Competition Policy and the Limits of Europe's Competitiveness Agenda

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Loosening European competition policy to allow more cross-border consolidations will not address the root cause of Europe's competitiveness problem. Instead, Europe must complete the single market with more business-friendly EU laws.

European competition policy is crucial in keeping markets competitive and innovative. Yet, does it unintentionally hinder Europe's global competitiveness by stifling the rise of European champions? According to influential reports by Mario Draghi on EU competitiveness and Enrico Letta on the single market, the answer is clear: EU competition policy must evolve to give European firms the scale to compete globally. European Commission President Ursula von der Leyen has made competitiveness a top priority for her Commission, tasking the incoming Competition Commissioner, Teresa Ribera, with the urgent mission of modernising the EU's competition framework.

The call for reform is not new. The debate flared up after the Commission blocked the merger of French Alstom and German Siemens in 2019, preventing the creation of a European rail giant. France and Germany have since pushed for changes in competition policy that would allow the emergence of European champions capable of standing up to American and Chinese rivals, both domestically and abroad.

However, Margrethe Vestager, the outgoing Competition Commissioner, has staunchly resisted loosening EU merger rules, arguing that consolidation to create Europe champions could result in higher prices, lower quality, and less innovation, ultimately hurting both consumers and businesses in Europe. Vestager vigorously opposed Letta's calls for greater cross-border mergers to ensure the firm's scalability, particularly in telecommunications, where she argues that competition at home fosters competitiveness on the global stage.

Draghi follows Letta and proposes revamping EU merger rules to allow for more consolidation. He also recommends the introduction of an "innovation defence," enabling companies to argue that mergers could lead to increased innovation—like through new investments—that would offset potential consumer harm.

The UK's telecom sector is already testing this idea. Vodafone's planned merger with Three could drive up prices, but the companies claim it will boost service quality through increased investment. They have proposed an "innovation defence" as a long-term investment pledge to improve the UK's telecom infrastructure. The challenge, though, is that such commitments are difficult to monitor and enforce. Assessing whether promised investments materialise can take years, during which time consumers and competitors may suffer, and firms could stray from their original commitments.

If companies breach these pledges, competition authorities face an enforcement nightmare. Trying to unwind a completed merger is like unscrambling an omelette—once the companies have integrated, reversing course becomes almost impossible and could even damage any post-merger improvements. Instead, authorities can impose fines and behavioural remedies, but they might not fully address the competitive harm and restore the lost competition.

But here is the catch: even if consolidation were allowed, it would only address a symptom of Europe's competitiveness problem, not the root cause. The real issue holding back European firms is market fragmentation.

Despite decades of effort, Europe remains far from a truly single market. Companies must navigate 27 different linguistic, legal, cultural, and economic environments, and while EU laws aim for harmonisation, Member States often implement and enforce them inconsistently. This regulatory patchwork is costly, especially for small and medium-sized enterprises (SMEs), which make up 99 per cent of European businesses. When compliance costs are too high, these firms either avoid certain markets or leave them altogether, as seen when Meta delayed its AI services in Europe due to diverging interpretations of data protection laws, depriving European developers of opportunities to innovate and European users of access to new technologies.

The real solution to boosting Europe's competitiveness does not lie in retooling competition policy alone. Europe needs a fully integrated single market that eliminates regulatory inconsistencies and allows companies to scale seamlessly across borders. The key is smarter, simpler, less burdensome, and more consistent EU laws, enabling firms to grow by unlocking the benefits of true market integration and the assets—like data—firms need to innovate. Only then can European businesses compete effectively at home and on the global stage.

About

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