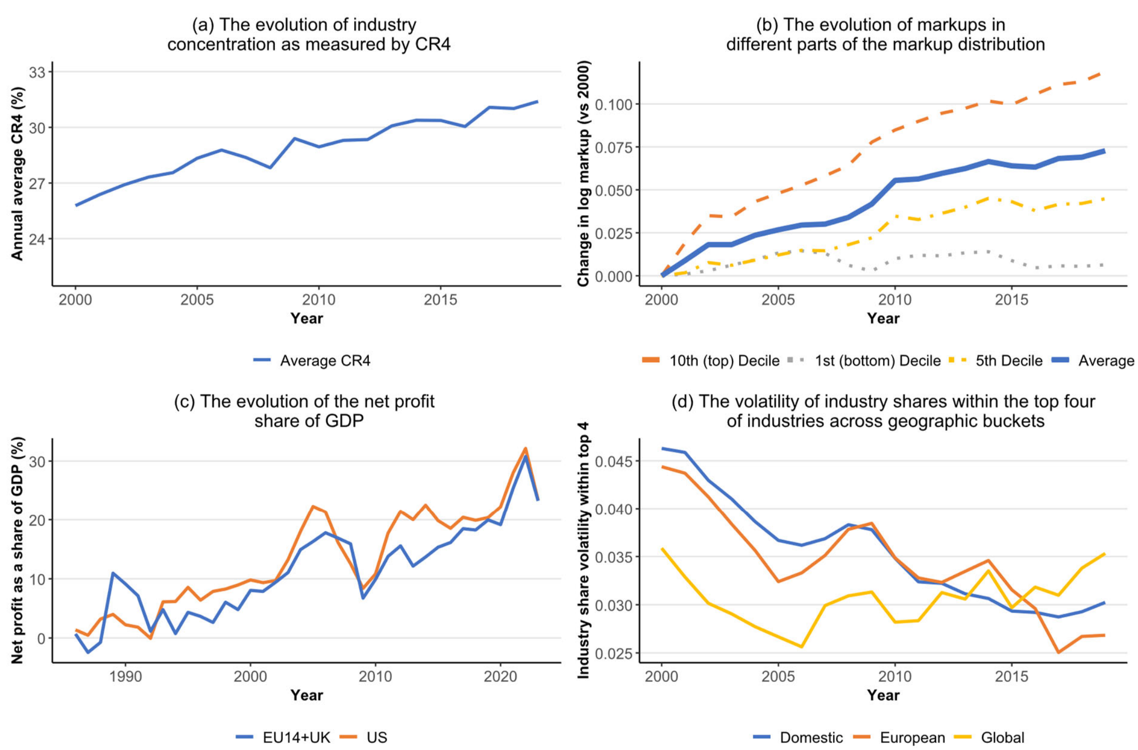
Factsheet

Effective competition compels firms to lower prices, enhance the quality and variety of their products, reduce costs, boost productivity, and innovate. Over time, this process rewards better performing firms, while forcing inefficient firms to shrink or even exit the market. Consequently, effective competition is an essential driver not just of consumer welfare, but also of productivity and long-term economic growth. Competition between firms takes place in an ever-evolving environment. Therefore, understanding the evolution of the conditions of competition is useful for enforcers and policymakers.

A new report by DG Competition takes a step back and explores (i) how and why the conditions of competition have evolved in the EU over the past 20-25 years, (ii) how and why effective competition matters for broader economic outcomes (prices, productivity, competitiveness, growth). The report draws on contributions from the OECD, a consortium of researchers led by Lear, and by DG Competition itself.

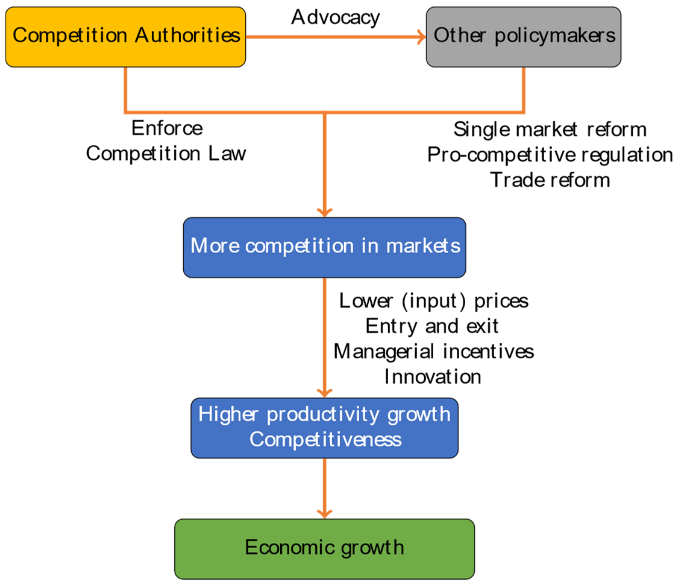


Evolution of indicators of competition in the EU

Key findings:

- **Research presented in the first part of the new report suggests that on average and in a wide range of sectors in the EU during the past 25 years the following trends can be observed:**
  - European **industries** (defined at broad NACE 3-digits levels) have become **more concentrated** over time, as measured by the joint production share of the four largest firms (CR4). Average CR4 at industry level increased by **5 percentage points** from 2000-2019 (fig. a). CR4 increased mostly in **already more concentrated sectors** with industry CR4s in the 30%-80% range.
  - Using retail sales data from a novel dataset (Euromonitor), it is found that European **consumer facing markets** are characterised by **significantly higher concentration levels** (average CR4 > 60%) than the corresponding broad industry shares. Recently those markets have also become **more concentrated** and **less dynamic** (2012-2019). Average concentration in consumer facing markets is **lower in the EU** than in the US, Japan, Korea and Canada. Within the EU there are however **significant differences between Member States** even when controlling for population size. Concentration is particularly high in consumer facing markets which **matter most for poor households** (energy, food).
  - Markups have **increased** from 2000-2019 **by 7 %,** in particular for firms at the top of the markup distribution (**+12%**) (fig b). Markups have increased more in digitally intensive industries than in industries with low digital intensity.
  - Net **profits** of firms as a share of EU GDP have significantly increased from 1990-2022 (fig. c). The average **profit rates** of the world's 50 most profitable large firms have almost doubled, growing from 11% in 1998 to 20% in 2022.
  - The level of business dynamism/churn among market leading firms is **low** and seems to have **decreased**, as shown, for example, by decreasing industry share volatility at the top of the firm distribution. Entry by new firms seems to have declined.
  - There appears to have been a **growing gap** between leading firms and followers and entrants as regards markups, profits and productivity. Followers and entrants seem to find it increasingly difficult to catch up with leaders.
  - The trends in the EU regarding concentration, markups and profits seem to have gone in the same direction as in other advanced economies, although they appear to be **somewhat less pronounced** than in the US.
- **In examining what may have been the drivers of these trends, the presented evidence suggests that:**
  - Important drivers of the above trends may have been (i) changing **economies of scale** due to the rise of investments in proprietary IT solutions and other intangibles (R&D, patents, brands), (ii) **globalisation**, (iii) **regulatory barriers** to entry and (v) possibly to a more limited extent, rising **M&A activity**.
  - These changes may have produced both **benign** effects (efficiencies) and **adverse** effects (more concentrated sectors, more pronounced market power, higher barriers to entry). While the trends and the mix of contributing factors will vary by sector, on average, the intensity of competition seems to be weaker and the market power of firms at the top of the markup and profit distribution seems to be more pronounced than in the past.
  - These developments may have contributed to adverse macro-economic trends in the EU such as (i) reduced business dynamism and (re-)allocation of resources, (ii) higher productivity dispersion and slower productivity growth, (iii) higher wage inequality and a lower labour share and (iv) a lower resilience to economic shocks and a lower responsiveness to economic policy measures.

- An analysis of **competition risk at industry level** uses several indicators of competition to rank sectors according to their degree of competition risk, resulting in a sector 'scorecard'. Relating this scorecard to data on EU competition interventions the analysis finds that EU interventions in merger control and antitrust have occurred most frequently in sectors with high competition risks.
- Research presented in the second part of the report confirms and supplements prior research that effective (or weak) competition can have significant positive (or negative) effects not only on **prices and thus on the purchasing power of consumers**, but also on the **productivity** and **competitiveness** of EU firms and thus on overall **economic growth**.



- A **study on price-concentration** relationships in six sectors with notable price variations across EU Member States provides qualitative and, for mobile telecoms and airlines, empirical evidence that higher concentration levels appear to be associated with higher prices. Consistent with previous studies, it also finds that European customers benefit from significantly lower prices than US customers in both mobile telecoms and airlines markets. For mobile telecoms the research finds for the period 2009 to 2019 that higher concentration levels were not associated with higher investment.
- A **survey of EU-based exporting firms** suggests that effective domestic competition within the EU Single Market (i) is an important driver of their global export competitiveness - in particular effective competition in upstream goods markets - and (ii) for a majority of respondents does not constrain their scale in a way that would hinder their success on global export markets.
- A **study on the macroeconomic effects of competition**, relying on simulations in a general equilibrium macroeconomic model, estimates first that the increase in markups observed in the EU since 2000 may have reduced EU GDP by up to 5-7% compared to a scenario without such an increase. However, without the EU's competition interventions taken over the last ten years the impact might have been even larger by almost one quarter. The study also estimates that **strengthening competition in the EU could yield substantial macroeconomic benefits**: measures limiting the market power of the most powerful firms or pro-competitive regulatory reforms across the EU might each increase GDP by up to 2%-4%, depending on the time horizon.