Competition in changing times

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Introduction

Ladies and gentlemen

I'm delighted to be with you today, in this beautiful city of Innsbruck.

It would be hard to imagine anywhere more different from my home country – where the average place is thirty metres above sea level. Here in Innsbruck, everywhere you go, you get a glimpse of the Alps. The mountains are a presence you can never forget. People here live every day amongst giants.

And I think that's a feeling that most Europeans can relate to. Because we all deal with giants in our everyday lives. We depend on big companies for our most basic needs. On big drug companies to keep us healthy, big banks to lend us money, big online businesses to connect us to the world.

For the last sixty years, the EU competition rules have helped Europeans to live amongst those giants, with confidence that they'll get a fair deal.

Because competition gives consumers the power to demand more. It means even the biggest companies have to keep working to meet their needs. And though our markets have changed a lot in sixty years, that goal is as important as it ever was.

Rules that were first used with products like glass or cement now protect consumers in markets that didn't exist sixty years ago. They keep down the cost of using a credit card in a shop. They keep companies innovating to produce better smartphone chips.

Engaging in the debate on competition policy

But today, many Europeans are concerned about the power big companies have.

They're concerned about the information that online businesses collect. They're worried that big companies can try to pull the wool over regulators' eyes.

And they also have a sense that markets have become less fair. That their choice, if they have one, often comes down to just a few very big companies. And that many of those companies seem to have stopped competing really hard to serve customers better.

I don't think that perception is always correct. Just because companies are big, that doesn't mean competition isn't working. In our work on mergers, for instance, we do approve some

very big transactions. But we only do that once we're confident that consumers won't lose out.

In 2016, we looked at the merger between AB InBev and SABMiller, the two largest beer companies in the world. If that merger had happened as originally planned, it would have meant higher prices in countries all over Europe. But the companies agreed to sell off all SABMiller's business in nine European countries. And that allowed us to approve the merger in less than two months – without any harm to consumers in Europe.

So we shouldn't jump to the conclusion that our markets have gone wrong. But we do need to listen to people's concerns. And we need to take a close look at the evidence, to understand if those concerns really are justified.

Changing concentration and market power

Is it true, for example, that some industries are getting more concentrated, with more of the market in the hands of a few companies? Is it true that those businesses are making higher profits, at the expense of workers and consumers?

So far, the clearest picture we have comes from America. In 2016, the President's Council of Economic Advisers published a report which showed that in the last two decades, several US industries did get more concentrated.

And at the same time, those companies became much more profitable. So just at the time when concentration was growing, businesses also got hold of more of the country's wealth.

We need to understand if the same is true here in Europe. Because if companies really are getting more powerful – if it's true that competition is falling away – then the effects for our society and our economy could be very serious.

That's why we're looking at this question very closely.

It turns out that here in Europe, company profits are also taking a growing share of GDP.

When it comes to concentration, the evidence isn't yet so clear. The figures we have so far only go back as far as the financial crisis – and they show that not much has happened to concentration since then. Some industries – like IT – have become more concentrated. But overall, there hasn't been very much change in that time.

But the data from America goes back further – as far as the nineties. So we're now in the process of collecting more evidence, to get a picture of how concentration in Europe has changed in the last two decades.

Common ownership

But those levels of concentration might not always reflect how competitive our markets really are.

Because we generally assume that companies are basically independent - that the different companies in an industry are owned by different shareholders. So those shareholders have just one goal in mind – for their own company to succeed, at the expense of its rivals.

But that picture of our markets might not always be right. Because we're seeing signs that companies are getting more closely linked. That it's becoming more common for the same investors to hold shares in different companies in the same industry. And for those investors, fierce competition might not seem so appealing.

If one company outdoes its rivals, its shares will do well – but the shares of other companies in the industry might suffer. So for investors with holdings in several of those companies, it can be better if those companies don't compete too hard.

That's why we're looking carefully at whether this sort of common ownership is really common in practice.

Again, the best evidence we have so far comes from the US, where data on who owns which company is systemically collected. In 2016, for example, an article in the *Harvard Business Review* showed how four investment funds were among the top seven shareholders of every one of the four biggest US airlines. And we're now making a start on the complex task of finding out if it's frequent here in Europe for companies in the same industry to have the same shareholders.

It's also important to understand what effect common ownership really has.

The thing is, just because investors might benefit from less competition, doesn't necessarily mean companies will oblige. There's a difference between holding shares in a company, and controlling its decisions.

Even without control, there are certainly ways for these funds to make their voices heard. But we can't just assume they have the power to change minds. We need to look closely at what actually happens – whether they can really get companies to compete less hard.

Business failure and the public interest

Because competition only works when businesses fight hard for their own future. It works when they hope to make profits at the expense of their rivals, by serving customers better. And when companies know that if they fail – if their prices aren't competitive, or their quality isn't good – then customers will walk away.

But when businesses do fail, the cost can be high. And that cost shouldn't fall on people like consumers and workers; it shouldn't fall on the people who are least well off, and least able to do anything to avoid those costs.

Last November, national governments and the EU institutions proclaimed the European Pillar of Social Rights. That document sets out, in twenty principles, the protection that we agree Europeans should have.

That includes unemployment benefits for people who lose their jobs. But it also includes a chance to move forward. Support to look for new work, and retrain. Lifelong learning, so people's skills don't fall out of date. An end to age discrimination, so older workers have the chance to get new jobs.

Those rights can protect people who can't always stand up for themselves. Whose voices can go unheard when a company fails. Consumers, too, can get forgotten in the turmoil – and if that happens, competition authorities – and others – may need to step in.

Last year, when Air Berlin became bankrupt, the administrator decided to sell its leisure subsidiary, NIKI, to Lufthansa. We were already concerned about that scenario before it materialised – and we told the administrator as much. Because it meant Lufthansa would get a monopoly on a large number of routes. And that consumers would have to pay higher fares.

As competition enforcers, we don't get to choose who buys a company from bankruptcy – any more than we choose any other companies to merge. But we do have a duty to make sure the administrator’s solution doesn't harm competition.

So when administrators are looking at what to do with bankrupt companies, they should consider how the offers on the table will affect competition. It's no surprise if they can get the best price by handing someone a monopoly. But it also shouldn't be a surprise if we can't just approve that deal.

In the end, Lufthansa decided to drop its purchase of NIKI. And our colleagues in the Austrian and Spanish competition authorities are now looking at the plan for the original founder, Niki Lauda, to take over the airline.

The consumer welfare standard in merger control

When we look at a merger, our responsibility is clear. We’re here to make sure consumers don't suffer.

Perhaps there are times when that seems a bit too simple. When it seems that the benefits a merger might bring to the economy – or to certain employees – could outweigh the harm that it does to consumers.

But there are very good reasons why the EU competition rules don't let us approve mergers that would be bad for consumers.

Harmful mergers don't just mean consumers pay more. They can also mean people are denied real choice. They can mean that companies stop trying to innovate, and that consumers lose out on new and better products.

And they can mean people lose the sense that markets produce fair results for them.

Most people don't think about politics all the time. But they do have to buy things in the market every day. And if they get treated unfairly in the market, it affects how they relate to

the whole world around them. If consumers don't have the chance to make their own choices, to walk away from businesses that don't serve them well, that undermines the trust that makes our society work.

Our rules are clear that consumers come first. But that doesn't come at the expense of Europe’s businesses. Because for business, as well as consumers, competition is good news.

Competition means Europe’s businesses pay less for the things they buy. So they can keep their costs down, and stay competitive in markets around the world.

And competing in those markets is challenging. So the champions we need can't be companies that never face real competition at home. We need businesses that know how to serve customers well – to keep prices down, and produce innovative ideas. And it's competition that gives those companies the chance to rise to the top.

So it's true that when we find that a merger would hurt consumers, we can't let it through, to save a company, or to help preserve jobs.

And that's because the best way to make our economy competitive - to create new jobs that will last well into the future – is to make sure we have real competition here in Europe.

Conclusion

Thousands of years ago, this region looked very different. The mountains and valleys were weighed down by tonnes of ice. But since the Ice Age ended, the land has been bouncing back. The Alps are growing – by a couple of millimetres each year.

When change happens at that sort of pace, it's not too hard to handle. We adjust our ways of doing things almost without noticing. Though our markets haven't stopped changing throughout the last sixty years, Europeans have always been able to adapt.

But today, the giants that are part of our everyday lives are growing so fast that we just can't help noticing. Of the ten biggest companies in the world today, only one of them – Microsoft – was on the list twenty years ago. Four of the companies on today's list didn't exist then at all.

So it's understandable that Europeans feel uneasy about how much is changing.

That doesn't mean we should rush to judgment. But we do need to engage in the debate, in the same careful way that we deal with our cases. By collecting the evidence, and working out what's really going on.

That way, we can make sure that our competition rules will still be working for consumers, sixty years from now.

Thank you.