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Competition policy and growth

European Parliament: Internal Market and Consumer protection Committee

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Speech

Chairman Harbour,

Honourable members,

Ladies and Gentlemen:

I would like to thank Malcolm Harbour for his kind invitation. This is the first time that I have the opportunity to share my views with your committee and I am very happy to do so.

Economic news are not encouraging these days. The euro area will face a mild recession in the coming months. In the entire EU, real GDP in 2012 is expected to stay flat.

The crisis is taking its toll on a large part of the European population. Almost one in five young people under 25 in the European Union is unemployed and the projected lower activity will no doubt weight on jobholders.

This is another step in a protracted crisis. After five years, the return to real economic growth is becoming the most urgent priority.

The European Union has taken effective measures to stabilize what was a potentially catastrophic situation. At the start of the crisis, the response naturally focused on stabilizing the financial sector.

Then, over the past two years, it has become clear that public balance sheets were on an unsustainable path – especially in some Member States.

To face this new stage of the crisis, radical measures have been taken to restore fiscal balances, to ensure the long-term viability of public accounts, and ultimately to preserve our monetary union. And the reinforcement of economic governance in the euro area supports these efforts.

These have been necessary measures, but they have imposed a severe cut in government expenses at a time when deleveraging is weighing on internal demand and external demand is weaker.

Austerity is not enough. Today, the success of our policies depends on the Europe’s ability to return to real economic growth.

Where will growth come from? We cannot afford a growth strategy based on massive investment in expensive policies, but there are alternatives.

One of the most effective policies to increase our potential for growth – in fact – costs very little. I am referring to the completion of the internal market, which is still our most under-exploited engine of growth.

The internal market we must complete is a seamless market of 500 million consumers, a vast and varied pool of entrepreneurs and the networks to connect them all. Nothing will boost growth more than turning this integrated economic powerhouse into a reality.

Today, I would like to explain how competition policy can help release the potential of the internal market and put the EU on the road to long-term, sustainable growth.

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When competition policy hits the headlines, it is for mergers cleared or prohibited, decisions on abuses of dominance, State aid recovery orders, or fines for a cartel.

Most people assume that our enforcement decisions bring wider choice and lower prices to consumers and promote a better use of public money. This is true, of course, but there is more.

Competition policy has broader implications for the economy, where it often complements the action of the EU on the regulatory side towards broad economic objectives.

Through regulation, EU legislators remove obstacles and eliminate barriers within the Internal market. However, these policies would be ineffective if companies were allowed to rebuild in practice the walls torn down by legislation.

I have seen this behaviour many times; particularly when established companies face a structural decline in their profitability or face new innovative competitors..

The defensive practices that they implement in response can hurt profitable and innovative firms. In the worst cases, they can slow down the development of entire industries.

This is why in these uncertain times we must resist those who recommend softer competition enforcement. Such behaviour can frustrate regulatory efforts for more efficient markets, sap the energy of our economy; and obstruct the exit path to recovery.

Instead we must intensify the fight against anti-competitive practices and the protection of special interests.

Now, I would like to illustrate with concrete examples how our work supports growth.

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Let’s start with the financial sector. If competition policy is to promote economic growth, it must aim at increasing access, efficiency and innovation in those sectors that are fundamental for the development of economic activity.

Financial services provide the oil – so to speak – for the economic machine to work smoothly. This is a good reason for us to focus our resources on the market for payment services.

For instance, Europe–wide electronic payment services are underdeveloped. The reasons for this are unclear but they involve in no small part the reluctance of financial institutions to abandon old and profitable ways of operating.

Last September, I launched an antitrust investigation against the European Payments Council – a self-regulatory body of Europe's banking industry – to look into their on-going process to set the standards for payments over the internet.

In particular, we have concerns that the standardisation process is not open and transparent enough and that the resulting standards might eventually exclude some innovative payment service providers from the market.

We will make sure that this standardisation work keeps markets fully open to new entrants, and notably to alternative payment service providers.

The payment services market is also lagging behind when it comes to card and mobile payments.

Together with Michel Barnier and John Dalli I launched a Green Paper to discuss what hampers the integration of payments markets on a European scale.

The results of this consultation will determine the scope of regulatory solutions that will be proposed, and I encourage you to participate in this process.

We need a mix of regulatory actions and competition-policy enforcement to dismantle old-fashioned ways of working and make room for innovative, pan-European payment services to the benefit of all economic operators in Europe.

Competition policy aims to promote growth by removing obstacles to change. It also relies on the principle that markets are more dynamic and growth friendly when many actors are free to enter and do business.

We do not want a world of large behemoths protected by the fact that they carry national flags. Honestly, I do not believe there was ever a time when this model was successful.

Today, the model is particularly ill suited to a technological revolution that is based on interconnection, participation, rapid change and flexibility.

Let me recall the recent prohibition of the merger between Deutsche Börse and NYSE Euronext.

The Commission blocked the deal because it would have resulted in a quasi-monopoly in the market for exchange-traded financial derivatives on European interest rates, stock indices and stocks. The two companies involved control more than 90% of that global market.

The price of creating a European champion cannot be to let a *de facto* monopoly dictate its commercial conditions on thousands of European firms operating with European derivatives.

We could find no efficiencies in this merger that could not have been achieved through technological interoperability among competing players or by regulatory means.

A monopoly would have been more beneficial for the parties' shareholders, but it would have harmed customers.

With the prohibition, we ensured the survival of efficient players who will strive to innovate to the benefit of their customers.

I am also convinced that having different players will help make financial markets fairer and more transparent.

But sometimes the mere existence of a large number of players does not guarantee per se a high degree of competition without strict enforcement. This is why we have increased our antitrust scrutiny in this area.

For instance, we are currently investigating the conduct of certain banks active in financial derivative products linked to the EURIBOR and the LIBOR for several currencies.

Our concern is that the companies may have violated the antitrust rules that prohibit cartels and restrictive business practices.

Given the number and the value of transactions in interest-rate derivatives, and the crucial role these products play in the management of risk, any confirmed manipulation of these interest rates would probably imply a very significant cost to the European economy.

Competition policy instruments and actions are there to prevent this from happening.

Honourable Members:

As I said earlier, innovation is a source of growth and competitiveness; and when one says innovation the digital economy come to mind.

How can competition policy help to achieve the goals of the Digital Agenda and of the Innovation initiative of the Europe 2020 strategy?

I have expressed many times my frustration at the fact that Europe's digital revolution is lagging behind.

Neelie Kroes is of course repeating this idea again and again. The Commission has made a priority to remove any bottleneck or obstacle designed by firms or groups of firms to delay the development of what should be our most obvious are for innovation and growth.

But let me start from the beginning. The liberalisation of the telecommunications sector since the 1990s – with the resulting drop in prices – remains one of Europe's success stories; but it should not escape competition control.

The economic and social returns of liberalisation must be preserved.

Last year Poland's dominant telecom operator received a fine of €127 million because it had obstructed the entry of competitors into the county's broadband market.

We have other investigations for antitrust abuses pending against Slovak Telekom, Telefónica of Spain, and Telecom Portugal.

We must continue to build upon our achievement in the telecommunications sector; we cannot lose its hard-won benefits; not now and not in the next generation networks.

Access and price in this industry continue to be crucial for our businesses and our overall competitiveness.

This is why I am monitoring the cooperation of large telecom incumbents as they develop new standards for our networks. I have already communicated to them that the Commission will make sure that their work does not put other market players at a disadvantage.

It would be paradoxical and sad if the technologies of the future were used to bring the industry back to a time when doors were locked for innovative new players.

But the temptation to lock a market will always exist for those who dominate it. And yet, markets are most innovative when they are open and accessible to all.

This is why competition policy aims to limit the establishment of dominant closed gardens and to ensure interoperability across different services.

Intel's acquisition of McAfee last year is a case in point. We cleared the deal on condition that the products of the new company would continue to work with those of its competitors.

Issues of access and interoperability are closely linked to the use – and abuse – of patents and intellectual property rights.

I have been following with keen interest the patent wars among mobile-device firms. It is clear to me that competition policy must intervene to prevent that patents that are essential for a standard are used strategically to block competitors.

That would defeat the very purpose of the patent system, which is supposed to stimulate innovation.

This is the crux of the case we have opened against Samsung on concerns that the company may have abused the standard-essential patents it holds and failed to honour its commitment to licence them at terms that are fair, reasonable and non-discriminatory.

Standards are essential in this industry, because different devices can work with each other only thanks to commonly agreed technologies.

And because to build a modern smart phone one needs thousands of standard-essential patents, their holders often have considerable market power.

Any company that holds these patents can effectively hold up the entire industry with the threat of banning the products of competitors from the market. This sort of hold-up is not acceptable.

This month, we have received two new similar complaints against Motorola and we will examine them very closely.

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Let me now turn to State Aid policy and to the importance it has for Europe's competitiveness and the development of the internal market – two key conditions for growth.

Europe is in need of restructuring and many sectors are struggling to achieve profitability.

In many parts of Europe, some firms have called for state support or protection from markets to preserve a status quo. Others have asked to be granted the conditions to grow profitably at home in order to be better equipped to compete globally.

These demands rely on two misconceptions. The first is that the status quo can be maintained. The second is the illusion that lasting global competitiveness can be achieved without competition or without exposure to market forces.

State aid policy must encourage and support the restructuring of the European economy and – at the same time – it can aim to minimize the burden of aid on public resources.

State aid control also ensures that public support tackles genuine market failures and does not create undue advantages to companies; we must give more efficient firms a fair chance to operate and grow in any given market.

Earlier this month, I announced the modernisation of State aid policy across the board. The initiative responds to the difficult context I described at the start; the need to cut public spending and the enormous constraints on public finances.

My planned reform is designed to help public authorities take better spending decisions and use public funds more efficiently.

In today's context, public spending should be directed to areas where it can truly enhance long-term growth and foster job creation.

I intend to turn State aid policy into a EU-wide coordination tool to encourage targeted, well-designed, and non-distortive aid.

In short, I want to help Member States better focus their public support to firms; for instance, through aid that supports SMEs, research and development, and the green economy.

I also want to intensify the control on cases with a significant impact on trade in the internal market, and cut red tape for the sort of public spending that has little impact. In fact, the reform will give clearer and fewer rules to all.

I intend to involve the EU institutions, the Member States and a vast array of stakeholders in the reform process, which will start in earnest in the Spring with a Commission communication. The main elements of the package are slated for adoption by the end of next year.

Honourable Members:

The enforcement of competition policy has been and will continue to be a key instrument for global competitiveness of Europe.

By promoting the restructuring of declining industries and by preventing established firms from illegally closing the doors to more dynamic ones, competition policy is the necessary complement to regulatory initiatives for an efficient and integrated Single Market.

Our internal market will not be completed by decree. Regulation sets the rules, and competition policy makes sure that the rules are respected.

Competition policy is a very efficient instrument because it costs European taxpayers nothing. It produces actual results, not promises.

For all these reasons, competition policy must remain at the core of the European growth strategy.

Let me conclude.

In 2010, Professor Monti – now Prime Minister Monti – prepared a report for the Commission to help us relaunch the Single Market in the EU.

In it, he pointed at the waning political and social support for the Single market. “The single market today is less popular than ever,” he wrote, “while Europe needs it more than ever”. Two years later, I think we should still heed these words.

It would be dangerous today to go down the path of protectionism and national interests. The way forward is in the opposite direction; along the road that leads to open, well regulated, fast changing and accessible markets.

Competition policy is crucial in this respect, especially for smaller companies, which do not have the clout and the legal departments to defend themselves against anti-competitive practices.

Because these are the companies that our young people will start and which need to be given a fair chance.

Thank you.