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In defence of competition policy

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

Opening remarks at conference "Competition policy, growth and consumer purchasing power"

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Introduction

As we face the uncertainty of this financial crisis, we are fortunate to know that competition policy not only has a proven track record, but is proving to be part of the solution.

Clearly, we need to spend our time working on solutions rather than creating scapegoats.

As we search for the right medicine and correct surgical approach for our ailing financial system, we have to accept that the old ideological positions of the left and the right are not good enough. We have to accept that it took more than one day, one bank, and one country to get into this crisis – so it will take more than one day, one rescue and one government to get out of it.

We live in a world of financial globalisation and are part of a single European market. We are inter-dependent and that means we have to rise above the impulse for unilateral responses. EU competition policy provides an objective, adaptable and comprehensive framework. It therefore helps us avoid the potential chaos resulting from each country doing their own thing, without regard for negative spillovers affecting others.

All of you here today understand the benefits of competition, and the need for rules. But they can be complicated. They are not always intuitive. And it is especially important in a crisis such as the one we face, for the importance of these rules to become clear.

Why does the EU need competition rules? What would life be like if we left the market to look after itself?

If there were no **antitrust** rules companies could sit around the table, split up the market between them, fix inflated prices, and block new companies from succeeding. Our rules keep prices down and place a premium on innovation.

During my time as Competition Commissioner I have prohibited more than a dozen cartels on markets worth hundreds of billions of Euros. I do not know of a single person who wants us to stop this fight.

If there were no **merger control** rules, some mergers would cause customers to be denied the choice of goods and services, while paying higher prices. When we prohibited Ryanair's acquisition of Aer Lingus in 2007, it was because of the real risk of higher prices for consumers taking 14 million journeys each and every year to and from Ireland.

And finally, if there were no **state aid rules** governments would be tempted to start a costly subsidy war, stealing the bread from each other's table, instead of creating better ways to bake new bread.

The Commission will very soon issue guidance on this vital area, giving Member States clear lines to follow in shoring up the financial system in a way that works both for the economy, and for the taxpayer.

Without a solid competition policy such as this, the European economy would descend into chaos. With diminished incentives for companies to compete on their merits, cheating would be rewarded and go unpunished, jobs and wealth would be lost and consumers would lose protection as the law of the jungle ruled.

We don't need this Wild West – what we need is to continue the international process of recent years of working with our partners to improve the competition rules. These efforts are a good example of successful regulation of the market.

These rules, this regulation system, help to keep consumers safe from corporate greed.

But the real beauty of this type of regulation system is that it does not choke business activity in order to offer consumer protection. The competition rules do not stop companies from competing. The competition rules make damn sure that they do!

What does competition policy do for us? The evidence

The core of our understanding of the world is that markets do NOT work best when left alone ... this is what our enforcement record and independent evidence shows, and it is the only practical approach to take.

Competition policy is a tool that has worked well for 50 years – for Member States, for Europe, for consumers and for law-abiding companies everywhere. It has spread to more than 100 economies, including every major economy in both the developed and developing world – and for one reason: because it helps to increase and protect prosperity.

Let me give you two examples, one country and one firm.

- Japan's most successful companies have come from sectors where there was an intensive domestic competition. In a word, local competition helped car, camera, and instrument manufacturers to become world champions.
- At the company level, FIAT's leaders are on the public record as saying without doubt that *"closing the gap between [us] and the best-in-class competition"* is what has driven FIAT's revival. If FIAT instead relied on subsidies and lacked this benchmark and competition, it would still be struggling.

What worked for Japan and FIAT has been working the world over: competition encouraged by competition policy has fostered economies of scale and innovation.

This is crucial for Europe's future competitiveness. Competition drives total factor productivity growth – the productivity that comes from technical progress and organisational innovation, which in turn is where the money is. Greater competition can improve this sort of productivity growth by 4 percent. What does that really mean in an everyday workplace? It means managers learn to work for their profits instead of being handed them on a plate – and they are offered a way to grow and maintain sustainable profits.

What is more, our push to encourage Member State to target State Aid at horizontal objectives such as R&D builds this focus on total factor productivity growth. A 1% increase in R&D is associated with an increase of 0.6 percentage points in TFP growth.

But let no one believe that the benefits of competition policy are felt only on the factory floor or on the company balance sheet. Where the Commission intervenes, we make sure there is a positive difference for final consumers.

Concrete antitrust example: Wanadoo

French people now enjoy the lowest prices in Europe for their broadband access. Why is that? In large part because of our Wanadoo antitrust case. The Commission's action against Wanadoo's predatory pricing on the ADSL market between 2001 and 2002, brought a 30 per cent reduction in wholesale prices charged by France Télécom, compared to before the case. Since then, the French high-speed Internet access market has been growing more rapidly: in the seven months after the decision the number of internet subscribers had grown as much as during the seventeen months of Wanadoo's infringement.

Concrete purchasing power example:

Purchasing power - *pouvoir d'achat* – has been at the frontline of economic debate in 2008. And rightly so. I have seen estimates that, compared to the United Kingdom, lack of competition in France created a loss of purchasing power of 5 % for French people over the past 10 years.

One reason for this was the 1997 Loi Galland, which banned retailers from passing on discounts offered to them by brands. This anti-competitive measure created inflation, when there could instead have been lower prices. When the law was amended in 2005 – lower prices are exactly what happened. In the period May 2006 to May 2007 retail prices for branded products fell 3.2%, while the Consumer Price Index was between 1 and 2%.

Concrete single market example: car industry

The single market and single currency have encouraged price transparency in the EU. They make price comparison between member states easier – helping consumers - and make competition problems easier to spot – helping the Commission to deliver for consumers. We have driven home this opportunity in the car market – fining several major manufacturers for illegally dividing up and obscuring this market. : Volkswagen, Mercedes, Opel Nederland and Peugeot were all hit. Why? Because we understand that competition policy should not be about complicated theories and promises – it should stand on the side of citizens in the markets that most affect them.

Achievements of this mandate

I will not recite a list of all that competition policy has achieved in the last 40 years. What we have done in the last four years alone is more than enough ...

You can look at our website for the details – from better broadband in rural Germany to a viable Estonian film industry and why leniency is a good way to punish cartels. Today it is enough to answer these several questions:

1. **What results have our cases produced?** A track record envied the world over. Enforcement may have been lacking in some financial regulators, but never in competition policy. Taking the example of cartels: €6 billion in direct consumer benefits have been delivered in the four years of this Commission mandate. If one takes into account the deterrent effect of the Commission's decisions, then the total gain is much larger – by our calculation at least €20 billion for this last four years.

2. **Have we increased competition?** Yes. There is now an internal market covering 27 member states, we make better merger decisions, catch more cartels and we do not wait for problems to come to us – we bring stakeholders together to tackle emerging issues (online commerce) and undertake major investigations (sector inquiries)
3. **Is there more of a level playing field?** Yes – our state aid is better targeted; we work in harmony with other policy instruments such as industrial and trade policy.
4. **Are we taking an active approach?** Yes – our latest sector inquiry is into pharmaceuticals shows this. We have seen the effects in Sweden of generic substitutions – with prices for drugs falling up to 71% and an average of 15% - and we are investigating how this market can work better across the whole single market.

What is the role of competition policy in this crisis?

Competition policy has a constructive role to play – it will continue to be one part of the solution. That role relies upon the Commission:

- Acting with proportionality, as a stabilizing force
- Making quick decisions
- Working toward Europe-wide responses

The best evidence of this includes our recent approval of the Bradford and Bingley state aid within 24 hours of formal notification, after urgent informal discussions with the UK authorities on how to structure the package to limit distortions of competition: that's efficiency.

I dismiss any suggestion that the policy vacuum created by a suspension of the competition rules would deliver an equal outcome. Such ideas are the recipe for chaos.

Conclusion

We need a clear level playing field for European consumers and businesses, not a jungle. But a jungle is what we would get if we suspended or abandoned competition policy.

The clear message today is that Europe would be worse off without competition policy.

When I came into office I promised the people of Europe that I would use competition policy to fight for their best interests. I will not give up now.

In the clearest possible terms I say that competition policy is here for consumers, here for jobs, here for growth and here to stay.