European Commission

Competition issues and industrial policy in the digital economy

Massimo Motta
Barcelona Graduate School of Economics
Chief Economist, DG Competition

European Parliament, 20 January 2015

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The broader picture: competition and growth

Competition (liberalisation, market integration) contributes to productivity, innovations, and investments (and thus growth).

1) It induces firms to invest and be more efficient, to stay ahead of rivals.

2) It selects bad from good firms: absent competition, any firm would survive. But if firms compete, the efficient ones will survive, and the inefficient ones will exit.

For this mechanism to work we need <u>free entry and exit </u>in the market.

Policy should eliminate obstacles to entry of new firms, but also refrain from protecting unsuccessful firms (e.g., Rescue & Restructuring aid).

Competition and investments: examples

AT&T/T-Mobile (US) - After merger plans were abandoned, T-Mobile heavily invested (network modernisation, 4G LTE deployment, new spectrum). Competition reacted with lower prices and innovative services.

Google Fiber – After Google invested in Austin, and said it will roll out gigabit fiber in 34 other towns across the US, AT&T has matched that — and more — by planning to invest in 100 cities and towns.

Broadband in the UK (*Nardotto, Valletti, Verboven*):
(1) Broadband speed) increases when there is *intra*-platform competition (between MNOs and firms using Local Loop Unbundling); (2) investments (both broadband penetration and speed) increase when there is *inter*-platform competition (between MNOs and alternative technology: cable).

In the EU, alternative operators have led investments in NGAs: incumbents have 42% of all connections, but only 22% of NGA connections

Competition enforcement

- **Agreements** – Bad, if they fix prices or outputs; good (under certain conditions) if they achieve efficiency gains
  e.g., Network-Sharing Agreements; Standard-Setting Organisations
- **Abuse of dominance** – No problem, if firms are dominant because of investments; bad, if they abuse it by preventing rivals from challenging it
  e.g., Microsoft, Standard-Essential Patents (Samsung; Motorola)
- **Merger control** – Good, if they create synergies/efficiencies; bad, if they allow firms to increase prices
  e.g., Telecom mergers: case-by-case
- **State Aid** – Good, if aid delivers what the market would not; bad, if it distorts competition/trade and/or wastes public money (aid limited to the minimum)
  ex1: R&D&I, risk finance to small-medium firms
  ex2: broadband investment: if necessary (experience of SWE and DEN), only in certain areas; demand-driven approach may be more successful; it should not favour dominant firms over new entrants.

Is competition policy sufficient?

1. No, good rules/regulation is also necessary, for instance:
    1. In mobile telephony, the regulatory patchwork in EU is co-responsible for the absence of a single market
    2. IPR laws (e.g. copyright) should facilitate EU offering of services and goods, rather than at MS level
    3. Privacy is not a competition issue

2. It should be complemented by other policies facilitating entry and exit:
    - Labor policies (less restriction to hiring and firing)
    - Social policies (to smooth transition for workers; training; solidarity)
    - Efficient credit markets (fundamental for new/small firms)
    - Innovation policies (IPR regime, education and knowledge policies)
    - Bankruptcy laws (no consequences/stigma for unsuccessful managers)

Industrial policy? No, if it means that governments (or the EC, or the EP) decide which industries/firms/projects to support, and throw money at them. Yes, if it means to create an environment where ideas/innovations can emerge and compete fairly so that good ones will grow and bad ones will not.