

4th Annual Competition Policy Conference

The Role of Competition and Liberalization in Furthering Competitiveness

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I would like to start by thanking the organizers of this conference for inviting me to speak.

Chatham House is an institution with a great history and a great reputation and I am honoured to be asked to contribute to it once again.

And I am particularly pleased to be here today because this conference's title is more than well chosen. I might even go so far as to call it serendipitous.

The role of competition and liberalization in furthering competitiveness would have been a topic well worth exploring at any time, but it has been given even greater relevance by recent events.

You may have noticed a certain amount of press coverage about a vote in Ireland.

At the most straightforward level, the EU's competition policy is unaffected by that vote.

The Irish decision to reject the Lisbon treaty does not change the direction or purpose of our competition policy - for the simple reason that it predates Lisbon and is not contingent upon it.

There is overwhelming evidence that competition delivers for both consumers and businesses and the EU is committed to supporting it, in partnership with Member States.

But the Irish vote does pose difficult questions for anyone working in the Commission, and for anyone committed to the European project.

It underlines the fact that the Commission risks alienating individuals, consumer and businesses if it is perceived to take its role for granted.

The only way to manage that risk is through a continual process of learning and of improvement. We have to do our best to make sure that we are prioritizing the right actions, and using the right benchmarks. And we have to explain what we are doing and why.

Being here today gives me a valuable opportunity to test the Commission's approach with an exceptionally well-informed audience.

I have no intention of taking up your time today with a general discussion of the economic arguments behind competition policy – frankly I doubt that there is much I could say in the next fifteen minutes or so that would be news to you.

What I can do, however, is set out briefly how the Commission sees its role in competition policy. I will use concrete examples to set out what we have achieved so far, what we have learnt from our successes and from our mistakes and what we hope to deliver in the future.

Case Studies: Air Transport and Telecoms

I hope you will agree that the Commission can measure its achievements in facts as well as in theoretical arguments. Our history of engagement with competition policy means that we can now look back at a strong record of contributing to consumer welfare and helping EU businesses compete internationally.

Perhaps the most famous example of this is the record of Commission intervention on air transport.

This was liberalized within the Community market gradually through three separate 'aviation packages', the first in 1987, the second in 1990 and the third in 1993.

This gradual, incremental work culminated in the realization of an internal market for aviation in April 1997. That internal market has revolutionized travel within the EU. Today, all European airlines are free to fly between any two Community airports and to decide fares, routes and capacity.

A lot has happened since 1997, and outside economic and political developments have had a real effect on air travel. But the broad picture is that European aviation capacity has expanded steadily over the last fifteen years. The average cost of most categories of intra-EU tickets has gone down.

As prices have gone down, choices have gone up. Since 1992 the number of international non stop city pairs operated within the European Union has increased from 692 to 1398 city pairs.

In 2003 alone there was a net increase of 108 routes. To put this in context – 108 more routes is equal to an average annual increase of 6.6%. In contrast, non-liberalised extra-EU routes increased only by 2.6% during the same period.

In 1996 low cost airlines accounted for only 1.4% of intra-EU capacity. By July 2003 they accounted for more than 20% of intra-EU scheduled capacity.

There is a similar story to be told about liberalization in the telecoms markets. Here too liberalization led directly to increased competition, and more competition led directly to better deals for consumers.

Since 1996 the price of telecommunications services has fallen by about 30% on average. Here too lower prices have been matched by increased access. Denmark, Finland and the Netherlands are now world leaders in broadband penetration and across the EU fixed broadband penetration grew from 6.5% in 2004 to 20% in 2007.

In general, consumers across the EU are benefiting from greater choice, innovative offers and cheaper products and services. Across the EU, the costs for consumers of mobile telephony services are still falling fast – by nearly 14% between 2006 and 2007 – as a result of intense competition.

In both cases, the Commission was well placed to act because air transport and telecommunications are intrinsically international markets.

Reform example: Telecoms

But the Commissions' ability to be effective in competition policy does not depend just on the shape of the markets concerned. It also depends on the instruments we have at our disposal, and on how well we use them.

And perhaps it depends most of all on how willing we are to adapt, to reform and improve our processes in the face of a changing and complex world.

For example, the telecommunications sector liberalization work started in 1988 with the adoption of an Article 86 (3) directive. Here the Commission worked in parallel with the Council of Ministers – and it is worth noting that keeping to a timeline conditioned by the adoption of harmonisation directives by the Council did not significantly reduce the speed of liberalisation.

In 2002 a new EU regulatory framework was adopted, which obliged national regulatory authorities to adopt sector specific legislation based on the principles enshrined in Article 82.

It also requires these authorities to regulate dominant players in uncompetitive electronic communications markets on an “ex ante” basis.

In turn, it gives the Commission the responsibility of ensuring that any such 'ex ante' regulation applies competition principles consistently.

The 2002 directives allow the Commission to review, comment on and, when justified, veto draft decisions by national regulatory authorities regarding the definition of markets, the designation of dominant operators and the imposition of remedies on dominant operators.

There is still a lot of work to be done. The EU telecoms market is still largely fragmented - there are only a few operators offering truly cross-border services and there is still scope to improve competition in certain markets.

This is why the Commission launched a review of the current regulatory framework in November 2007. As part of this, we are working on two recommendations to increase the consistency of the remedies imposed by national regulatory authorities. The Recommendation on 'call termination' will deal –among other issues – with the appropriate cost models for setting termination rates.

And the Recommendation on IP (Internet protocol) based next generation access networks will provide guidelines for effective remedies which can overcome access problems, such as duct sharing, access to dark fibre or new forms of bitstream access.

On many markets, however, competition is progressing extremely well. That is why we have proposed reducing the number of regulated markets from eighteen to seven.

I am not ideologically against regulation. Even in markets that can benefit from broad liberalization, regulation often works well as a transitional measure to address specific and time-limited reasons for market malfunctioning.

But we have to be careful that such regulation does not outlive the problem it was designed to solve.

I have chosen to describe this particular web of responsibilities in some detail because it is a prime example of the increasingly close and complementary relationship between internal market regulation and competition policy

Broader Reform Issues

Going forward, we need to look critically at areas where competition is limited and act where liberalization would help markets work better.

For this to work, we have to be confident in the soundness of our analysis and in the effectiveness of our approach.

In recent years, the Commission has comprehensively reviewed all branches of competition policy – mergers, antitrust and State Aid.

We have adopted a more economic impacts based approach to mergers policy – an approach that emphasizes effects analysis and that aims to distinguish more clearly between the competitive process and just protecting competitors.

We have recognized that to be effective we needed properly to understand the markets we deal with.

Sector inquiries have proved themselves to be a valuable tool for identifying and fixing market weaknesses.

Our energy sector inquiry revealed that EU energy markets were suffering from too much market concentration, a high degree of vertical integration, and a shortage of cross-border integration and competition. This led us to focus on unbundling and to structural remedies.

Our banking sector inquiry revealed a market fragmented along national lines with great differences in prices, profit margins and selling patterns between countries. Following the inquiry, Portuguese banks reduced domestic interchange fees by nearly a third, and Austrian banks have cut fees for both Visa and MasterCard.

I cannot say much about the pharmaceutical sector inquiry at this stage, other than that we are concerned that fewer new pharmaceuticals seem to be being brought to the market and there may be unjustified delays in introducing generics.

And we have reformed our State aid rules to make it easier to shift aid to objectives that help drive competitiveness - including research and development, innovation, risk capital, and SMEs.

I am aware of the risk of sounding like Voltaire's Dr Pangloss, saying that all is for the best in the best of all possible worlds. There are real challenges to overcome whenever markets are liberalized.

UK postal services

The recent report on the UK's post office liberalisation demonstrated this when it attracted some headlines last month, particularly for its statement that *'there have been no significant benefits from liberalisation for smaller businesses and domestic consumers'*.

A few general points are worth mentioning.

My understanding is also that this is an interim report based on evidence the panel had received to that point. The report recognises that 87% of mail is sent by businesses, with a heavy concentration among the largest users. The report recognises that these users have seen clear benefits. Those are efficiency gains to the entire economy.

And from an EU perspective, perhaps I can help put this into context. The UK is indeed ahead of the European curve in having fully liberalised its postal market at the start of 2006.

As a competition authority, I would like to take this opportunity to applaud the bold steps being taken by the UK.

However, it is worth remembering that the UK is not alone. Sweden is more than 10 years ahead in that respect.

A changing world

One last point before I finish. The credit crunch looks like having signalled the end of the Goldilocks economy – that convenient combination of low-inflation and high growth. The macroeconomics here is well beyond the scope of any competition authority, but that does not mean we will escape the consequences.

It is relatively easy to persuade the public of the benefits of competition when there is a general sense of things getting better – when phone calls get cheaper or low-cost flights flourish all over Europe.

It is much harder to deal in counterfactuals – to make the point that rising prices would have risen still faster if we had not acted to strengthen competition.

From EU/US open skies to unbundling in the energy sector, from postal services to transport, competition is not a dogma, it is a pragmatic way of delivering real benefits to consumers and of equipping businesses to flourish over the long term.

But the average consumer, having better things to do with his or her life than read economic theory, is likely only to notice the price increase or the local post office closing.

As competition authorities we will need to work not just on our policies and our processes, but also on how we persuade Europe's citizens of the value of our work.

The statement that "prices may have risen, but they would have been likely to rise even more in the longer term were it not for competition" is hardly a rousing rallying cry for the benefits of competition policy. Nonetheless, it is true.

Thank you for listening – and I look forward to hearing what you think.