water business to the Meridiam fund. He gives Engie until September 30 to respond.
23 September, 2020	Rejecting Veolia's takeover bid, the Suez management announces the creation of a foundation under Dutch law to protect its water assets in France.
5 October, 2020	The board of directors of Engie approves, in controversial conditions, the sale to Veolia of its stake in Suez.
25 March, 2021	The legal director of Veolia sends a letter to the directors of Suez threatening civil and criminal proceedings for a loss equivalent to 300 million euros.
2 April, 2021	The financial markets authority sends a warning to the directors of Suez, accusing them of not respecting stock exchange rules (in connection with the creation of the Dutch foundation).
7 April, 2021	Gérard Mestrallet is appointed as mediator.
11 April, 2021	During a meeting at the Bristol Hotel between Antoine Frérot, Louis Schweitzer, Philippe Varin, Delphine Ernotte and Gérard Mestrallet, the

	principles of a merger agreement are agreed.
22 April, 2021	The Suez unions file a complaint for influence peddling.
14 May, 2021	The final merger agreement is ratified by both parties.
30 June, 2021	The Suez general assembly approves the agreement between Suez and Veolia.
16 September, 2021	Veolia launches a €2.5 billion capital increase to finance its purchase of the remaining 70.1% of Suez. The rest was financed through bonds and a bridge loan.
14 December, 2021	The European Commission approves the merger pending certain divestments.
10 January, 2022	Veolia completes its tender acquisition of Suez.
1 February, 2022	Veolia completes the sale of some of the old Suez assets to the “new Suez”.
30 November, 2022	All antitrust remedies are completed.
2 March, 2023	Veolia announces a record yearly profit of €1.16bn.

The huge costs of the deal - and who has benefitted

A corporate merger of this scale typically entails hundreds of millions of euros or dollars in various costs: interests on loans and other financial costs, as well as generous fees for armies of bankers, consultants and lawyers. It is often hard to pin down a specific number on all those costs, as most of it is not public. To give just one example, when General Electric acquired Alstom's energy business in 2014, the total cost of the compensation of counsels and consultants was estimated at several hundred million euros in total, including €262 million for Alstom alone[1].

In the case of the Veolia-Suez deal, those “normal” costs were compounded by the complexity of the deal, the number of parties involved (not only Veolia and Suez, but also Engie, the French government and the various shareholders of the new Suez) and by a months-long lobbying and judicial battle that required bringing in extra PR and legal expertise. One also needs to add the operational costs of the merger and of the reorganisation of the future entities. The total cost will probably amount to hundreds of millions of euros, and possibly over a billion.

Only Veolia has disclosed some hard figures. The official documents relating to its takeover bid for Suez, dated June 2021, talk of €200m in costs, essentially financial costs. According to sources mentioned by *Mediapart* around the same time, the real costs were more in the vicinity of €400m in total, for Veolia alone.

According to French media *Libération*, the “old Suez” paid about €120m in fees for corporate bankers and lawyers during the phase when it was trying to fight off Veolia's bid[2]. This includes a

[1] https://www.marianne.net/economie/la-liste-de-ceux-qui-ont-croque-dans-la-vente-d-alstom-general-electric

[2] https://www.liberation.fr/economie/les-millions-de-suez-pour-contrer-sans-succes-lopa-de-veolia-20211201_7QTQKTMITNDPPDOY5BBFUJHNWQ/

€25m break-up fee for private equity firm Ardian, which it had called upon to mount an alternative financial bid to fend Veolia off.

In 2022, there were additional, unforeseen costs due to arranging the divestments that had been mandated by competition authorities in the EU and the UK.

By comparison, Veolia's estimated savings from the “synergies” enabled by the acquisition of part of Suez were “only” €500m, of which €200m from the pooling of certain purchases and 300m from the “seeding” of best practices between the two groups. Several economic studies have concluded that the synergies generated by large industrial mergers are generally overestimated.

When announcing its 2022 financial results, Veolia estimated the costs of acquiring and integrating Suez over that year at €285m (but without saying what was included in these costs), and the benefits from “synergies” at €146m over the same period. It added that it expected another €140m in “synergies” in 2023 – which might suggest it has already revised downwards the total synergies expected from the deal.

Merger profiteers

Who exactly benefitted from this multi-million euro bonanza? Again, only part of the information is publicly disclosed. We know at least that **some characters have played a particularly controversial role in the deal and were handsomely rewarded**:

* **Jean-Marie Messier**, today an investment banker, received up to €22m for his role in facilitating the acquisition[3]. Messier was the CEO of Veolia (then Vivendi) in the 1990s, when it used the profits of the water sector to diversify into media, music and cinema. He was forced to resign following a series of financial scandals, and the group was split in two: a water and waste company (today's Veolia) and a culture and media company (today's Vivendi).

* Another compensation that has caused controversy is that of **Gérard Mestrallet**, former CEO of Suez and Engie, who carried out the “mediation” that resulted in the Bristol Hotel meeting and the merger agreement of April, 2021. He received €10m through the consulting firm Equanim. Many aspects of this intervention raise questions. Gérard Mestrallet had opposed the Veolia bid just a few months earlier. The firm was only founded in February 2021 by two lawyers, one a former Socialist Party minister and the other a former Socialist Party Paris deputy mayor under Anne Hidalgo. Gérard Mestrallet is mentioned, along with two other persons, as the “founder” of Equanim, which also has a Suez director, Miriem Bensaleh-Chaqroun, and several Engie directors on its supervisory board. It is still unclear to this day what other job Equanim was ever commissioned for apart from this meditation between Suez and Veolia. Its accounts are not made public for confidentiality reasons.

The conflict between Suez and Veolia has been widely represented as a fratricidal war at the highest level of French capitalism, in which all blows were allowed. In reality, it has mobilised a small world of bankers, consultants and lawyers who all know each other, finding themselves in turn adversaries or on the same side of the table. The French state participates in the game by using the services of the same bankers and consultants as the companies it is supposed to

[3] https://www.bfmtv.com/economie/entreprises/le-jackpot-de-l-ancien-president-de-suez_AN-202104280015.html

supervise and regulate.

According to publicly available information, bankers working for Veolia have included Messier Maris, Perella Weinberg, Citi, BNP Paribas Corporate, HSBC, Morgan Stanley, Bank of America Merrill Lynch, Deutsche Bank and Crédit Agricole - nine banks in total! Suez, for its part, called upon the services of Rothschild, Société Générale, Goldman Sachs and JP Morgan. Engie, for the sale of its shares to Veolia, worked with Lazard, Credit Suisse and BNP Paribas. The French State, in the context of this same operation, were advised by Barclays... In short, **all the major investment banks present in Paris were called upon at one time or another**.

The bankers' fees generally represent a set percentage (between 1 and 2%) of the financial operations involved. The Veolia-Suez deal was worth at least €13bn – not counting the proceeds of selling back some of Suez to a new shareholders' consortium, which suggests a fee of at least €130-260m for investment bankers alone.

For legal counselling, Veolia called on the firms Cleary Gottlieb, Clifford Chance, Peltier Juvigny Marpeau, Hogan Lovells, Gide and Flichy Grangé, as well as the consultant Deloitte to help it with competition issues. Suez used the services of big names such as Bruno Cavalié (Cabinet Racine), Jean Veil (Veil Jourde), Jean-Michel Darrois (Darrois Villey Maillot Brochier) and Bredin Prat.

In terms of lobbyists and PR consultants, Veolia used the services of the Boury Tallon firm, but also of Image7, Havas, Ismaël Emelien's company Unusual and Alphée Consulting. Suez called upon the consulting firm Brunswick, the lobbying firm BG Group, and the PR advisers DGM and Publicis.

The battle between Suez and Veolia also took place in the media and in academic circles, through op-eds and articles published in the general press and in specialised journals. In the end of 2020, Veolia went as far as to send court bailiffs to the personal homes of a number of academics who had written in the media to defend the cause of Suez, asking them to reveal any links of interest with the latter company[4]. This was a rather unprecedented attempt at intimidation, which was all the more egregious that experts paid by Veolia also had easy access to the media[5].

Crony capitalism, French-style

The takeover of Suez by Veolia is an illustration of "crony capitalism" at the highest level of French big business and government. Both companies have been at the heart of France's corporate sector for decades, both have close relations with the French state, including both having Caisse des dépôts et consignations, a public financial institution, as one of their main shareholders.

Veolia's bid was promoted as the creation of a "champion of ecological transformation" (more on that below) but **in reality, the main driver for the merger between Veolia and Suez probably had nothing to do with water, waste or the climate. It is just one of the latest examples of the trend towards industrial concentration that has been accelerating since the 1980s, and which takes on a particular flavour in the context of French capitalism**.

4 https://www.mediapart.fr/journal/economie/081220/fusion-avec-suez-veolia-veut-baillonner-les-critiques

5 http://www.eauxglacees.com/Apologie-de-Veolia-sur-France

This was not the first time that a merger between Suez and Veolia has been on the table; it had already been envisaged and discussions had started, unsuccessfully, in 2006, and then in 2012 - with some of the same protagonists as in 2020-2022, including Antoine Frérot and Gérard Mestrallet. A merger between Renault and PSA was also recently envisaged (finally abandoned, as PSA preferred to merge with FiatChrysler to form Stellantis), and France has also seen in recent years the merger of part of Areva with EDF (2016), between Alstom and Bombardier (2020, instead of the one proposed between Alstom and Siemens that had been vetoed by the European Commission), between Essilor and Luxottica (2018), between Alcatel and Nokia (2015), between Lafarge and Holcim (2014), between Technip and FMC (2016) - not to mention , a little longer ago, the mergers between Gaz de France and Suez' energy division, to create Engie (2008), or between Air France and KLM (2003).

Many of these mergers proved controversial because of the job losses or plant closures that followed, and in many cases it resulted in France's historical industrial champions being taken over by foreign owners, while the managers and shareholders who had sold the companies were rewarded with hefty bonuses and exceptional dividends. The most emblematic case - repeatedly used as a point of comparison during the Suez-Veolia conflict - is that of the sale of Alstom's energy activities to General Electric in 2014, a transaction that took place against a similar backdrop of alleged conflicts of interest and revolving doors between public and private sectors.

Such mergers generally do not make any real industrial sense. **Their objectives are financial in nature**. In the short term, they are an opportunity to extract more cash from the companies' purses in the form of fees, dividends and bonuses. In the medium and long term, they enhance the prospects for profit extraction on the backs of workers (by offering opportunities to cut jobs and reduce costs), and on the backs of customers and public authorities (by boosting the merged companies' market powers).

A grey zone between the public and private sectors

The profoundly rentier - rather than industrial - logic that governs the management of large French corporations has often been underlined. This is explained by external factors - the global context of ever more powerful and demanding financial markets – as well as by specifically French reasons: the oversize importance of the State and the financial sector in the economy and the close proximity between certain large, highly regulated companies and public authorities, which results in many CEOs having started their careers in public service (including Antoine Frérot, Gérard Mestrallet, and the new Veolia CEO Estelle Brachlianoff).

The Veolia-Suez deal is a vivid illustration of the close and often incestuous ties between the state and large corporations in France. On the one hand, the state is called upon to intervene in major economic issues such as this merger, in the name of looking after "national champions", but on the other hand, it refrains from taking all the measures that it could take in the name of the general interest, taking refuge behind business law. Instead of being concerned with defending and developing public services, French political leaders have been primarily concerned with fostering the development of private "champions", in a context of widespread conflicts of interest and revolving doors.

Both Veolia and Suez inhabit a grey zone where differences between public and private interests are blurred. On top of having public sector shareholders (Caisse des dépôts for Veolia, formerly the state via Engie and now Caisse des dépôts as well for Suez), both have historically provided a haven for former senior civil servants and politicians. Suez was long under the leadership of Jérôme Monod, a top adviser to Jacques Chirac, while Veolia developed a habit of hiring former politicians or family members of active politicians. Current Paris mayor Anne Hidalgo worked for Veolia in the 1990s. That's also the case for several current or past members of Parliament[6]. It has been reported in the media that Veolia is now about to hire former Education minister Jean-Michel Blanquer.

As a result of this widespread use of revolving doors, many of the players of the Veolia-Suez conflict-then-merger already knew each other or had worked together in the public sector before, or had been through the same “grandes écoles”. For instance, the current head of communications and sustainability for Suez, the current Executive Vice President for Strategy, Innovation & Sustainability at Veolia (a former Suez executive), the head of strategic participations at Caisse des dépôts (in charge of both Suez and Veolia) and the top civil servant at the state shareholding agency who oversaw the deal, all studied together at the Ecole nationale d'administration (ENA).

A deal supported at the highest level of the state

When Veolia announced its bid for Suez, several members of the government gave more or less explicit support to its plan. Then Prime Minister Jean Castex said that the merger “made sense”, while Labour Minister and current Prime Minister Elisabeth Borne condoned the plan to create a national champion, promising that there would be no job cuts[7]. Secretary of State Olivia Grégoire (who has signed several op-eds with Antoine Frérot on corporate responsibility and ESG) was criticised in her own camp for her overly strong support for Veolia. Only the Minister for the Economy, Bruno Le Maire, expressed some reservations, but more about the form (the unfriendly nature of the takeover) than the substance. He tried to broker an amicable deal by commissioning Treasury director Emmanuel Moulin to find a compromise in early 2021, but his alternative plan was not accepted by Veolia, because it would have meant it couldn't get its hands on Suez's U.S. assets.

The most striking and controversial illustration of the government's hypocrisy was the vote by which the board of directors of Engie approved, on October 5, 2020, the sale of its stake in Suez to Veolia. Officially, the state - which holds nearly 24% of Engie's capital - was opposed to the sale (arguing that it preferred to take the time to find an amicable solution – reflecting Bruno Le Maire's cautious position), and its three official representatives on the board voted against it. This was insufficient since the “independent” directors (i.e. chosen by the company's management) all voted in favour, and the directors representing employees were divided, some of them voting against, others for, while others abstained. This was widely seen as a display of impotence by the government, which had been able to impose its views on Engie's management on previous occasions. Worse still: accounts collected by *Mediapart* suggest that the Secretary General of the Elysée Palace Alexis Kohler, Emmanuel Macron's top aide, directly intervened by phoning some union representatives to convince them to abstain (thus ensuring that the sale would go through).

6 https://multinationales.org/fr/enquetes/les-portes-tournantes/sous-macron-veolia-et-le-lobby-de-l-eau-plus-influents-que-jamais

7 https://www.bfmtv.com/economie/le-gouvernement-fait-bloc-pour-defendre-la-fusion-veolia-suez_AV-202009100186.html

Hence the conviction among many observers that the takeover of Suez by Veolia was pushed at the highest level of the state, even though Emmanuel Macron has refrained from any official comment on the case.

Mediapart mentions other interventions by Secretary General Alexis Kohler, including a meeting at the presidential Elysée Palace in May-June 2021 - well before any public announcement - to validate Veolia's projects. These allegations have been officially denied by the government spokesman, but Alexis Kohler has twice refused to testify before the parliamentary commissions of inquiry set to examine the Veolia-Suez deal, as he is legally obliged to do. **Some of the Suez unions have filed a complaint with the French National Financial Prosecutor's Office for "influence peddling", denouncing the support Veolia allegedly enjoyed from top levels of the state, and in particular from Alexis Kohler himself**. The complaint is currently being investigated and it is not known whether it will bring new elements to light. Alexis Kohler was charged in October 2022 for an illegal conflict of interest in another affair, involving his role at the government shareholding agency in overseeing naval construction and ports: he had not disclosed his personal ties with the Italian giant MSC, a key partner and client of the companies he was tasked with supervising.

One cannot help but note **the close links between several of the key players of the Veolia-Suez deal and the person of Emmanuel Macron**. Ismaël Emelien, the president's former communications advisor who is still very close to him (to the point that he has been presented as the third head of the "trio effectively governing France" with Macron and Kohler), was one of Veolia's main advisors on the deal[8]. Thierry Déau, the head of Meridiam, helped launch and finance Emmanuel Macron's presidential campaign in 2017, and his fund now employs two former Elysée Palace advisors.

Antoine Frérot is said to have been one of the early supporters of presidential candidate Macron in 2017, (most other CAC40 (the 40 biggest companies in France's stock exchange) CEOs preferred conservative candidate François Fillon), and he participated in numerous initiatives with the government to promote the so-called Pacte law on responsible capitalism (2019). Two other key players, Jean-Pierre Clamadieu and Gérard Mestrallet, are said to have played key roles in launching Emmanuel Macron into politics by installing him as secretary general of the Elysée Palace when François Hollande was elected in 2012.

The strange role of public financial institutions and of the financial markets regulator

French public financial institutions were also key players in the deal. The Agence des participations de l'État (APE, government shareholding agency), nominally dependent on the Ministry of Finance, is responsible for managing the French state's stakes in the capital of major energy and weapons companies. Its direct role in this case was to approve or not, as a shareholder of Engie, the sale of the latter's shares in Suez to Veolia. Obeying the instructions of Finance Minister Bruno Le Maire, state representatives did vote against the sale, but testimonies collected by *Mediapart* suggest that the **APE, when contacted by investment funds interested in Suez, repeatedly dissuaded them from getting involved in order to leave the way clear for Veolia**[9]. It

8 https://www.marianne.net/economie/bataille-pour-suez-ismael-emelien-lex-conseiller-special-demmanuel-macron-bosse-pour-veolia

9 *« Selon plusieurs témoignages, différents fonds ont approché les responsables de l'APE pour tester les intentions de l'État, pour*

should also be noted that one of Veolia's main advisors on the deal was a former APE boss, David Azéma, who has since moved into investment banking (Bank of America).

The role played by Caisse des dépôts et consignations was even more peculiar. This venerable public financial institution, supposed to be independent of the executive branch (but which is in fact less and less so), is one of the main financiers of CAC40 corporations. It has long been the largest shareholder in Veolia (with a 6.7% stake at the end of 2021) and a major shareholder in Engie (with a 4.6% stake); it also rushed to join the consortium set up to acquire the "new Suez" alongside Meridiam and GIP, after the withdrawal of Ardian. The Caisse also participated in Veolia's €2.5bn capital increase which was launched to finance part of the merger. **Through the Caisse des dépôts et consignations, the French state has thus provided direct financial support for the acquisition of Suez by Veolia**.

To complete the picture, it should be noted that Thierry Déau, the director and founder of Meridiam, began his career in Egis, an engineering firm that is also a subsidiary of the Caisse. Meridiam and the Caisse have already partnered on several projects, such as the construction of the new port of Calais and the first private-run high-speed rail line in France, on the Paris-Bordeaux section. Egis is an infrastructure consulting firm that is often called upon by French donors (Agence Française de Développement, etc.) to "prepare" public-private partnerships or consortiums for financing infrastructure - which is Meridiam's core business.

Another episode of the Veolia-Suez conflict provides yet another illustration of the blurring of lines between the public interest and private interests, and of the culture of revolving doors and collusion that Veolia was able to take advantage of. At the beginning of April 2021, the Autorité des marchés financiers (AMF), an independent regulatory agency for the financial sector, in an unprecedented move, sent a letter to the directors of Suez, telling them that they would face legal action if they maintained their plan to lodge Suez's French water operations in a Dutch foundation to protect them from Veolia's appetites. Veolia's General Secretary (i.e., chief lawyer) had just sent a letter to the same Suez directors which said exactly the same thing. It seems that these threats contributed significantly to tipping the balance in Veolia's favour. The AMF panel responsible for imposing fines and legal action is composed of several members appointed by the public authorities, one of whom - appointed by the Ministry of Finance - is none other than that same General Secretary of Veolia.

The future of Engie in balance

While most of the public discussion revolved around what would happen with Veolia and Suez, another underlying issue was the fate of Engie (formerly GDF Suez). In a sense, the Veolia-Suez deal is only the latest episode in a long series of events that began with the privatisation of Gaz de France and its sale to Suez in 2008, all under the aegis of Gérard Mestrallet (CEO of GDF Suez between 2008 and 2016, then Chairman of the Board between 2016 and 2018), and already with the active support of the French state and in particular of the Caisse. Suez had already acquired Lyonnaise des Eaux and Belgian utility Electrabel before turning its attention to Gaz de France. The

savoir s'ils pouvaient se porter aux côtés de Suez pour monter une contre-offre. À chaque fois, ils ont été dissuadés de le faire, les responsables de l'APE ne manquant pas d'insister sur le fait qu'ils auraient Veolia en face d'eux. Beaucoup ont compris. Ils se sont désistés : même quand on est un institutionnel installé, on ne va pas contre l'État en France aujourd'hui. Le ministère des finances n'a pas répondu à nos questions sur ces faits. » https://www.mediapart.fr/journal/economie/011020/veolia-suez-l-etat-somme-de-sortir-de-l-ambiguite takeover of the former gas utility was approved by the French state under very favourable conditions for the shareholders of Suez. It was agreed that the water and waste activities of Lyonnaise would be separated in a new entity, called Suez Environnement and then just Suez, in which GDF Suez would hold a controlling minority interest of 29,9%.

In the following years, GDF Suez was literally plundered to pay out ever larger dividends to its shareholders. According to Basic and Oxfam, over the period 2009-2016, the dividends paid by Engie represented more than three times (333%) the profits actually earned by the company. The rest was drawn from its cash reserves. It also underwent several radical shifts in strategy and leadership conflicts. At some point, Engie considered reintegrating the totality of Suez and exiting its historical gas business to focus on renewables and services. Eventually, it was quite a different approach that was chosen: refocusing on gas and divesting from Suez and from services.

Meanwhile, the French government makes no secret of its intention to divest entirely from Engie, which would be the last stage in the progressive privatisation of the former public service Gaz de France. Initially set at a minimum of 34%, the State's share in the group's capital has been reduced to just over 23% today, and probably zero at some point in the future. The sale of Engie’s shares in Suez must be understood in this perspective. **It was a way to give a boost to the share price of Engie, which has been stagnating at very low levels in the past years, to prepare for a profitable divestment of state shares**.

After it sold off its stake in Suez, Engie also divested from all of its activities in energy services and environmental services in general. These were grouped together in a new company called Equans, with a turnover of 12.5 billion and 70,000 employees and sold to construction company Bouygues for €6.5bn. Many workers and former executives see these developments as a gradual dismantling of Engie, which can only end with the sale of Engie's last gas and renewable energy activities to another corporation, with oil major TotalEnergies often named as the most likely buyer.

Monopoly power versus public service

Veolia and Suez have dominated the global private water and waste management market for years, but they have been faced with growing difficulties. The mega-merger can be seen as a response to this new context. Behind all the “positive” justifications for the proposed acquisition of Suez by Veolia, one can wonder whether the deal is not also, and perhaps above all, defensive, in other words **whether it is not intended to hide Veolia's ongoing difficulties behind a grand and prestigious merger**.

Both Veolia and Suez have been facing a profound challenge to their historical business model for the past 15 years, particularly (but not only) in the French market, which had always been a “cash cow” for them. Changes in legislation (and, to some extent, in attitudes) have made their traditional business model (which involved close relations with politicians and officials and one-sided, very profitable privatisation contracts) less acceptable. Even though they could still count on the support of governments and international institutions such as the International Monetary Fund and the World Bank, they faced growing resistance from unions, social movements and some politicians. Many of the contracts they had managed to secure in the 1990s, a period of expansion, were not renewed, and some of them were terminated. They lost key contracts in Paris, Lyon, Bordeaux, Berlin and elsewhere. **The remunicipalisation movement in the water sector has**

affected them both directly (through the loss of contracts) and indirectly (by encouraging other public authorities to negotiate a lower price for water and to increase their scrutiny of private profits). The major contracts that Veolia recently managed to have partially renewed (such as in Toulouse in 2018) have come with a significant reduction in revenues, which many specialists believe is not sustainable in the long term for the company (or will result in a significant deterioration of the service). The remunicipalisations of the water services of Lyon and Bordeaux in the beginning of 2023 show that the remunicipalisation trend in France is not abating, and Veolia's flagship contract in the Paris suburbs intercommunal syndicate (SEDIF), while recently renewed, is still under threat from cities deciding to exit the syndicate, as a number have done in the past years.

This growing resistance from officials, workers, and citizens has forced Suez and Veolia to change their strategy and position themselves more as a partner for public authorities, including those that have opted for public management, and to focus on technological services (see next section).

These difficulties are reflected in Veolia's finances, and in particular its recurring debt problem. This fragile financial position is one of the reasons why Veolia has been paying out dividends in excess of its profits for the past 15 years. It is not uncommon for companies under pressure from financial markets to engage in such mergers to disguise their immediate difficulties and create a pretext for further restructuring and “cost cutting”. This also raises questions about Veolia's ability to absorb the merger financially, given that it has seen its debt increase from €9 to €18bn. On the face of it, **Veolia's management is betting on the fact that the acquisition of some of Suez's activities will enable it to gain new customers among industry and public authorities and/or to extract higher profit margins**. It is betting both on its ability to leverage its increased market power and tap into an expanding market for “climate solutions” (see next section) to increase revenues and profit in the long term and absorb this debt.

The dubious case for a “global champion”

The main argument put forward by Veolia's then CEO Antoine Frérot to justify the acquisition of Suez was the need to create a “world champion of ecological transition” - a slogan still used by Veolia to this day. As we have seen, this notion of a “champion” was immediately endorsed by the French government.

However, the argument seems shaky at best. **Veolia and Suez were already the world's number one and number two in the water and waste sector – which they will still be after the deal, albeit with a larger Veolia and a smaller Suez**. There is no other corporation comparable to Veolia or Suez in terms of their global scale and their operations – all former competitors they had in the 1990s have exited the international water and waste business – even if new competitors are emerging, many backed by private equity firms.

Antoine Frérot pointed out - at the very beginning of the bid, but less and less so since then – the risk of the emergence of Chinese competitors who would eventually threaten its leadership in global markets. Hence the need to strengthen Veolia “’preemptively” so that it could face this yet non-existent competition. Here again, the argument is a classic one. It was used, for example, to justify the planned merger between Alstom and Siemens in the rail sector, in the face of the potential threat of the Chinese group CRRC – without success, since the European Commission vetoed the merger. In the case of Veolia and Suez, the “yellow peril” argument seems even less convincing. On the one hand, these Chinese competitors do not yet exist – even if, it is true, through their past contracts in China, Veolia and Suez have engaged in technology transfers that have made the Chinese authorities less dependent on them. On the other hand, even if the competitors existed, we do not necessarily need a private sector champion to fend them off. Reinforcing public services would work just as well, or even better – which is exactly what Veolia's case for a champion is deliberately seeking to hide.

Before the French National Assembly, Antoine Frérot made it clear that Veolia's real objective was to increase its market share: "10% of public water services in the world are delegated to private companies, and 90% are run by public companies. Similarly, most industrial companies manage their own water, until regulatory constraints lead them to turn to professionals to take over. Development opportunities are huge." The threat of possible Chinese competition is mostly an excuse to allow Veolia to increase its market power in Europe and in the world.

The competition case

Competition authorities were always going to be a potential obstacle to the Veolia-Suez deal. From the very beginning, the Veolia leadership anticipated this hurdle by announcing it would sell some Suez assets (in particular the water operations in France) to an ad hoc company created for the occasion, an almost unknown fund, Meridiam.

The new Veolia is a quasi monopoly in the sense that it will be the only corporation of its kind and of its size on a global scale, with Suez downgraded to a more peripheral role. In its own public documents, Veolia claims to be, post-merger, "in the top 3 of its businesses in all its key countries including the US" - number 1 worldwide and in Europe for water services, and number 3 in the US, number 1 worldwide for water technologies, number 1 in France and the UK for solid waste, number 1 in Europe and number 3 in the US for hazardous waste. **The deal was always driven by the objective to reinforce an already dominant position, and increase Veolia's market power particularly in the US.**

The sensitivity of the examination by the European competition authorities, in this case the DG Competition headed by Danish Commissioner Margrethe Vestager, is illustrated by the fact that Veolia waited until October 2021 to formally notify the Commission of the merger while expecting a green light by the end of that year – a remarkably short time for an operation of this scale. It seems that negotiations had been going on behind the scenes for some time. Margrethe Vestager's Directorate was already familiar with the water sector, having opened an investigation in 2010 into possible anti-competitive behaviour by Veolia, Suez and Saur (an investigation that was finally closed without prosecution in 2013 due to insufficient evidence). It has also demonstrated its willingness to resist political pressure by vetoing the proposed merger between Alstom and Siemens, despite the fact that it was pushed by the French and German governments.

Eventually, however, the EU Commission gave a green light in December 2021, pending a number of further divestments that Veolia had not anticipated. Similarly, the UK competition authority eventually requested that Veolia sell its waste assets in the country to a third party. Initially, Veolia had picked the investment fund Macquarie as a buyer, but Suez chose to use its priority rights.

Historically, European competition authorities have very rarely blocked corporate mega-mergers (Alstom-Siemens being the exception), based on the rationale that they would ultimately benefit consumers by lowering prices. They have never given much consideration to issues such as the excessive political influence of large private players, market power vis-à-vis smaller local companies, or the need to protect public services and public finances from profiteering. It is worth noting, however, that as part of the European Green Deal, the Competition Directorate is now supposed to examine the implications of mergers from the point of view of the fight against climate change. Veolia actually argued that the creation of a "climate solutions" giant would enable its customers - companies as well as public authorities - to enjoy more efficient services at a lower cost, while Suez's management – when it opposed the deal - argued that the merger would instead hinder innovation in the climate sector.

If one looks at the totality of the water and waste "markets", as Veolia was arguing and as European authorities chose to do, Veolia is still far from enjoying dominant market power. If one includes all the water and waste services in the world, its overall market share is no more than a few percent. However, narrowing the perspective to the "privatisation market" – how many companies are susceptible to sign privatisation deals with national governments or local authorities or build plants or provide treatment technologies - Veolia does now enjoy quasi monopoly power. It has been argued that the usual way in which competition authorities look at mergers is no longer adapted to the realities of today's economy, especially when it comes to Big Tech. Similarly, looking at the Veolia-Suez deal, **EU competition authorities chose a rather narrow view of its potential implications, as if it was a business like any other, not one where public interest was key and where local authorities were already grappling with the excessive power of corporate giants**.

From the "water rent" to the "climate tech rent"

Historically, the core of Veolia's business model (like that of Suez) was to capture the "water rent", in other words, of the money allocated by public authorities to water and sanitation services. This is what made them rich in France, when almost no other country had opted to privatise water services, and it provided them with the financial firepower needed to expand globally. Even so, the profitability of Veolia and Suez was still dependent on their ability to capture public funds, either from local authorities in the global North, or from international institutions and national development agencies in the global South. From the 1980s and 1990s onwards, Veolia and Suez succeeded in convincing international institutions and major donors that the private sector was the best way to ensure access to water and sanitation for the millions of poor people around the world who did not yet have it.

This model has come under increased pressure because of inherent limitations of for-profit operation of water and sanitation, leading to the remunicipalisation wave and greater scrutiny of the use of public funds. This was compounded by a paradigm shift in which the money specifically dedicated to the water sector was reduced and is increasingly included in broader programs dedicated to "resilience" or "climate adaptation". In other words, climate issues are increasingly at the centre of public policies and associated funding streams.

The Veolia-Suez merger/spinoff can be seen as the reflection of a strategic shift aimed at capturing this new "climate rent" - in other words, all the money that will have to be spent by governments and local authorities, but also industries, to reduce their greenhouse gas emissions and cut waste from their operations. The merger allowed Veolia to get its hands on several key technologies and offer a more complete portfolio of “climate solutions”, especially for industrial clients in the US. At the same time, the “new Suez” looks set to shift to a different business model, that would be mostly based on infrastructure management through public-private partnerships.

The launch of the EU recovery funds and similar plans in the US and elsewhere were a key context for the Veolia-Suez deal: “All the recovery plans have a strong green focus. It is therefore the ideal time to propose the creation of a world leader capable of proposing new solutions to achieve ecological transformation”, Antoine Frérot explained to the French National Assembly in June 2021. Veolia's bid for Suez was actually announced just a few days before the official launch of the French recovery plan.

Recovery plans and subsequent investment plans such as the French “France 2030” (€50bn) and the even larger US Inflation Reduction Act represent a massive influx of public money into the economy, much of which is directed toward green transition. Behind the Veolia-Suez deal was a clear and explicit strategy to take advantage of this new bonanza - directly by capturing some of the funding streams for technological development, but more importantly indirectly, by winning the contracts that the public or private sector would award to achieve their environmental goals under the various climate goals and commitments.

Technology-driven privatisation

The Suez deal reflects a strategic and almost “ideological” shift for Veolia: the prioritisation of technology as a solution to water and climate problems. Historically, Veolia’s business model was based on extracting cash by various means through total control of their contracts with local authorities. As this model proved less viable, Veolia had no choice but to adjust, positioning itself as a partner for local authorities and as a provider of (usually technological) “solutions”. **This strategy may be less lucrative in the short term, but it is also less risky, and has the advantage of “locking in” public sector clients by making them dependent on specific technological solutions.**

The technological solutions - increasingly sold to industrial clients as well, for example, mining or oil companies - include wastewater treatment and reuse, plastics recycling, seawater desalination, technologies related to air quality in buildings (in connection with the Covid epidemic), waste valorisation, and energy efficiency services. Published financial data suggests that Suez spent more on R&D in recent years than Veolia, which was constrained by its cost-cutting plans. The takeover of Suez was supposed to help Veolia get its hands on some of the fruits of these efforts.

This focus on technology as the only way to solve water and climate issues is presented as obvious, but it raises many questions. In many cases, it would be **more effective and less expensive to implement preventive measures rather than remedial technologies** - in other words, to reduce waste at the source rather than relying on technology to “clean up”. But these preventive policies generally require deeper changes in consumption and production models, less favourable to the private sector : for instance prioritising public transportation and limiting the need for private cars rather than focusing on the switch to electric cars; or engaging in “zero waste” policies or limiting plastic consumption rather than focusing on recycling.

Focusing on technology as the only solution is also, and perhaps primarily for Veolia, a good way to justify increases in the price of water and waste services. In recent years, Veolia executives have had to agree to steep price cuts to keep their contracts – and they don't hide the fact that they would like to see the "good old days" return in a different form. This is why they regularly argue that the price of water should be 50% higher "because of our climate needs".

Veolia and the water sector offer a very telling illustration of this dilemma. On the one hand, the water company Eau de Paris, created in 2009 following the end of the French capital's contract with Veolia and Suez, has explicitly chosen to limit its technological investments and is deploying innovative mechanisms to protect water quality at the source - limiting the need for treatment - through partnerships with farmers. On the other hand, Veolia is currently trying to impose in its SEDIF contract a new technology based on low-pressure reverse osmosis (LPRO), which is controversial because of its high cost, its high energy use and the fact that it is probably not needed given the gradual reduction of water consumption in the area.

France Eau Publique, the network of public water services in France, recently took an explicit stand against the focus on technology-based remedial approaches[10].

Data and "smart cities"

Underlying the focus on technology in general, there is something even more specific at stake in the Veolia-Suez deal: the increasing importance of data. For years, both Suez and Veolia have emphasised "digitalisation" as a major priority that would enable them to become even more efficient while improving transparency vis-à-vis customers. Beyond that, both companies saw the "smart cities" market as a natural outlet for their multi-sector business model. In recent years, Suez signed contracts with two medium-sized French cities, Dijon and Angers, to manage a range of public services (water, waste, lighting, etc.) via a single digital platform.

This type of contract raises the spectre of a kind of "total privatisation", whereby a city would entrust all of its public services and the data on the operation of these services to a single company. Some observers therefore see Veolia's takeover of Suez as the emergence of a French equivalent of US Big Tech companies such as Google, Amazon, Facebook or Microsoft, which would gain control of a mass of environmental, social and urban data (including personal data on the behaviour of individuals and households), and use this control to impose new "services" on local authorities, or even individuals, intruding into their private lives.

In the short term at least, the risks of such developments seem low. Veolia chose not to acquire Suez's "smart cities" operations, which suggests that they were not considered all that strategic. Moreover, beyond the corporate spin on the potential of smart cities, the actual benefits in terms of efficiency remain modest at best, as urban public services are significantly different, both between themselves and between countries, in their management, scale and physical infrastructures. A perhaps more plausible risk in the medium term is that Veolia would form an alliance with a tech company such as Google or Amazon to monetise its data.

A new step in the financialisation of the water sector

The Veolia-Suez deal is also yet another evidence of the growing domination of financial imperatives over water and waste services.

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[10] http://france-eaupublique.fr/plan-eau-de-la-planification-ecologique-la-technologie-peut-nous-aider-elle-ne-nous-sauvera-pas/

In most cases, this domination remains indirect, through the expectations of shareholders and financial markets – and now the banks that financed Veolia's takeover. Both Suez and Veolia are traditionally very generous in their dividend payments. Over the period 2007-2020, Veolia paid out a total of 140% of its profits to shareholders. In other words, it has transferred all its profits, plus an additional 40% drawn from its cash reserves, to shareholders, at the expense of investment, employment and wages. At both Veolia and Suez, executives have sought to hide the increased demands of financial markets under the promotion of employee shareholding, trying to make them more acceptable by sharing the benefits of submission to financial markets (dividends) more widely.

The dominance of the financial sector is also taking more direct forms, through **the growing presence of various types of financial funds in the capital and the management of private water and waste companies**. As a case in point, the “new Suez” is now owned by a consortium comprising a public institutional investor (Caisse des dépôts et consignations), a private equity fund specialised in infrastructure (Global Infrastructure Partnership) and a “responsible” investment fund also specialised in infrastructure and public-private partnerships (Meridiam).

Even though Suez has often been presented as a “victim” of Veolia in this whole affair, it too has increasingly come under the sway of financial markets, with successive restructurings and divestment plans, pushed by an activist fund[11]. It has even been at the forefront of "innovation" in this area, partnering with one of Wall Street's largest private equity funds, KKR, to finance a private water management contract in New Jersey. Suez also partnered with a Canadian institutional investor, the Caisse de dépôt et placement du Québec (CDPQ), to acquire GE Water in 2018.

When trying to fend off Veolia's takeover bid, the former executives of Suez approached several funds with sometimes sulphurous reputations (such as KKR, BlackRock, EQT or CDPQ) to mount an alternative offer. Only Ardian (formerly Axa Asset Management), a French private equity fund, responded and unsuccessfully submitted their own bid. They were then anticipated to join the “new Suez” consortium alongside Meridiam and GIP. Eventually, Ardian withdrew its support, arguing that the “new Suez” would not be viable without the US water assets. This forced the Caisse des dépôts et consignations and its subsidiary CNP to replace them at short notice.

Global Infrastructure Partners is a New York-based private equity fund launched in 2006. Specialised in infrastructure, it has assets in airport (Gatwick and City of London), energy (including fossil fuels) and ports sectors. It was founded and is run by Adebayo Ogunlesi, a Nigerian-born lawyer who spent much of his career at Credit Suisse (and was a member of President Donald Trump's forum of economic advisors). The funds managed by GIP are generally backed by large financial players or sovereign wealth funds. Before the Suez bid, it had no assets in the water sector and only one in the waste sector.

Meridiam, also launched in 2006, is significantly smaller than GIP, with $18 billion in assets under management in 2021 (compared with $75 billion for GIP). The fund was created and is still run by Thierry Déau, an engineer by training who worked for Egis, a subsidiary of the Caisse des dépôts et

[11] https://www.bfmtv.com/economie/entreprises/suez-prepare-un-lourd-plan-de-cessions_AN-201909190245.html

consignations, and then for Aecom. Meridiam also has virtually no experience in the water sector: it specialises in airports, ports, highways, private hospitals and energy infrastructure. Meridiam does not generally play a management role in the projects in which it invests: its role is to raise capital from large investors in order to provide a share (generally a small one) of the capital required for large projects, allowing the big corporations behind these projects to externalise part of their financing. Meridiam is active in Europe, North America and Africa (with the support of public financial institutions such as the European Investment Bank). It is mostly a financial intermediary, an activity that can prove very lucrative. Thierry Déau's fortune is estimated at €180m by the French magazine *Challenges*.

Meridiam claims to be a long-term investor focused on environmental and social issues and sustainable development objectives. Thierry Déau is also the president of Finance for Tomorrow, the French lobby for green finance. In 2019, Meridiam became by statute a "mission company" - a new legal form created by the 2019 "Pacte" legislation and promoted in particular by Antoine Frérot. It is supposed to give substance to the company's societal responsibilities, but it is widely criticised as a new greenwashing vehicle which does not entail any real new obligations.

Over the past decades, such funds have acquired shares in infrastructure that were in fact mostly financed by public authorities in order to extract a regular and risk-free income stream. Infrastructure thus became a new "asset class". The first targets were highways, ports or fossil fuel transport infrastructures. These players also invested in the water sector, particularly in the United Kingdom, and now in France.

There is a precedent: SAUR, the third of the historical water giants alongside Suez and Veolia (but with a smaller international scope than its two competitors), is now owned by the Swedish private equity fund EQT. Initially controlled by the Bouygues construction group, it was first sold to the fund PAI Partners (run at the time by Lionel Zinsou, a Franco-Beninese politician and businessman), then to a consortium led by Caisse des dépôts et consignations with Séché environnement and Ardian, then to a consortium of banks, before finally being sold to EQT in 2018. During the course of these events, SAUR, whose cash reserves were plundered by successive buyers, has lost hundreds of jobs and has had to divest its waste activities in order to clean up its finances.

One year on: first lessons and long-term risks

It is now one year since the acquisition of Suez by Veolia and the subsequent sale of some of its assets were completed. In many ways, it's still very early to assess the consequences of the deal, particularly for workers. But it's possible to highlight some first lessons.

Veolia's super-profits: at the expense of clients and workers

In March 2023, the new Veolia announced record profits of €1.1bn, with a global revenue that had increased to €42bn. This was presented as a sign that the Suez deal had been a success. Veolia has announced a record dividend payment of 1.12€ per share (€650m in total), a 12% increase over last year.

If one looks at the accounts, however, the picture is quite different. As we have seen, the acquisition of Suez has resulted in an additional debt of €9bn and integration costs of several hundred millions euros. **The growth in revenue and profits has another explanation: the impacts of the war in Ukraine and the rise of energy prices.** A very substantial part of this growth actually comes from Veolia's contracts in public heating in CEE countries, where heating rates have increased steeply in line with energy prices. In other words, **these are windfall profits, just like those that have been recorded by oil and energy giants, that have come at the expense of people's ability to access basic needs such as heating**.

The same is true to a lesser extent of Veolia's other contracts where prices and revenues are also “protected by indexation”, as Veolia puts it (70% of the company's revenue). For the other 30% of its revenue, Veolia's management says it has used “continued proactive price increases” to boost profitability.

Veolia's contract in the Paris suburbs is a good example[12]: on the 1st of January 2023, the price of water directly collected by Veolia's local subsidiary increased by 5.5%, in line with inflation, even though it had made a record yearly profit of €21.3m. By contrast, Eau de Paris increased its (already much lower) water rate by less than 4%. This is, however, only part of the picture. Part of the price of water in the Paris suburbs is collected by inter-communal syndicates SEDIF (for water services) and SIAAP (for sanitation) – those parts of water bills increased on January 1st 2023 by 21.5% and 12.5% respectively! Most of this money actually also goes to Veolia and other private companies in charge of operating water and sanitation plants, and is intended in particular to finance the implementation of low-pressure reverse osmosis (see above).

Just like corporations in other sectors, Veolia has secured “super-profits” by fuelling inflation, with the added advantage that it provides essential services that local authorities and other clients cannot easily do without. This is exactly what being a quasi monopoly allows you to do.

Veolia workers are unlikely to benefit much from those “super-profits”, as the group management has already made clear it would continue to seek “synergies” and “efficiencies” in the coming years to reassure financial markets and cut its debt. As evidenced by the strike in February 2023 at Veolia's SEDIF subsidiary, wages have not increased in line with inflation – as opposed to water prices and dividends.

The future of Suez is still a question mark

The long-term prospects for Suez are still not very clear. Even though the new Suez managed to retain more assets than Veolia was willing to leave it with, the viability of its business model is still doubtful. This is why Ardian refused to join the new Suez's shareholding structure: it argued that retaining Suez's US business was necessary to guarantee international growth. It could suffer a fate similar to that of SAUR.

Internally, the battle with Veolia and the loss of key activities has left deep scars in the company. Many executives have left, some to join Veolia, and the new CEO Sabrina Soussan does not have any more experience in the water sector than the new shareholders do. There have also been recurrent reports about differences between the latter – between Meridiam and GIP - and several top executives that were supposed to manage the restructuring have left the group.

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12 Based on an analysis bu Coordination Eau Ile-de-France: https://eau-iledefrance.fr/la-tres-resistible-montee-des-tarifs-de-leau/#more-16675

What about jobs?

Mega-mergers typically result in significant layoffs in the middle and long term. When two companies merge, one of the key rationales - on top of boosting their market power - is to seek “synergies” and cut costs, which often involve job losses - particularly at headquarters. At the height of the battle with Veolia, Suez executives put forward the figure of 10,000 job losses as a result of the merger, almost half of which in France.

When the Veolia-Suez deal was finally agreed, CEOs from both sides pledged that there would not be job losses, but only for a limited period (four years for Veolia and five for Suez) and not for all workers (Veolia's commitment regarding former Suez workers from outside France was only for one year).

Will those promises be kept? We do not yet have the data to look at how the headcounts at Veolia and Suez have evolved over the past couple of years. The past examples of Nokia's and General Electric's broken promises to preserve jobs when they respectively bought Alcatel and Alstom's energy activities suggest that it is by no means guaranteed. This case may be different because Veolia is a French company with a strong domestic presence, which cannot do what Nokia and GE have allowed themselves to do. In any case, there are many ways to reduce the number of employees without openly suppressing jobs (such as non-replacements).

Another key question is what will happen at the end of the four- or five-year period. It is highly likely that job cuts will follow, unless there is unexpected growth in activity. **This is the almost mechanical consequence of such mega-mergers, and it is also the approach that both companies have been taking for years in response to their commercial difficulties in the water sector**.

Remunicipalisation and new privatisation risks

A final question is what impact the Veolia-Suez deal will have on the remunicipalisation movement. On the one hand, local authorities and officials will be faced with an even more imposing and influential corporate giant, that will have even more leverage on regulators and national politicians, and a more limited number of opponents. Getting out of contracts or resisting the pressure to do business with Veolia might become more difficult. On the other hand, any semblance of “free competition” in the water sector has been dissipated, and there is likely to be even less sympathy for a quasi-monopolistic corporate giant.

In the short term, it does not seem that the deal will have an impact on remunicipalisation in France. Large cities such as Lyon and Bordeaux remunicipalised water in January 2023, and cities around Paris are also exiting the SEDIF syndicate to create public water operators.

The case of Agbar contracts – particularly the flagship Barcelona contract that the progressive municipality has been seeking to exit from for years – is more complicated. Agbar has now been taken over by Veolia, and Agbar's boss Angel Simon has joined Veolia's executive committee to manage water activities in Spain and Latin America.

In the longer term, the future of the remunicipalisation movement is less clear. **If Veolia succeeds in pushing its narrative of technological solutions and inevitable water price increases, it is possible that more local authorities will feel obliged to use its services and its technologies, which will hinder public services and our ability to address social and environmental challenges**.