



# Protecting competition in a changing world

Evidence on the evolution of competition in the EU during the past 25 years

## Key findings

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# Introduction

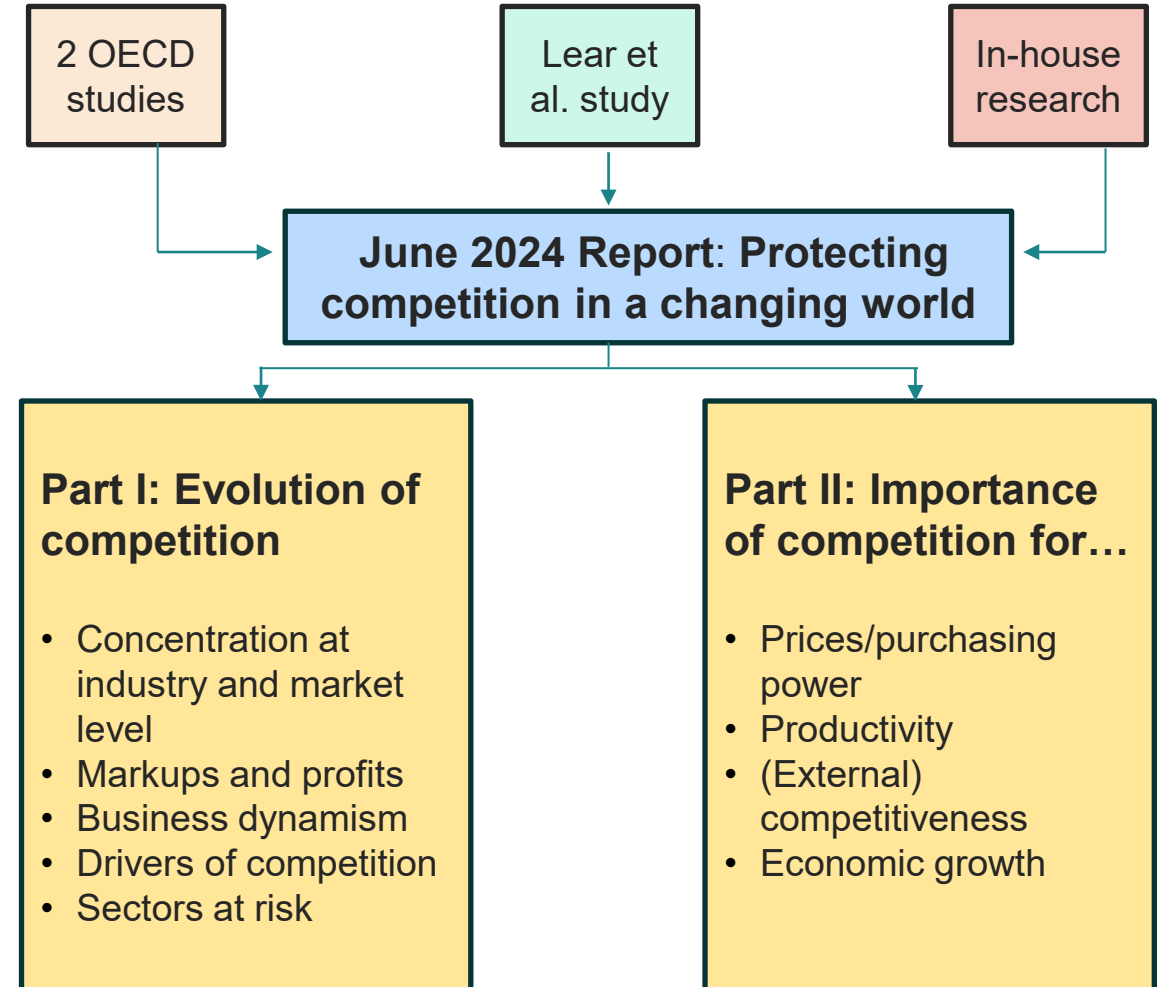
## Objective of the report

Contribute **economic evidence** on (1) the **evolution** and (2) the **importance of competition** to the policy debates on (i) **competition policy** and (ii) **EU competitiveness**

## Background:

- Globally, indications of **fundamental changes**: concentration, markups and profits, business dynamism
- Changes possibly linked to adverse **macroeconomic trends**: slow productivity growth, inequality, weak growth, ...
- **Similar research** in other jurisdictions: e.g. Germany, UK, Canada

2022: Research plan and contracting

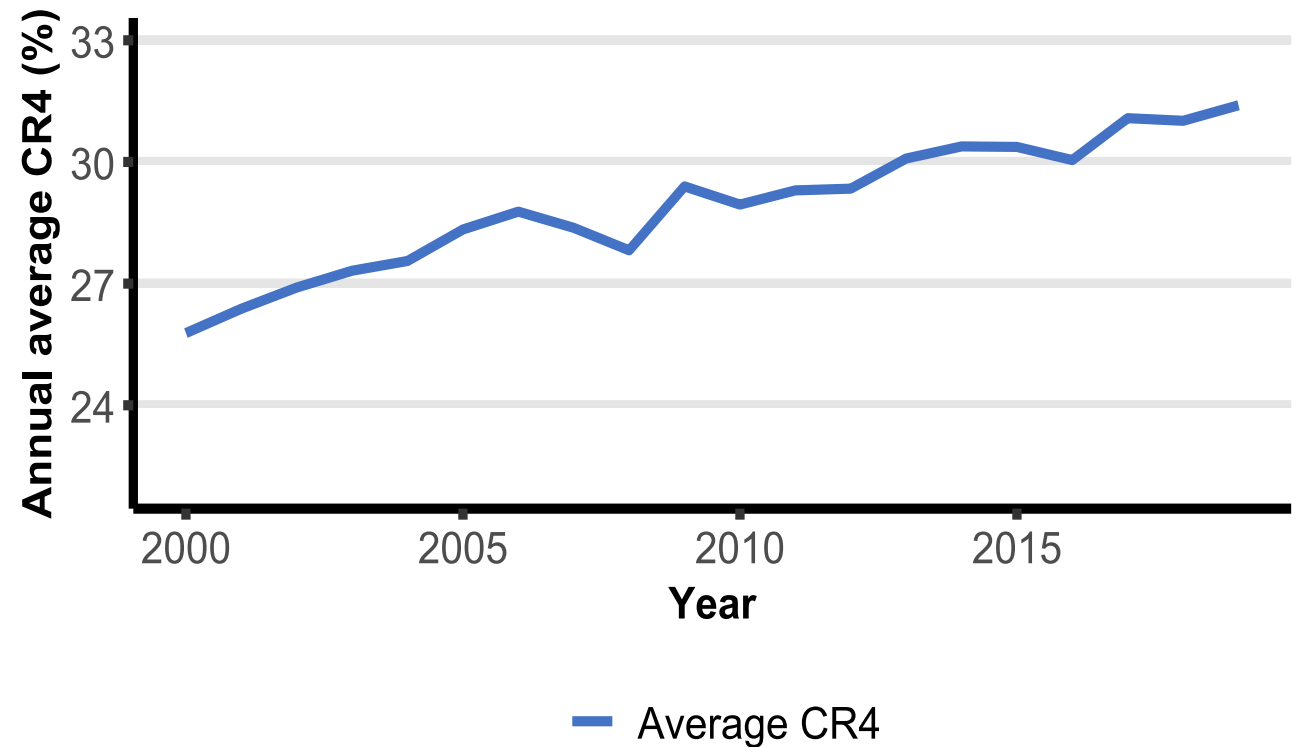


# Part I: Evolution of competition in the EU

# Industry concentration

- Average industry CR4 increased by ~5 percentage points between 2000-2019 for a sample of 127 industries\* across 15 countries (Fig. 1)
- CR4 increased mostly in **already more concentrated sectors** with industry CR4s 30%-80%

**Figure 1: Industry concentration: CR4 2000-2019, aggregating across geographical 'buckets'**



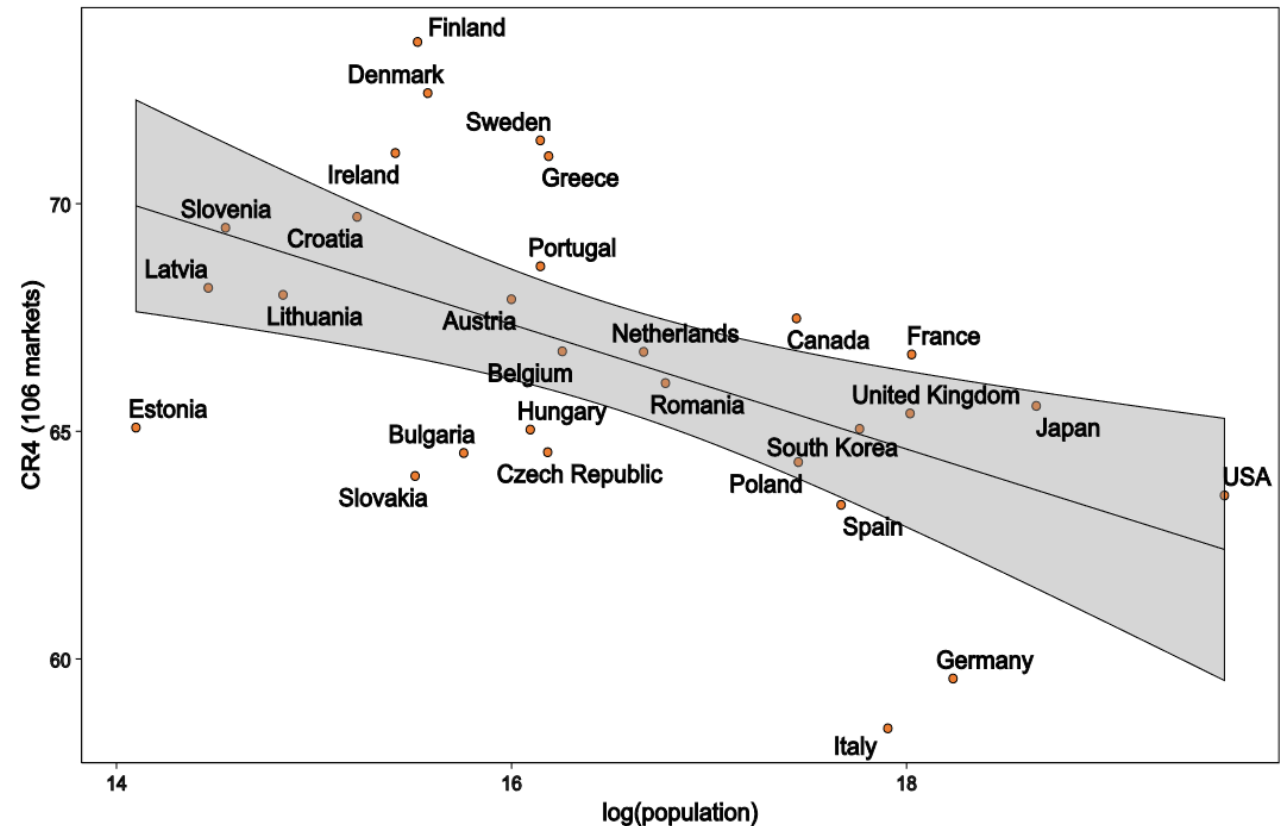
Source: OECD (Calligaris et al., 2024)

\* Defined at the broad NACE 3 level

# Market concentration

- **EU average CR4 > 60 %:** significantly higher than at **industry level**
- Significant **differences between countries** even when controlling for population (**Fig. 2**)
- Concentration highest in **markets** which matter for **poor households**: food, energy

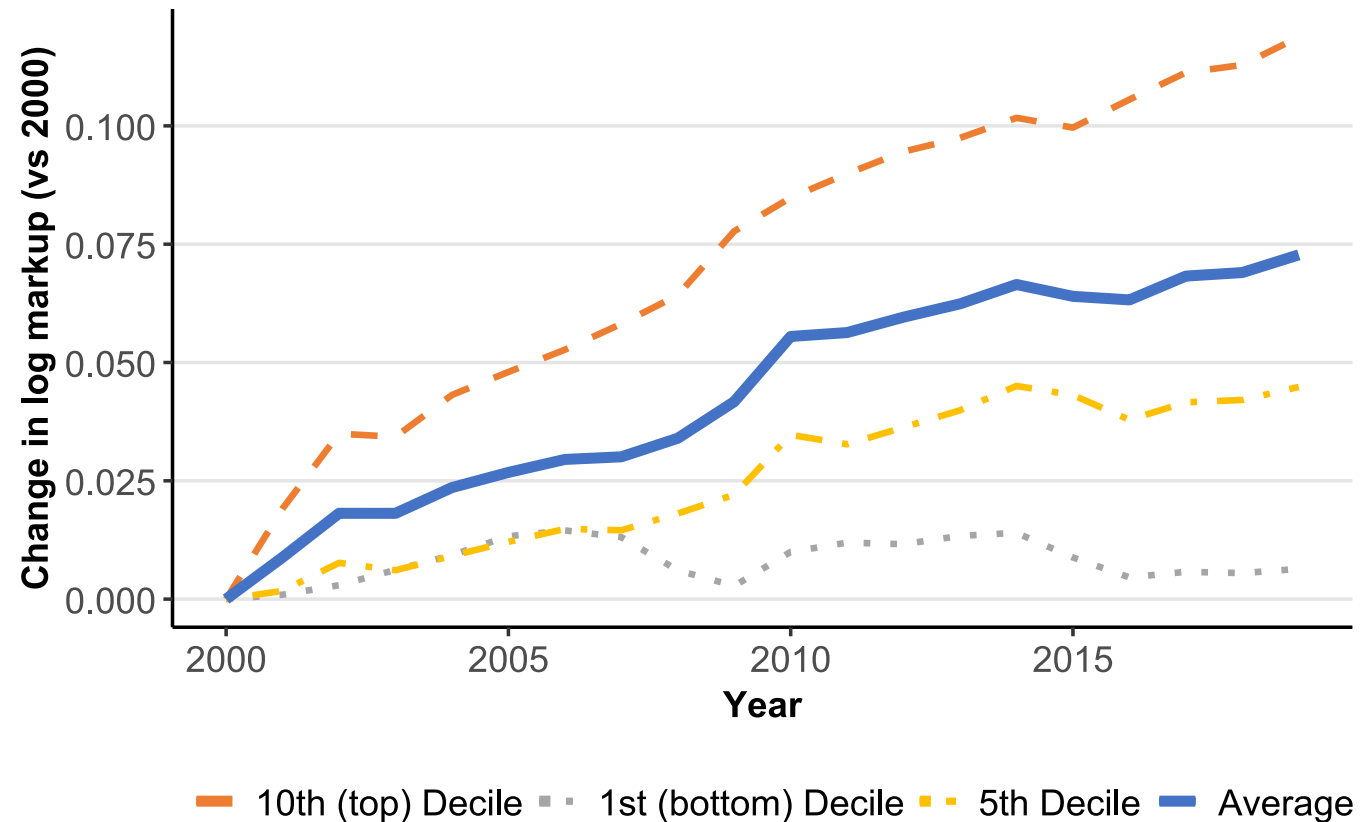
**Figure 2:** The relation between CR4 (106 markets) and country population



# Markups

- **Markup =**
  - price/marginal cost
  - an indicator of market power
- Average firm-level markups **increased by ~7%** between 2000 and 2019
- Increase mainly driven by rising markups at the **top** of the markup **distribution**: increase of **~12% in top decile** (Fig. 3).
- The increases in markups primarily took place in (i) **digitally intensive industries** and (ii) **services**

**Figure 3: Growth of average firm level markup in different parts of the distribution (2000-2019)**

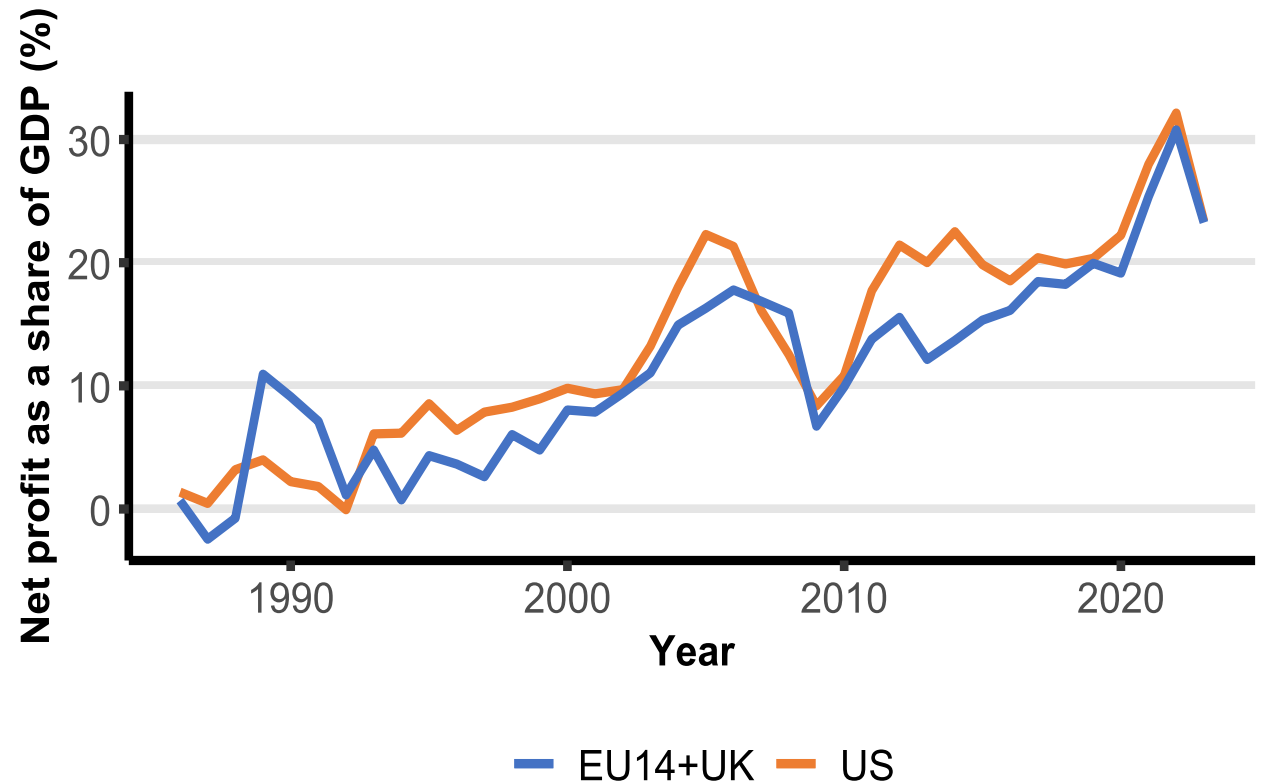


Source: OECD (Calligaris et al., 2024)

# Profits

- The **net profit share of GDP** increased from **~2% to more than 20%** between 1986 and 2023 in 15 European countries (Fig. 10)
- **Profit rates** of the 50 most profitable large global firms ('Global superstars') **increased from ~11% to ~20%** between 1998 and 2022
- **Markups and profits are positively correlated** suggesting that the rise of markups is not just driven by change in cost structures

**Figure 4:** Evolution of the net profit share of GDP EU vs. US

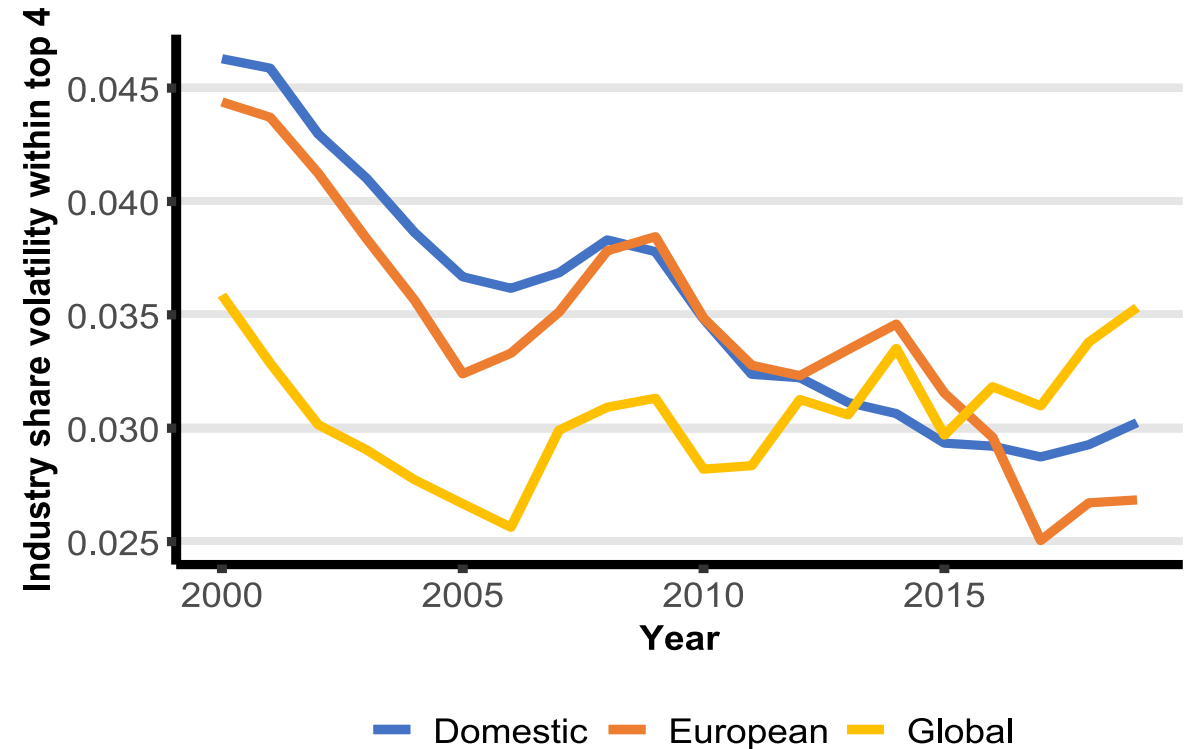


Source: Koltay et al. (2023), updated

# Business dynamism

- **Less disruption amongst leaders** (fig. 5)
- **Growing gap** between **leaders** and **followers** as regards markups, profits and productivity growth:
  - **less diffusion** of innovation and productivity improvements
  - increasingly a **‘two-speeds’ economy**
- **Less entry and exit** of firms

**Figure 5: Industry share volatility across geographical buckets (2000-2019)**



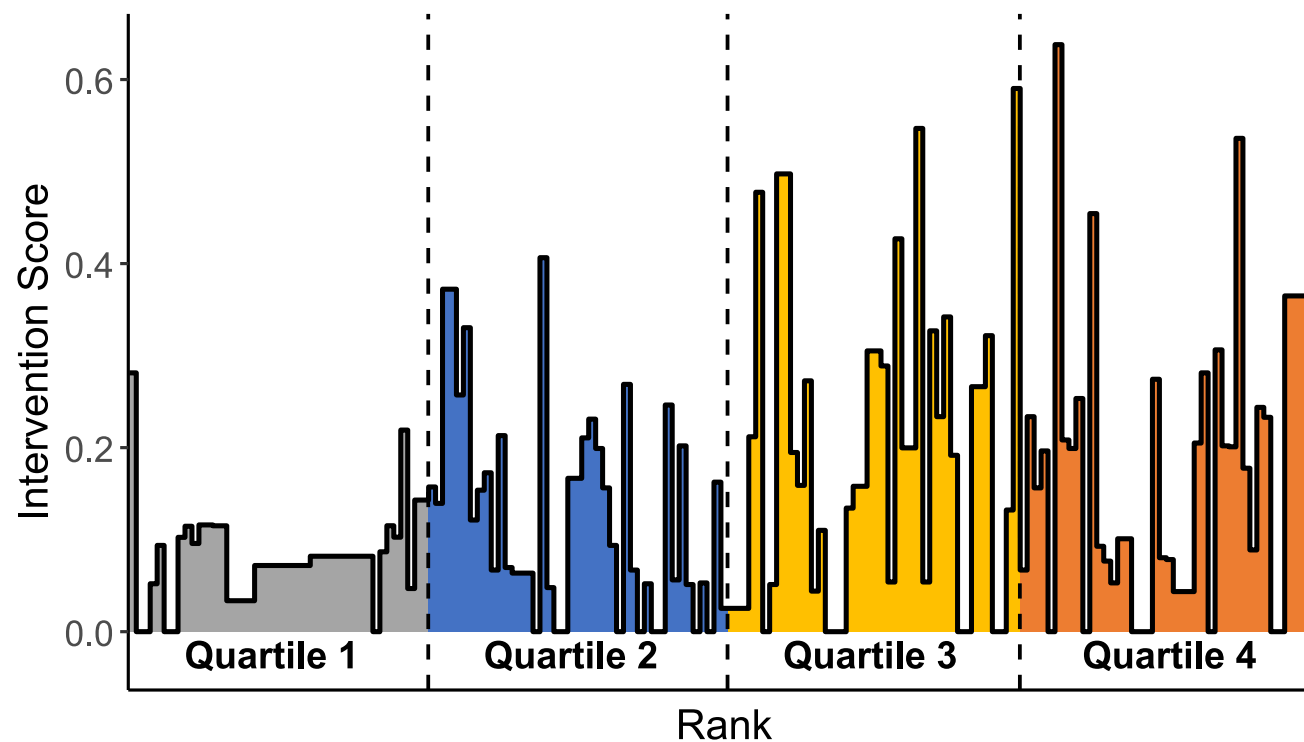
Source: OECD (Calligaris et al., 2024)



# Sector competition risk vs. enforcement

- Ranking of 127 industry sectors according to their **competition risk**
- Sectors with **high competition risk** include e.g.:
  - Manufacture and distribution of gas (#127)
  - Telecommunications (#126)
  - Manufacture of air and spacecraft (#119)
- **EU competition interventions** in merger control (Fig. 6) and antitrust are **more frequent** in sectors with **higher competition risks**

**Figure 6: Merger intervention score by sector rank**



Source: DG. Comp, OECD (Abele et al., 2024)

# Main drivers and balance of effects

Technological change (software) + other intangibles (patens, brands)	✓
Globalisation	✓
Regulatory barriers to entry	✓?
Rise of M&A/ underenforcement	✓?



1. **Largely structural changes** over the past 25 years => both **benign** (efficiencies) and **adverse** (concentration, market power, barriers) effects on competition
2. **Sector heterogeneity** as regards direction and mix of drivers
3. On balance and on average, competition in the EU today is likely **weaker** and market power more **pronounced than in the past**
4. The observed changes in the nature and intensity of competition may have contributed to (i) lower **business dynamism**, (ii) slower **productivity growth**, (iii) decline of **labour share**, (iv) lower **resilience** to shocks

# Part II: Importance of competition

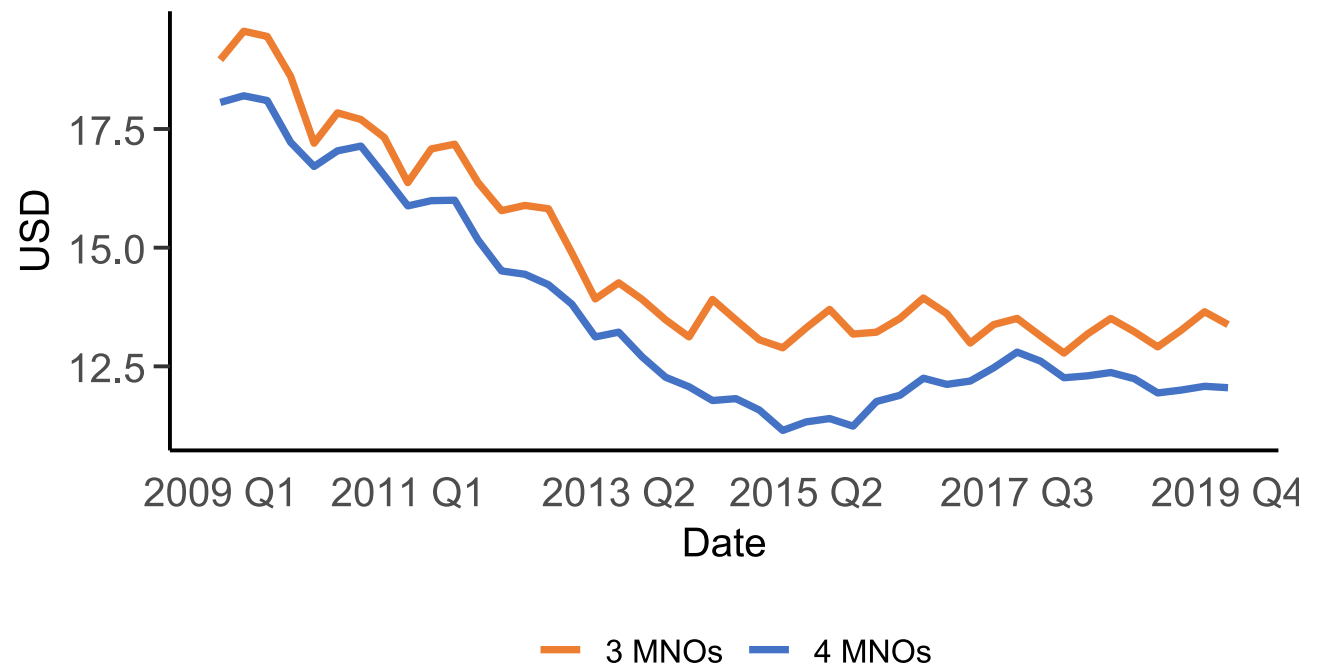
# Impact of competition on prices: new price-concentration study

For mobile telecoms and airlines markets:

- Empirical evidence that **higher concentration levels** are associated with **higher prices** (Fig. 7)
- EU prices **significantly lower** than in the US

For mobile telecoms higher concentration levels were **not** associated with higher investments

**Figure 7: Evolution of ARPU (average revenue per unit/user) in European countries based on the number of MNOs (mobile network operators).**

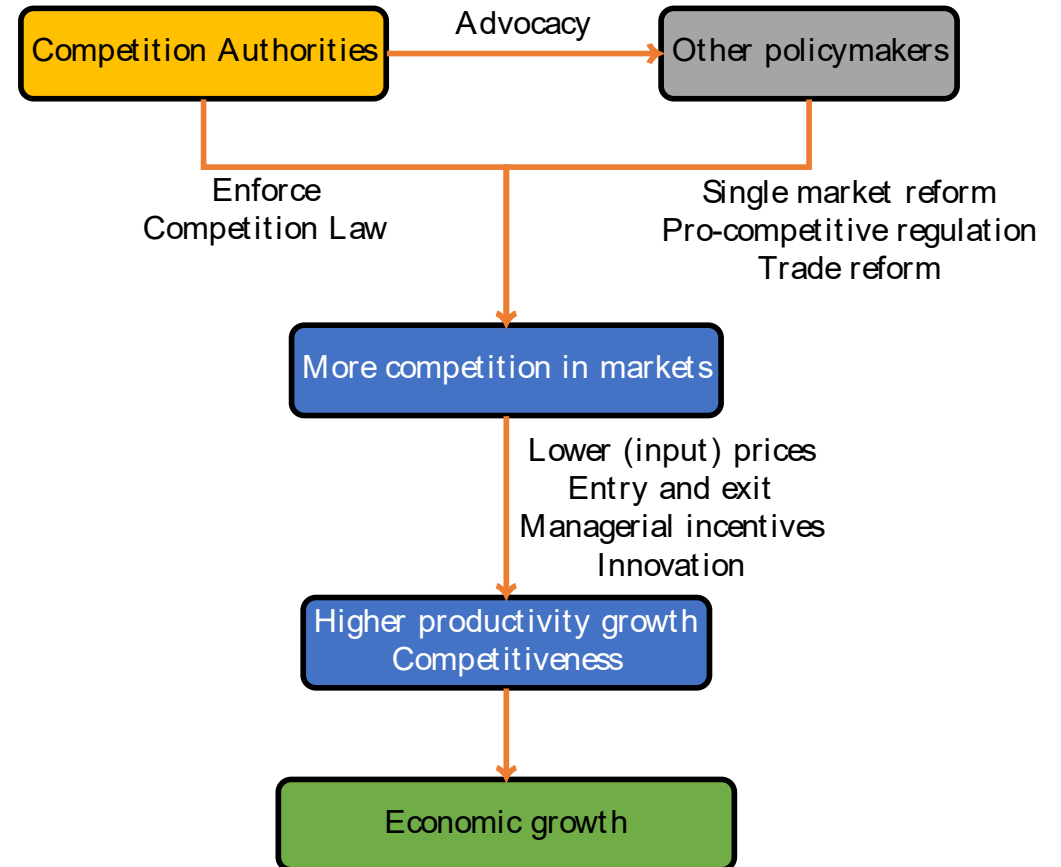


Source: Lear et al. (2024)

— 3 MNOs — 4 MNOs

# Competition: a fundamental driver of competitiveness and growth

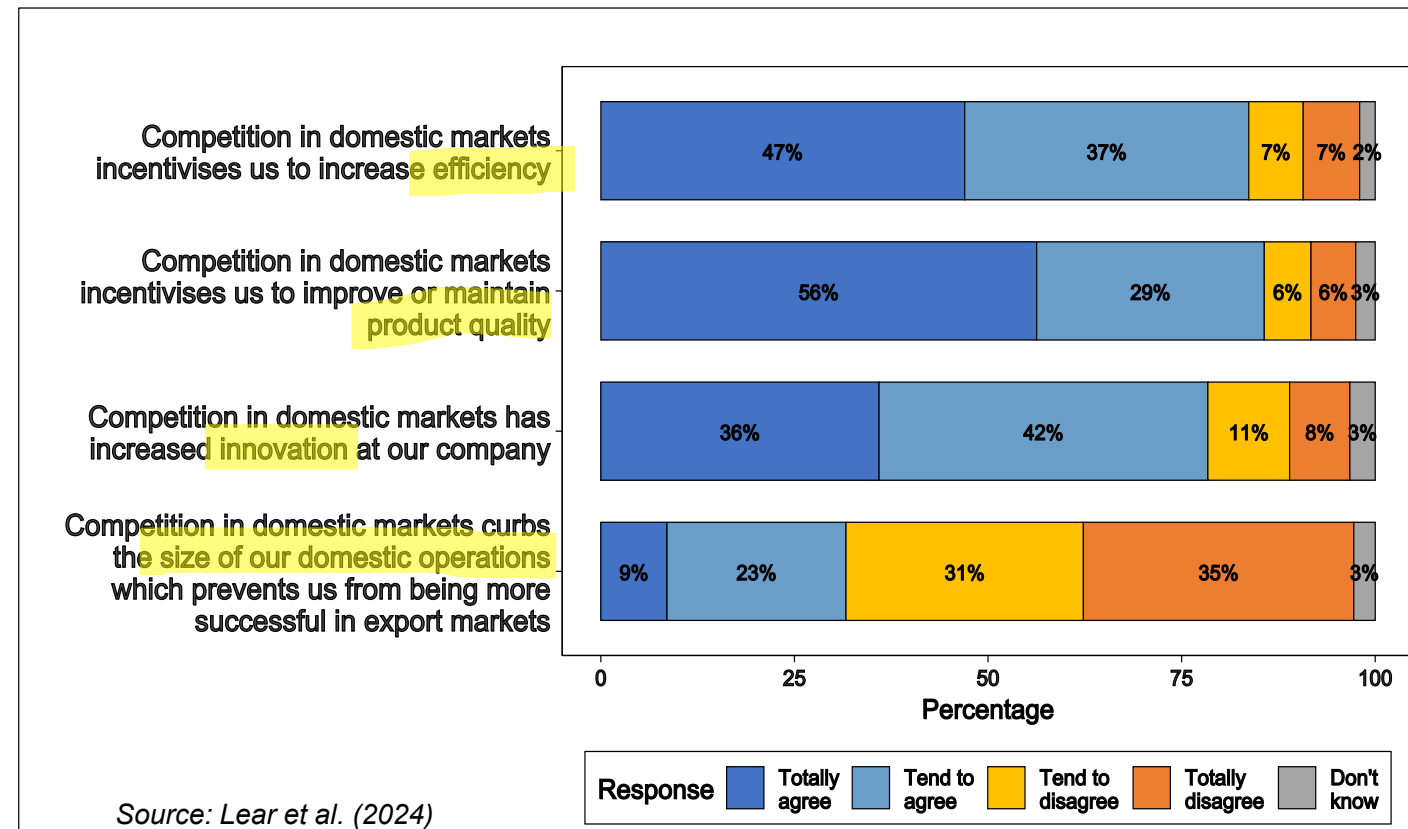
- Strong + consistent economic evidence: effective competition **lowers prices and strengthens productivity growth** at sector level
- **Effective competition ...**
  1. ...forces firms to be more **efficient**
  2. ... (re-)allocates shares to more efficient firms; drives **entry and exit**
  3. ... forces firms to **invest and innovate**
- Productivity growth across sectors is the main driver of an economy's **competitiveness** and long term economic **growth**



# Impact of competition on competitiveness: new survey of EU exporting firms

- Large majority of respondents confirms importance of **domestic competition** in **input markets** (goods and services)
- Large majority of respondents confirms importance of **domestic competition** in exporting firms' **own markets** (Fig. 8 first three lines)
- A majority of respondents **disagrees** that competition curbs the **size of their domestic operations** hindering success on export markets (Fig. 8 last line)

**Figure 8: Impact of domestic competition in exporting firms' own markets**



# Impact of competition on growth: new macroeconomic simulation study

Study on the **macroeconomic effects** of competition: simulations of three hypothetical scenarios relying on an established macroeconomic model

- **Backward-looking simulation:** the increase in markups observed in the EU since 2000 may have reduced EU GDP by **up to 5-7%** compared to the counterfactual. Without the Commission's merger and antitrust interventions this impact might have been larger by almost one quarter
- **Two forward-looking simulations:** (1) measures limiting the market power of firms at the top of the markup distribution ("**trimming** scenario") or (2) pro-competitive reforms across the EU ("**convergence** scenario") might **each** increase GDP by **up to 2-4 %**, depending on the time horizon

# Thank you



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