

**The Brussels Economic Forum
Session No 2
(“*Competition and Innovation –
Making It Happen*”)
Thursday 18 May (1430-1815)
At Charlemagne**

Philip Lowe (panellist) to intervene
on presentations and open floor to
discussion

INTERVENTION AT AROUND 1700 BY PHILIP LOWE (5-10 min)

Strengthening European R & D and innovation, and transforming that research into commercial products raises issues fundamental to Europe’s competitiveness. It is common ground that the market and not any government should drive this innovation. That leads to the inevitable question, what then is the role of government and government agencies?

I think there are basically three elements to the reply.

First we must make sure that the regulatory environment is right. We must look very critically at whether government regulation in a sector is necessary, and, if it is, we must make sure that the regulation is the least intrusive and most open to competition that it can be. Looking at intellectual property, for example, we must ensure that there is sufficient IP protection to guarantee investment in IP, but not overly broad protection that helps perpetuate market power and excludes follow on investment.

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Second, we need a strict competition policy. Without strong competition law enforcement, there's always the risk that the current round of innovation will be the last. Companies are out there to make money; that's a good thing. Innovation is one way that they can make money. But once they've innovated, locking down markets and excluding competitors may well be a good way to make even more money. That company's ability to innovate may continue, but the ability of the rest of the market to innovate may be fatally undermined.

This doesn't mean that there's inherently a problem with market power. It means only that we must look carefully at where market power that might otherwise be short term is extended and made long term; not through innovation and competition, but through artificial barriers to entry and exclusion.

I said a moment ago that it should be the market and not any government that drives innovation. I could also have said that it should be the market and not any company. True innovation comes from a competitive marketplace - many companies trying many different ways to provide better products and services. Competition policy has to safeguard that.

The third area where government has a role in promoting innovation is that of State aid. Even in the best functioning economy, there will be areas of market failure, areas where focussed government intervention may help to improve the structure of the market and promote innovation. Of course identifying these areas and distinguishing rational from wasteful expenditure is far from a trivial task. This year we are completing a radical overhaul of our State aid rules to facilitate this and

help target of aid for R & D and – and for the first time – innovation in cases market failures can be clearly established.

There is one other sometimes popular area of government intervention that I haven't mentioned; the creation and support of national champions. I haven't mentioned it as I wanted to concentrate on areas where government has a useful role to play. This isn't one of them. A company that has proved that it can stand up to national and European competition will be able to face global competitive challenges. A company which has achieved its position in a sheltered national environment will not. National or European protectionism won't work. It's really that simple.

That's all I'd like to say at this stage. I hope I've given a broad outline of the relationship between government action and innovation, and the role that competition policy can play in that.