

***Competition Policy in support of the EU 2020 policy objectives***

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Ladies and gentlemen,

It is paradoxical that the theme of today's conference 'Industry vs. Competition?' puts two subjects in opposition that I believe should be mutually reinforcing. So although the title contains a question mark, I would argue there is no such opposition. Industry needs competition. Society would otherwise not benefit from industrial development as it should. Indeed, competition pushes industry to innovate, and to allocate its resources in a more efficient way in order to offer better choice and better quality products at a reduced price.

Similarly, competition policy needs industry. Competition policy does not operate in a vacuum. Competition policy applies to businesses but not in spite of them. We value the input from business stakeholders on our policies at all times, and in particular when developing new initiatives. Our enforcement needs the input of the business community, and indeed benefits the business community. Only by having level playing fields can companies of all sizes reach their full potential. At the same time we strive towards more transparency and more predictability because we understand this is something the business sector needs and values.

Let me develop these ideas against the background of the so-called Europe 2020 policy objectives.

**Financial crisis and exit**

Before I do that, I would like to say a few words about the role of competition policy in managing the financial crisis, as this role is not always fully understood.

Competition policy has been instrumental in reforming the financial sector in the wake of the financial crisis. The Commission's initial objectives – in line with those of the Member States – were twofold: to preserve financial stability and restore lending. And by now you will understand that the underlying theme is the one I set out to cover: that industry and competition policy are mutually reinforcing. Indeed, state aid rules were key to maintaining the integrity of the internal market during the financial crisis while avoiding a collapse of the financial system.

As the financial crisis unfolded the Commission set out between October 2008 and July 2009 how it would apply State aid rules to government measures to support the banking sector. The Commission explained how it would assess the government guarantees or the recapitalisation of banks; the conditions under which assets which had lost their value (toxic assets) could be removed from banks' balance sheets; and the restructuring aid given to banks. It is obvious that the large amounts of aid received by some banks may create distortions of competition vis-à-vis banks that have not received any aid, or vis-à-vis other countries, which are faced with a different situation. By giving Member States clear

guidelines on what would, or would not, be acceptable we also helped achieve a degree of consistency in Member State responses across Europe.

We are now at the restructuring stage, as you will know from the discussions regarding the restructuring of the Hypo Group Alpe Adria and of BAWAG. The idea is that those banks that have received large amounts of aid and that have unsustainable business models will have to restructure in order to return to long term viability without relying on State support. On the real economy, and this is what the rest of European industry will be more interested in, the Commission adopted a new temporary State aid Framework in December 2008, which provides additional possibilities for Member States to grant State aid. Its objective is to facilitate companies' access to finance and thereby reduce the negative effects of the crisis in the real economy. Sufficient and affordable access to finance is a pre-condition for investment, growth and job creation by the private sector. On the basis of the Temporary Framework, Member States may, for example, intervene with €500,000 per undertaking to cover investments or additional working capital for 2 years, or offer a state guarantee for a loan at reduced premium.

The Temporary Framework has generally been very well received by the Member States and stakeholders. To date, approximately 86 decisions concerning measures put forward by Member States based on this Temporary Framework have been adopted by DG Competition within very short deadlines.

The Temporary Framework is an exceptional measure and therefore needs to be limited in time. It is planned that it will expire on 31 December 2010.

### **Exiting the crisis measures**

Indeed, the next challenge we face is to phase out the exceptional measures that were put in place for exceptional circumstances. On the real economy, the withdrawal of measures should depend on the capacity of financial institutions to supply adequate credit to companies.

On aid to the financial sector there is a general consensus that the exit process should start, in particular for government guarantees. Exit from government guarantees needs to be well coordinated and flexible enough to take account of national specificities and potential new stress to the financial markets.

What we have decided for the extension of guarantee schemes from 1 July is that the pricing of government guarantees should be gradually brought closer to current market conditions.

But we should look beyond the crisis, at the challenges of the next decade...

### **Europe 2020**

In March this year the European Commission set out its vision for achieving a new period of growth and dynamism in Europe, the European social market economy of the 21<sup>st</sup> century. This vision was broadly endorsed by the European Council. The three themes identified were:

- Smart growth (knowledge and innovation);
- Sustainable growth (low-carbon, resource efficient and competitive economy) and
- Inclusive growth (high employment economy delivering social and territorial cohesion).

The Europe 2020 strategy includes seven priorities, what we call "flagship initiatives". Five out of seven of these flagship initiatives are directly linked to EU industrial sectors: innovation, a digital agenda for Europe, a resource-efficient economy, an industrial policy to tackle globalisation, and new skills and jobs.

I believe competition is key to ensure that this vision of growth and dynamism comes true. Indeed we are at a particular juncture, with the crisis not yet behind us, with the economy still fragile, where we cannot afford to make the wrong choices. We have to look at industrial policy in the new sense of the word.

I know this is a touchy subject. Let me explain.

Industrial policy in the old sense of the word would be a wrong choice, consisting of selecting sectors which should be sheltered from market forces, of fostering national champions or of propping up inefficient businesses with public money. Industrial policy in the new sense (what we call 'An industrial policy for the globalisation era' in the Europe 2020 strategy) is to create the best environment to enable the broadest possible pick-up of economic activity, focusing on drivers of growth and competitiveness.

Competition policy and competition enforcement will definitely be instrumental in that respect. Why? Because they are part of the general conditions which are critical for industry to prosper. Effective competition pushes companies to innovate. They have to come up with new and better products to retain existing customers and gain new ones. They are adapting their commercial strategies to customer demands and making investments to supply a large variety of products or enlarge their markets. Competition encourages companies to allocate their resources in the most efficient way, leading companies to offer more choice and better quality at lower prices. As a result competition boosts productivity, growth and job creation.

We cannot talk about competition policy in the European Union without mentioning that this policy is closely tied to the Single Market. Professor Mario Monti in his Report on 'The relaunching of the Single Market' argues in favour of strengthening EU competition policy even further as a key tool to preserve the internal market. One of his main messages is that sound competition and sound state aid policy are not in opposition to a sound industrial policy, on the contrary: competition is necessary to create the variety, comparative advantages and productivity gains on which growth and innovation flourish. The level playing field created by the internal market is the best guarantee for long-term prosperity, for citizens and industry alike.

### **Competition policy leads to more competitiveness**

Let me mention a few examples to illustrate what I just said.

We are all aware of the need for a well-functioning **gas and electricity market**, particularly against the background of liberalisation measures that did not deliver all the benefits they should have, and rising energy prices which can have a significant impact on EU industry. While regulatory solutions have proven necessary in this area, EU and national competition policy play a significant and complementary role. Our intervention to put an end to and punish anti-competitive conduct such as market sharing (for example with the GdF/Suez – E.ON market sharing agreement), capacity hoarding (for example with the recent E.ON gas case but there are many others) and prevention of cross-border energy flows (for example with our recent Swedish Interconnectors case - Svenska-Kraftnet) supports European industry as a whole. The level of competition in the energy markets is improved and security of supply thereby enhanced.

We have seen that better functioning markets and price signaling resulting from our interventions have led to greater investment in energy infrastructure.

Another example is the ongoing modernisation of our antitrust rules, the so-called horizontal guidelines, on **cooperation between competitors** on matters such as Research and Development, joint production, joint purchasing or commercialisation, standardisation and exchange of information. This modernisation exercise attempts to adapt our rules to market developments and seeks to provide further clarification on some issues. The draft guidelines have now been put out to public consultation and we are awaiting stakeholders' comments on them. One issue among many is of particular interest to industry, that is the issue of standardisation.

A well functioning and efficient process for **standard-setting** is key for the competitiveness of European industry, as standards facilitate innovation in our knowledge based economy. As a result of a number of cases dealt with by DG Competition, the Commission is advocating that standardisation must take place in an open, transparent and non-discriminatory manner. Standardisation agreements can give rise to significant efficiency gains and may facilitate market integration leading to wider consumer choice and lower prices for instance in ICT.

On **distribution agreements**, our modernisation exercise has just been completed last month, and again the new rules pay particular attention to the economy of tomorrow and the creation of legal certainty for companies. In the context of increasing internet sales and the disappearance of traditional national boundaries for sales, our concern has been to allow the internet to continue to contribute to cross-border trade in the internal market while at the same time preserving existing distribution models which are efficient.

In that context let me mention the revised Block Exemption Regulation in the **car sector** which caters for the specific situation of the aftermarkets. Our observations have been that over the last years competition on the repair, maintenance and spare parts markets is not very strong.

For the **sale of new vehicles**, however, competitive conditions are very different, with steadily falling prices and an increasing choice of models. This is a result both of existing production overcapacities and globalisation. There were therefore no more reasons for the old sector-specific rules. The Commission has now aligned the rules for car distribution with the general new rules on distribution agreements, with a three-year transition period to allow dealers to adapt. New flexibility for the distribution of vehicles should restore manufacturers' incentives to invest in their dealer networks and reduce the cost of selling cars.

At the same time it will enable European carmakers to respond to competition from the emerging markets of East and South Asia.

Another focus of our action to allow for increased competitiveness of industry is our **support to broadband** investment in Europe through our state aid rules. The rules are based on the rationale that state aid may be necessary for broadband investment in so far as there are market failures, for example no private investor wanting to invest in rural areas. Greater broadband coverage will enable industry across the EU to raise productivity, as it is recognised that ICT uptake by firms continues to be a major productivity driver.

Of course, productivity is not the only concern. Environmental considerations also rate high on the priority list of industry. Targeted state aid can help Europe reach its climate change targets, by supporting clean energy and energy efficiency. The **environmental aid guidelines** allow state support for environmental objectives, if, on balance, the environmental benefits of such support outweigh the potential competition distortions. Concrete examples are the aid recently granted to the steel works of Arcelor Mittal or Salzgitter AG in Germany.

Such state aid for horizontal objectives, such as broadband investment and environment targets, can keep distortions of competition to a minimum and help achieve a Single market which is open, more integrated and more competitive.

Finally let me mention that we are working on improving our procedures. In January, the Commission put out to consultation three comprehensive documents on different procedural issues. Best practices for antitrust proceedings, Best practices for the submission of economic evidence and Guidance on the role of the Hearing Officers. The goal of these three papers is to explain how antitrust proceedings in particular are dealt with by the Commission and to improve the **transparency and predictability of proceedings**. This is beneficial to business and to our working relationship with stakeholders more generally. We have received more than 50 responses to the consultation and are now carefully considering all comments made by stakeholders. Those comments will be made available on our website shortly. This exercise shows that we are always looking for improvements but also that we are keen to see business contribute to the debate and we are keen to listen.

## Conclusion

As President Barroso mentioned in his political guidelines at the beginning of his new mandate, Europe needs a strong industrial base. He also said that Europe needs a fresh approach to industrial policy to keep EU industry competitive in world markets.

I have attempted to sketch what is this fresh approach to industrial policy and why I believe competition is part of the framework which is necessary to keep EU industry competitive. In parallel I think competition policy needs industry and business at large to provide input into its many initiatives. Companies of all sizes form the majority of stakeholders concerned by our competition policy and our competition enforcement, and should benefit from this. The input provided by business is necessary to enable the Commission in turn to give industry the legal certainty to operate in the Single Market and to take advantage of the many opportunities it offers.