

Abstract

Theory and empirics suggest that by curbing competition, incumbent electricity companies which used to be, and here are referred to as, Vertically Integrated Utilities (VIUs), can increase their profitability through combined ownership of generation and transmission and/or distribution networks. Because curbing competition is generally believed to be welfare-reducing, EU law requires unbundling (separation) of the VIU networks. However, the EU allows its member states the choice between incomplete (legal) and complete (ownership) unbundling. There is tantalizing anecdotal evidence that VIUs have tried to influence this choice through questionable means of persuasion. Such means of persuasion should be more readily available in countries with a more corrupted political culture. This paper shows that among the old EU member states, countries which are perceived as more corrupt are indeed more likely to apply weaker forms of unbundling. Somewhat surprisingly, we do not obtain a similar finding for the EU member states that acceded in 2004. We provide a conjecture for this observation.

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