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Industrial policy and Competition policy: *Quo vadis Europa*?

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

New Frontiers of Antitrust 2012 – Revue *Concurrences*

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Ladies and Gentlemen:

It is a pleasure to return to your annual conference. In my first two appearances, I shared with you my vision for competition policy. Today, I will talk about industrial policy and the importance of competition for its success.

I chose this topic because the debate on industrial policy is making a comeback. Over the past four years, the crisis has unveiled serious setbacks for economies in advanced countries and de-industrialisation processes, and the calls for industrial-policy intervention have multiplied in some quarters.

This is not surprising: globalisation and low-growth foster world-wide competition, in particular from emerging countries where the State often plays an active economic role.

In many cases, this leads to industrial restructuring in our companies and sectors in order to adjust the factors of production – including employment – to evolving competitive advantages.

Adjustments are always painful, and even more so at a time when the debt consolidation process that is taking place across Europe prevents domestic investment and consumption to boost growth.

In this environment, dangerous protectionist temptations risk materialising.

Traditional arguments in favour of State support of certain activities, considered to be strategic, are coming back to the political debate in many advanced countries – including the core economies of the EU.

Let me anticipate the conclusion of my talk today: discretionary State intervention and protectionism are not the way forward to overcome the crisis and to adapt to the process of globalisation.

The way forward is precisely the opposite; more open and more competitive markets and less discretionary public support.

We must renew our fight against monopolistic power that distorts the level playing field and intervene only when market failures prevent economic agents from taking the right decisions.

This is the best path to get out of the crisis stronger.

Today I will argue that - to achieve these goals - we need to move away from the narrow, sectoral concept of industrial policy that was prevailing in the past.

Why do I think so?

After the second World War, the industrial-policy toolbox included several forms of government subsidies such as direct grants, credit concessions, privileged access to public tenders, and trade protection. These heavy-handed interventions in the economy assumed that governments could pick winners.

The enforcement of competition rules, instead, was regarded as a separate policy, often subordinated to other policy goals, such as shielding infant industries; improving a country's trade balance through import substitution; and protecting national jobs through direct support, including in declining sectors.

The oil crises in the 70's revealed the weaknesses of sectoral interventionist policies.

A new approach gained ground at the beginning of the 80's; governments no longer meddled in the economy.

This new paradigm of de-regulation and laissez-faire capitalism was also extended to the financial activities. But the present crisis has shown its limits. Now we know that if financial markets are not adequately regulated, they produce sooner or later huge negative results for the economy and, more importantly, for the wellbeing of the people.

The State should not intervene in the economy in ways that distort the market; this principle continues to be true. But on the other hand, we cannot accept that any market actor behaves as if there were no rules and becomes a threat for the stability of the whole system.

Where should we draw the line? Does the need to regulate financial markets justify similar State intervention in the non-financial parts of the economy?

We need to draw a sharp distinction here. Governments should foster an environment where companies can grow and innovation can flourish. But it would be a mistake to go back to post-war industrial policy.

What we need is a broader approach where competition, regulation and public support cooperate to foster growth, economic efficiency and innovation.

The basic questions are: when are public intervention and regulation justified? We have learned a lot since 2008 about regulations that are justified for the financial sector.

What about the *non-financial* sectors?

There are rising fears in Europe that we are in a process of de-industrialisation.

To allay these fears, it would be unwise to ask our governments to subsidise industrial companies and keep them in operation regardless of market conditions.

We should instead respond using the right arguments; which means promoting competitiveness, productivity, and innovation.

Above all, we should do so not for individual companies or sectors, but across the board.

In this context, competition policy lies at the basis of a modern industrial policy because it ensures that the functioning of markets is not distorted, either by government measures, or by the anti-competitive behaviour of private firms.

The Commission's own industrial-policy action is a flagship initiative of Europe 2020 – the growth strategy for the EU in the present decade.

The initiative is part of a set of other growth-enhancing policies for the digital economy, for innovation, for a greener economy and other areas that are vital for our future.

The broad objectives of our modern industrial policy include:

- promoting the transition towards a low-carbon and resource-efficient economy;
- supporting small and medium-sized enterprises; and
- improving the business environment, in particular by reducing the administrative burden on businesses and by promoting higher productivity and competitiveness.

This latter is the clearest point of convergence with competition policy.

The distinctive feature of a European company's business environment today is the internal market. Tapping the potential of the internal market is a priority for both competition policy and industrial policy and it is the best route we can take towards the recovery.

I would like to give you the main reasons why competition policy can help to create a good environment for business in Europe's internal market.

The first reason is that it helps our economies become more competitive.

By imposing competition on the merits – that is, competition on innovation, quality and price – competitive markets are best placed to produce firms that are equipped for long-term success.

To face the fierce competition of today's global markets, our companies must pursue profitability through efficiency gains. Being customers themselves, they simply cannot afford the hidden tax imposed on them by the anti-competitive business practices of their suppliers.

This is where competition enforcement intervenes.

Let me give you a couple of recent examples from our enforcement practice. At the end of 2010, we fined six producers of Liquid Crystal Displays for operating a cartel between 2001 and 2006.

That arrangement had kept prices for an intermediate product artificially high, which had the effect of increasing input costs for the manufactures of TVs and computer monitors, which need LCD displays for their products.

The result of the cartel was a loss of competitiveness and a loss for final consumers.

Another, more recent example involves an ongoing investigation in the development of a new refrigerant for air-conditioning systems in cars.

The product was developed to replace the fluid currently used by car manufacturers, which no longer meets the EU's environmental rules.

Once again, if the companies restricted competition and hampered the dissemination of the technology they would effectively impose an extra cost to an industry in desperate need of efficiency gains.

This case was opened only last December, so we should not prejudge the results of our investigations.

Another reason why EU competition policy can complement other public policies in a joint effort to create a good environment for business is its ability to facilitate the entry and exit of companies in the market.

The Single Market must not only be stronger and more efficient; it must also be more dynamic. This means that we have to create better opportunities for new firms to enter the market; for successful firms to grow stronger; and for unviable firms to exit.

The internal market should be open and contestable; there should be no barriers for new firms to introduce and develop innovative processes, products and services.

Competition policy can make the Single Market more dynamic in many ways, for instance thanks to our action in antitrust.

Our enforcement work in this domain ensures that new companies can enter the market and compete effectively – especially when it involves incumbents in liberalised markets.

For instance, last June we imposed a million fine against the incumbent telecoms operator in Poland. In that case, our investigations found that for over four years the company had prevented, or at least delayed, the entry of competitors into the broadband markets.

We have ongoing investigations in this sector in other countries as well, including Slovakia, Spain, and Portugal.

The same applies in the energy sector, where thanks to our antitrust investigations incumbent operators have offered commitments to open up the market to competition.

Here I can recall the cases we closed in 2010 against GDF Suez and E.ON after the two companies pledged to release their gas transport capacity; and the case against Italy's ENI. Similar actions had involved in the past E.ON and RWE in the electricity sector.

Keeping markets open to new entrants is a key factor for the promotion of innovation.

When monopolies and tight oligopolies are allowed to occupy a market, they tend to resist change and often end up caring only about the preservation of their business models.

Contestable markets, instead, allow new players to experiment, and new ideas to succeed. It is a major task of competition control to ensure that new generations of businesses are given a fair chance.

I am notably thinking of the surge in the strategic use of patents that confer market power to their holders.

The potential abuses around standard-essential patents are a specific illustration of this concern.

Standards are the best tool to promote interoperability of devices or to define safety or quality benchmarks. In the communications technologies, standards are key for a universal interconnection and seamless communication.

Once a standard is adopted, it becomes the norm and the underlying patents are indispensable.

Owners of such standard essential patents are conferred a power on the market that they cannot be allowed to misuse.

Standardisation processes must be fair and transparent, so that they are not in the hands of established firms willing to impose their technologies. But it is not enough. We must also ensure that, once they hold standard essential patents, companies give effective access on fair, reasonable and non discriminatory terms.

This is crucial if we want industries and businesses relying on such patents to develop freely to their utmost potential.

I am determined to use antitrust enforcement to prevent the misuse of patent rights to the detriment of a vigorous and accessible market. I have initiated investigations on this issue in several sectors and we will see the results in due time.

Another way to tackle market failures is direct public support through State aid. This may be particularly important to underpin innovation.

For instance, State aid rules for research, development and innovation provide that public support can be used to share the risk of the development of new technologies when these risks are too high for the market or when the expected rewards are too far in the future.

Another example: State aid rules on risk capital allow public money to leverage private funds to support start ups with a strong potential for innovation and growth.

But in all these cases, we also require that public funds are spent to address genuine market failures: their use must be limited to finance activities that the market would not fund.

These rules are designed to change the behaviour of beneficiaries. The aid should encourage companies to venture into projects they would not have considered without the public support.

In this way, taxpayers' money is used to generate fresh research and innovation - and not to merely replace private investment.

Spending public funds on projects that private investors would have financed anyway is a waste of taxpayers' money; it hurts the competitors that do not receive the public support; and it ultimately weakens the entire innovative process.

Of course, these orientations are valid beyond the areas of innovation and risk capital and can be extended to the whole of our State aid policy.

As a matter of fact, this is at the core of the plan I announced last week for the modernisation of our State aid policy.

This reform has three main goals;

- First it intends to support the efforts made by public authorities to redirect their spending to boost growth. I believe that governments can use all the help we can give them to promote competitiveness and innovation.
- Second, the reform will streamline our control. This means reserving a simpler treatment to the cases that have little effect on trade in the Single Market and shifting the focus on the cases that have a real impact on competition, which I intend to investigate more thoroughly.
- Finally, I think that we can have fewer, simpler and more consistent rules. Over the years, our system has become very complex and our rules can be better explained.

After the reform – which I will start to introduce before the end of 2013 – our State aid rules will be in better shape to encourage the kind of public support that fosters growth without distorting competition.

At the same time, we will have a sharper instrument to control public support that does not tackle genuine market failure and weakens competition in the internal market.

In particular, we will continue to make sure that public money is not used to finance the growth of companies, regardless of the market distortions that this sort of funding imply.

Which brings me to the final topic I will cover today: the debate about the way our competition policy deals with large European companies.

Is it true that the Commission puts obstacles to our "European champions"?

Let us look at the facts.

In the list of the world's largest companies, the number of European firms is roughly the same as for the US. So, there is no scarcity of corporate giants in Europe.

Another issue is when they entered for the first time in this list; here the facts are less encouraging. The number of new EU-comers to this list is very small; while this is the opposite for the US.

This is an indication that our economy is less dynamic and that new companies in Europe find it hard to enter successfully a market and bring fresh air.

Of course, another way for companies to grow in size is through mergers and acquisitions.

In 2011, we received 309 merger notifications. All but one were cleared. The only merger we blocked last year was the one between Aegean Airlines and Olympic Air, which would have created a quasi-monopoly on the Greek air transport market.

We know that companies need to reach a certain size to be competitive – especially in certain sectors and markets – and when a proposed merger does not present competition problems, we clear it.

I could give you many examples of mergers that have led to the creation of large companies, such as the merger between Air France and KLM some years ago or – more recently – those of Iberia and British Airways, Veolia Transport and Trenitalia, Fiat and Chrysler, and Volkswagen and MAN – to name just a few.

But when the company that would result from a proposed merger threatens the competitive conditions of a market and the interests of businesses and consumers, then, it is my duty to intervene.

The latest proof of this determination was the decision taken by the European Commission one week ago to block the proposed merger between DB and NYSE Euronext.

The deal would have created the largest exchange in the world, but it would have also created a near monopoly in crucial markets to the detriment of thousands of EU companies and of innovation in financial services.

But size is not the only thing that matters; Europe's economy must be competitive and innovative.

It should be easier for European entrepreneurs to set up a business; challenge the established players; and grow on their ability to bring innovation to the market.

This is the best way to encourage the emergence of competitive firms at EU and global level, without hindering competition.

Ladies and Gentlemen:

Today, I have described the objectives of a modern industrial policy, which are embodied in a flagship initiative of the Europe 2020 initiative.

We have also seen that competition keeps markets open and contestable, fosters competitiveness and innovation, and prepares Europe's companies for global success.

Finally, we have seen how our control of State aid can help public authorities make a smarter use of taxpayers' money, which is the main objective of the plan I recently unveiled to modernise our State aid policy.

This goal is becoming increasingly urgent: the cost of distortive public support is higher in these times of crisis and fiscal consolidation. Europe's economy can not afford unviable firms kept on life support by bad government decisions. It needs new and innovative business models capable of taking full advantage of our Single market.

This is why I believe that we cannot tackle the challenges of the XXIst century with the instruments used fifty years ago. What we need is a modern industrial policy and robust competition enforcement can contribute to put Europe back on track and kick start a sustainable process of growth.

Thank you.