

# STATE OF COMPETITION IN EUROPE

**Prof. Achim Wambach, Ph.D.**

20th Annual European Economy Lecture, Bruges// 20. October 2021

# CAPITALISM WITHOUT COMPETITION IS EXPLOITATION



## JOE BIDEN:

"But let me be very clear: Capitalism without competition isn't capitalism; it's exploitation. Without healthy competition, big players can change and charge whatever they want and treat you however they want."

*Remarks by President Biden At Signing of An Executive Order Promoting Competition in the American Economy (9 July 2021)*

➤ FRIEDRICH AUGUST  
VON HAYEK

Competition as a  
discovery process

➤ FRANZ BÖHM

Competition as an instrument  
of disempowerment

# FREE COMPETITION IS THE GUIDING PRINCIPLE OF ECONOMIC POLICY IN THE EU



## TREATY ON EUROPEAN UNION

### ARTIKEL 3

(3) The Union **shall establish an internal market**. It shall work for the sustainable development of Europe **based on** balanced economic growth and price stability, **a highly competitive social market economy, ...**

## TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION

### ARTIKEL 119

(1) For the purposes set out in Article 3 of the Treaty on European Union, the activities of the Member States and the Union shall include, as provided in the Treaties, the adoption of an **economic policy** which is [...] **conducted in accordance with the principle of an open market economy with free competition.**

# **PART I: SOME OBSERVATIONS ON COMPETITION AND CONCENTRATION IN GERMANY AND EUROPE**

PART II: THREATS TO THE PROPER FUNCTIONING  
OF THE EUROPEAN SINGLE MARKET

PART III: WHAT NEEDS TO BE DONE

# WHAT IS THE STATE OF COMPETITION IN EUROPE?

## IN GERMANY: MONOPOLIES COMMISSION REPORTS

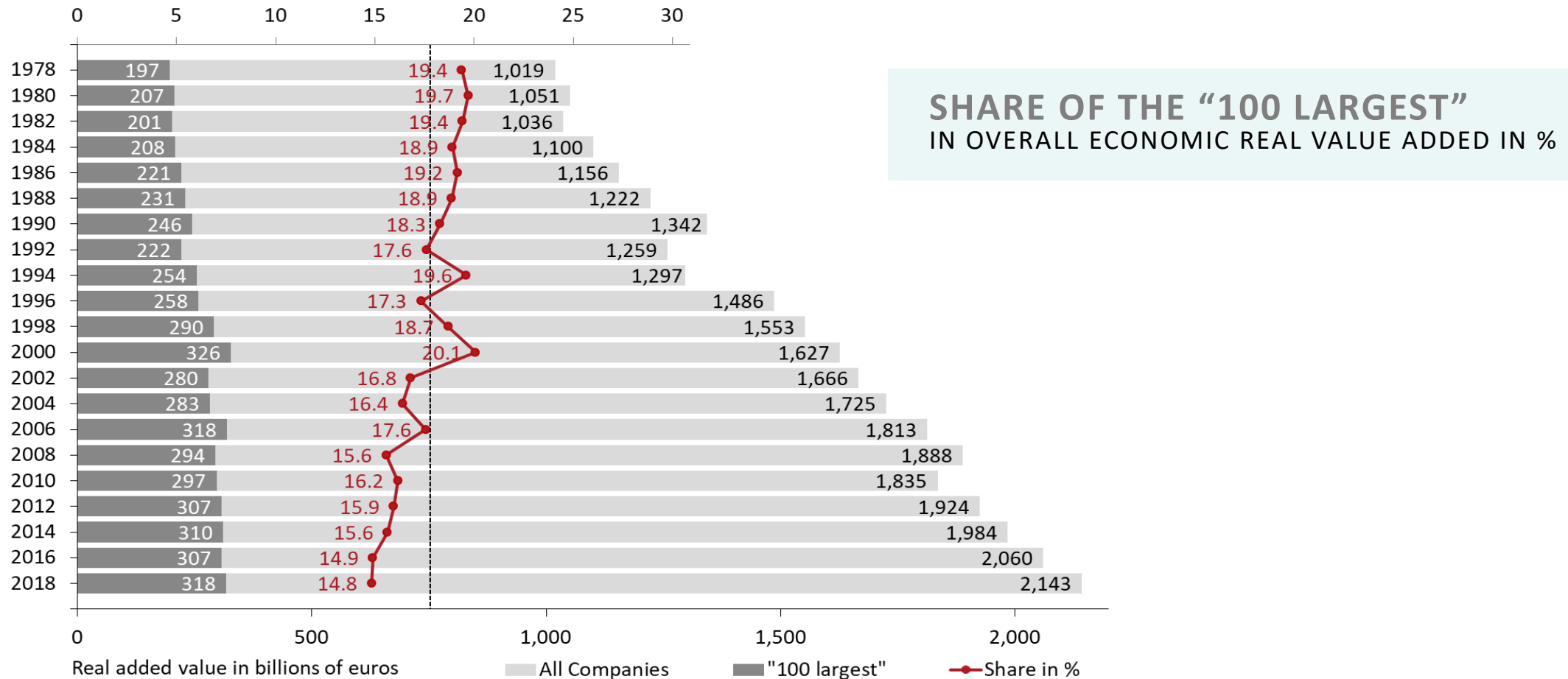
Act Against Restraints on Competition, § 44

(1) **Every two years**, the Monopolies Commission **prepares an expert report** in which it assesses the **status and the foreseeable development of company concentration** in the Federal Republic of Germany, evaluates the application of the provisions on merger control and comments on other current competition policy issues.



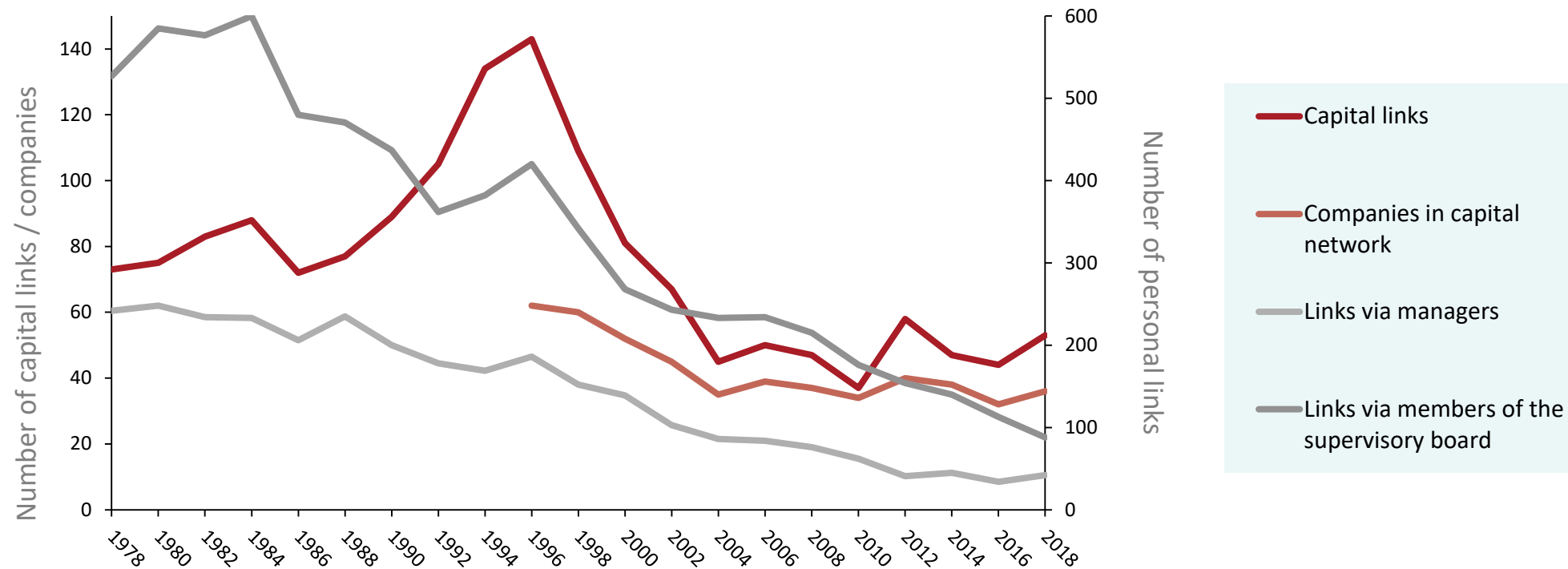
Handover of the report of the monopolies commission, 29 July 2020

# ONE INDICATOR OF THE GERMAN ECONOMIC MODEL: CONCENTRATION OF LARGE COMPANIES IS DECLINING



Source: XXIII. Biennial Report by the Monopolies Commission „Competition 2020“, p. 84

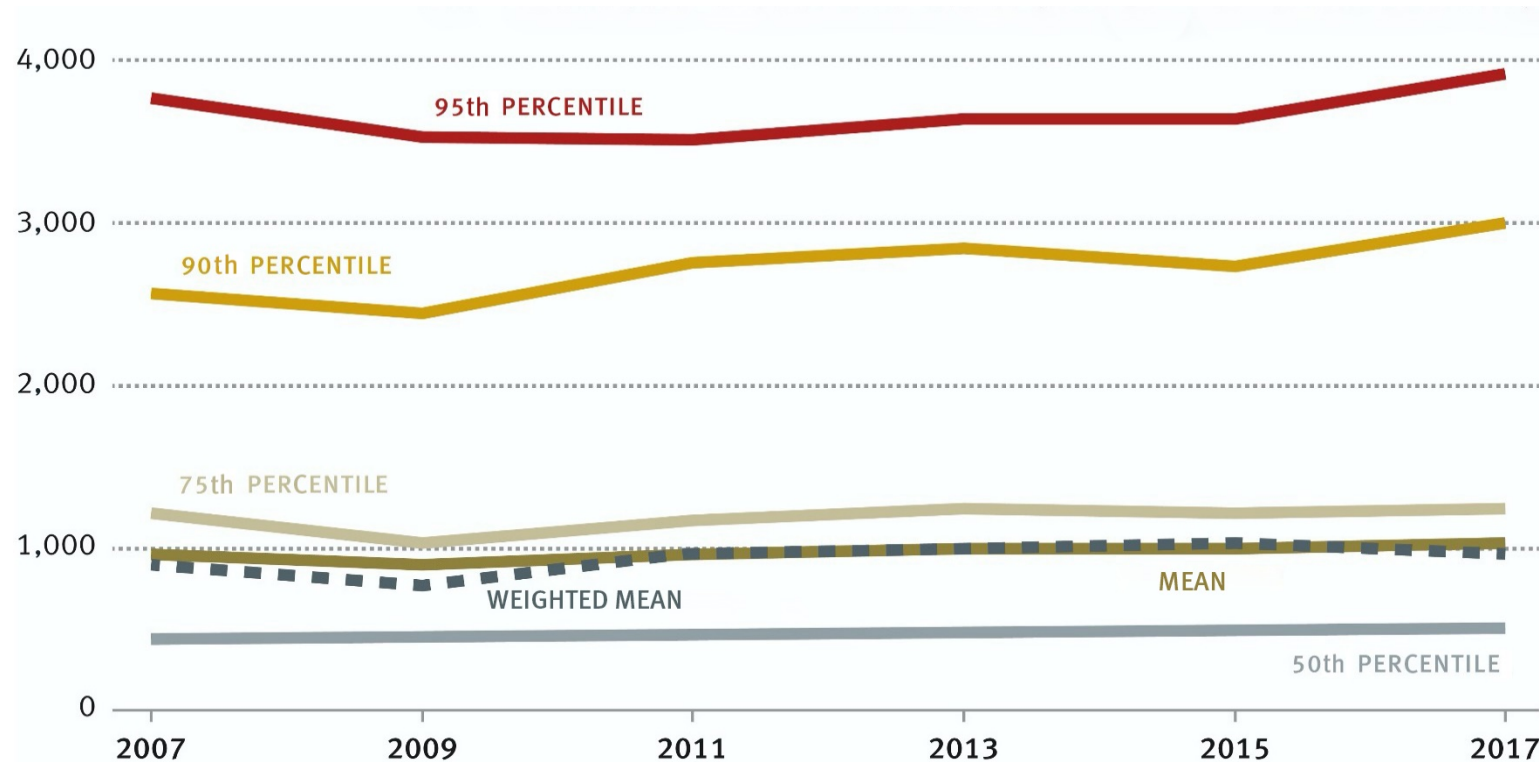
# THE END OF THE “DEUTSCHLAND AG”: CORPORATE LINKAGES ON THE DECLINE



Source: XXIII. Biennial Report by the Monopolies Commission „Competition 2020“

# INDUSTRY CONCENTRATION IN GERMANY IS ROUGHLY CONSTANT

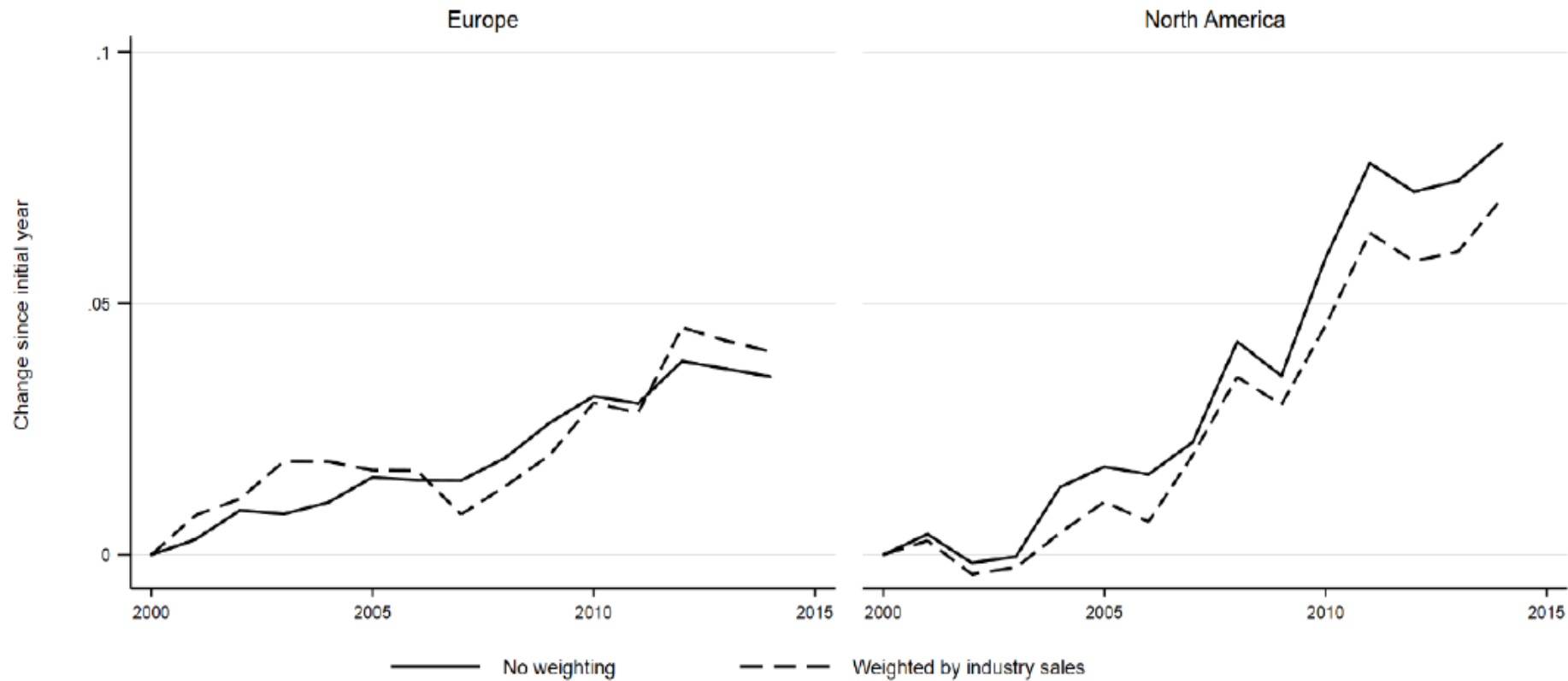
## DEVELOPMENT OF SALES CONCENTRATION IN GERMANY, 2007-2017



- HHI – Herfindahl-Hirschman-Index
- Sum of squared revenue shares ( $s_i$ ) of all firms in a market
  - $HHI = \sum_i s_i^2$

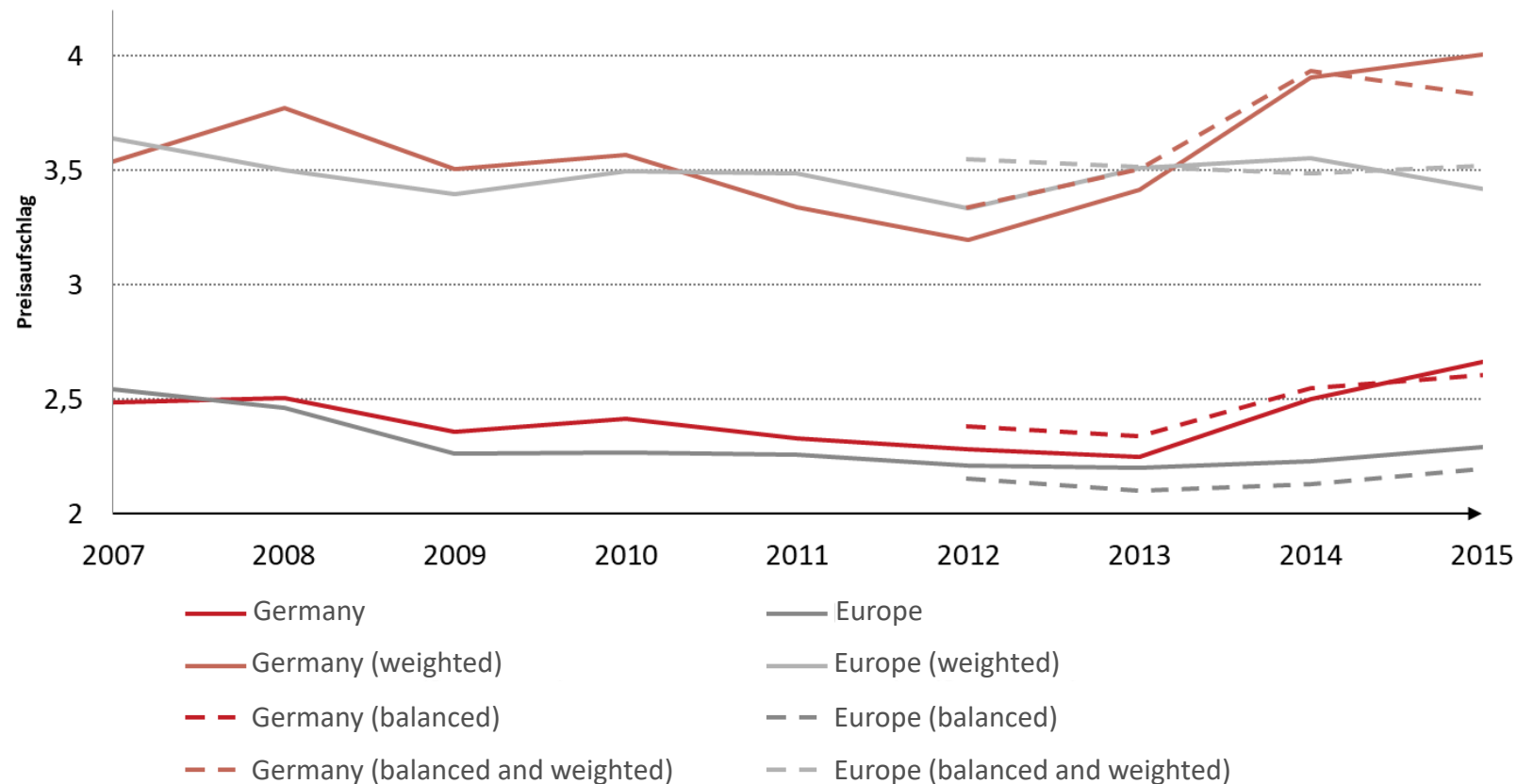


# EUROPE'S INDUSTRY CONCENTRATION IS ON THE RISE, BUT NOT AS STRONG AS IN THE US



# MARKUPS ARE ROUGHLY CONSTANT IN EUROPE SINCE 2007

## MARKUPS IN EUROPE AND GERMANY, 2007-2015



Markup

•  $\mu = P/MC$

• P: price

• MC: marginal costs

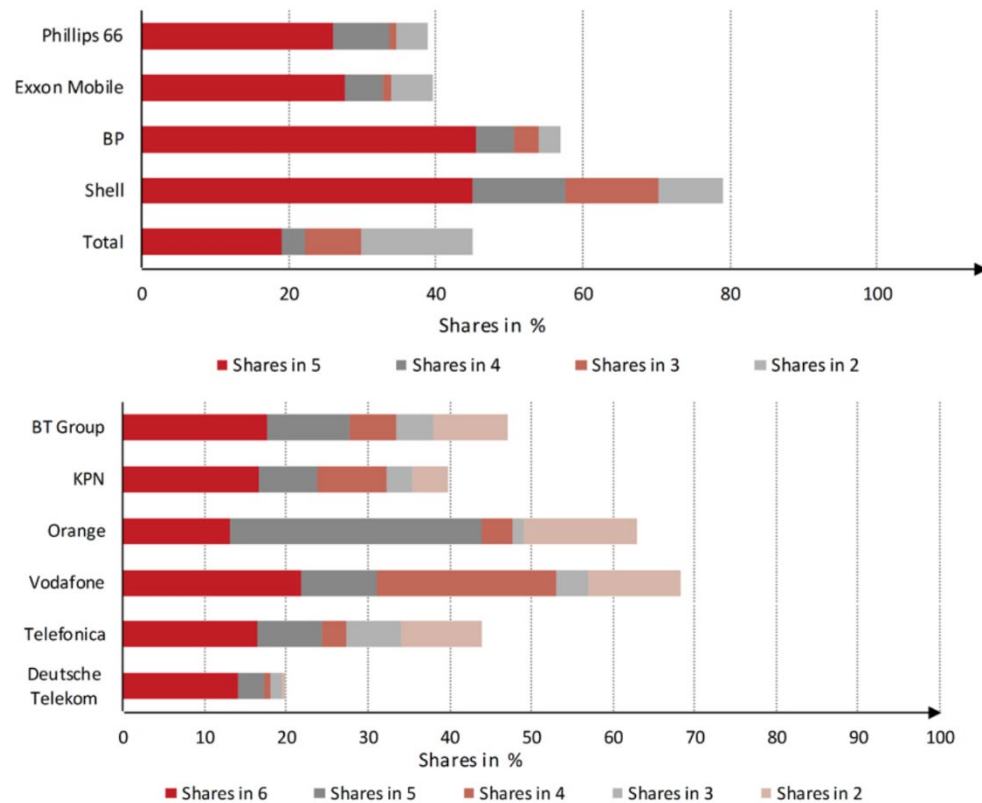
PART I: SOME OBSERVATIONS ON COMPETITION AND  
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# COMMON OWNERSHIP: REASON FOR VIGILANCE

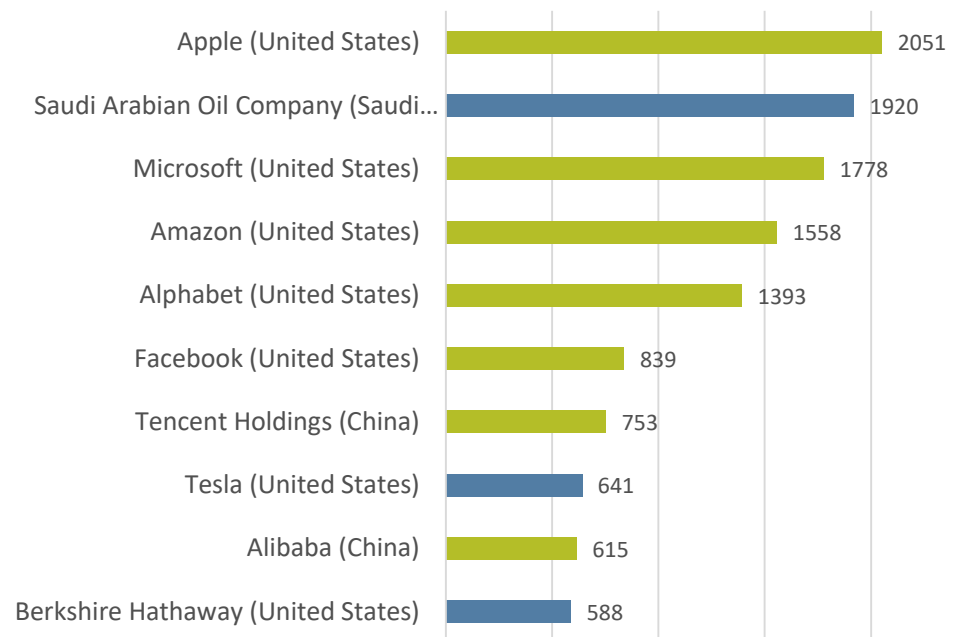
## COMMON OWNERSHIP OF THE BIGGEST OIL AND TELECOMMUNICATION COMPANIES: DIVERSIFIED INVESTORS' SHARES



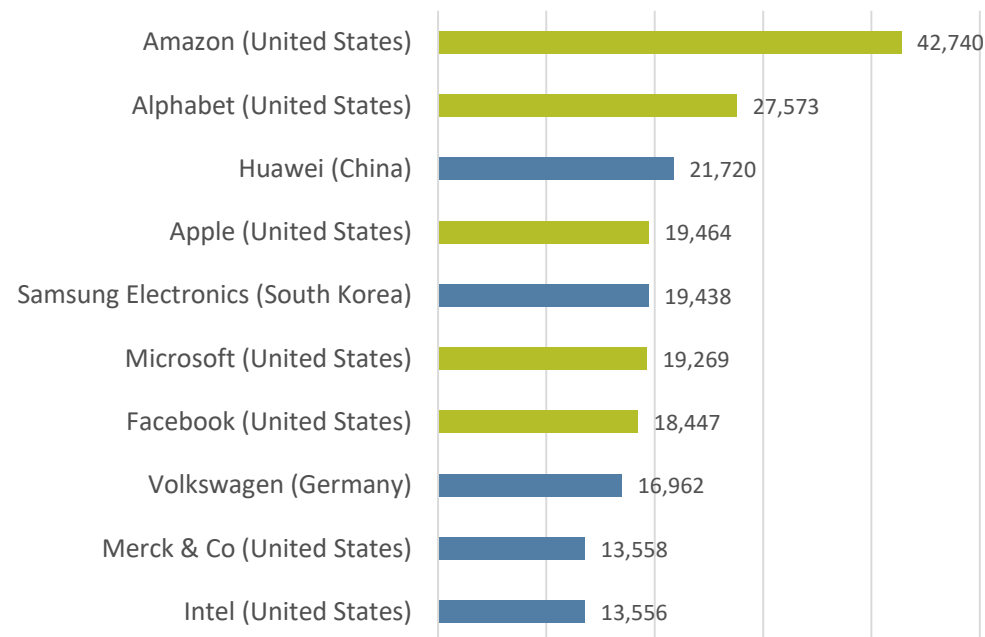
- **Common ownership** leads to potential competition problems as
- Owners of several companies in the same industry are more interested in industry profit than in company profit

# DIGITIZATION – INTERNET GIANTS WITHOUT “A QUIET LIFE”

TOP 10 GLOBAL COMPANIES BY MARKET CAPITALIZATION IN US-\$BN, MAY 2021



TOP 10 PUBLICLY LISTED COMPANIES BY ANNUAL R&D EXPENSES IN US-\$M, 2020



# ANTITRUST MEASURES AGAINST INTERNET GIANTS ARE PUT IN PLACE, BUT APPROACHES LIMITS

## PROCEEDINGS RELATING TO ABUSE OF A DOMINANT POSITION

2017:	Amazon (E-book MFN clauses)
2017:	Google (Search results)
2018:	Google (Android)
2019:	Google (Search engine advertisements)
Since 2020:	Amazon (Use of seller data)
Since 2020:	Amazon ("Buy Box")
Since 2020:	Apple (Apple Pay practices)
Since 2020:	Apple (Apple Store practices – e-books/audiobooks and music streaming)
Since 2021:	Google (Online advertising technology)
Since 2021:	Facebook (Data processing and "Facebook Marketplace")



### ➤ Problems

- Procedures require a long time (up to 7 years)
- No court decision until now
- Remedies with little impact

# THE SAME HOLDS TRUE FOR NATIONAL ENFORCEMENTS

## PROCEEDINGS RELATING TO ABUSE OF A DOMINANT POSITION

2019:	Facebook (Data processing)
2019:	Amazon (Terms of business for sellers)
Since 2020:	Facebook (Virtual reality products)
Since 2020:	Amazon (Influence on sellers' pricing)
Since 2020:	Amazon (Brand gating agreements)
<hr/>	
2019:	Google (Online search advertising)
2020:	Apple (Distribution of Apple products)
2020:	Google (Use of protected news content – interim measures)
2021:	Google (Advertising servers)
2021:	Google (Use of protected news content – non-compliance with interim measures)
Since 2019:	Facebook (Advertising services)
Since 2020:	Apple (Targeted advertising)

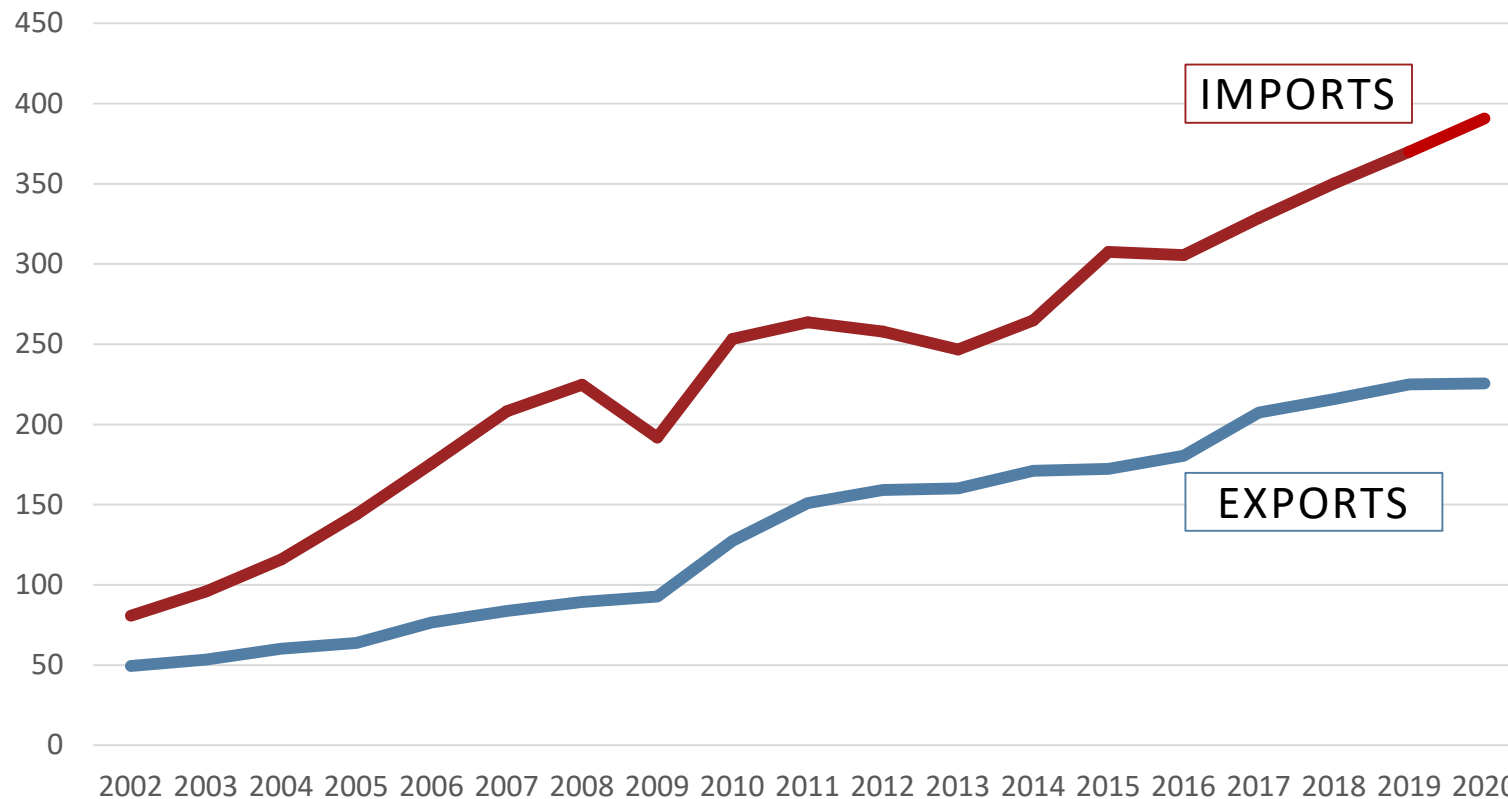


Bundeskartellamt



# CHINA: PARTNER AND COMPETITOR

## EUROPE'S INTERNATIONAL TRADE IN GOODS WITH CHINA IN BN. EUR



Source: Eurostat (ext\_st\_eu27\_2020sitc); Data HK inklusive



➤ Industrial strategy of the People's Republic of China with the aim of increasing domestic value creation in ten key industries.



# THREAT TO COMPETITION: STATE INTERFERENCE



## ESSENTIAL CHARACTERISTICS OF THE CHINESE ECONOMIC MODEL

- **Hybrid model:** state economy as well as market economy elements
- **Central economic planning** and **industrial policy**
- The Chinese state intervenes in economic activity, including through **state-owned companies** and **subsidies**



CHINESE ECONOMIC  
MODEL:

**„SOCIALIST MARKET  
ECONOMY WITH CHINESE  
CHARACTERISTICS“**

There are 143 Chinese companies in the Global Fortune 500 2021 (**#1 worldwide**).  
**82** of them are state-owned (SOE).

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# THE EU IS WATCHING ... COMMON OWNERSHIP

## REPORTS IN 2020 FOR EUROPEAN INSTITUTIONS

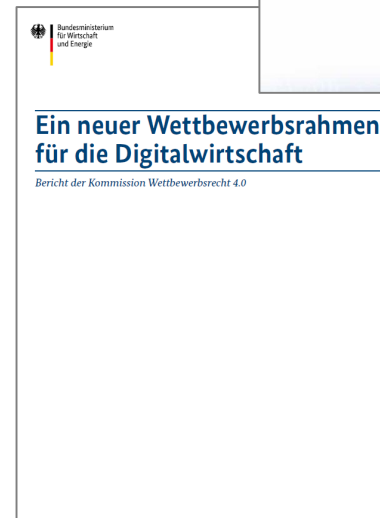
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# INTERNET-GIANTS: ANTITRUST ALONE IS NOT SUFFICIENT SEARCH FOR THE RIGHT POLICY RESPONSE



Handover of the report by the expert commission  
“Competition Law 4.0” to the federal minister of economic  
affairs, Peter Altmaier // 09.2019



# DECEMBER 2020: PROPOSAL OF THE “DIGITAL MARKETS ACT”

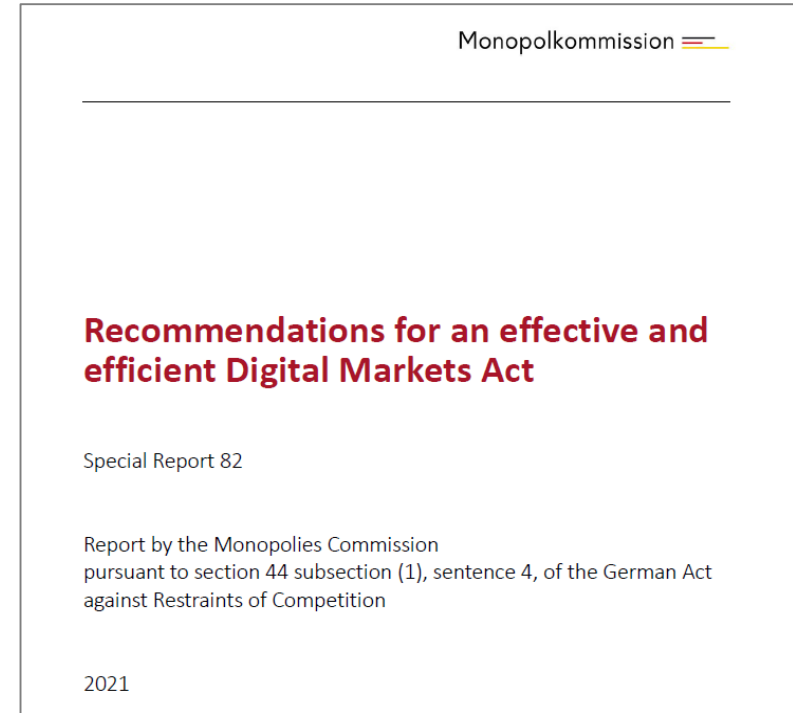
## ADDRESSEE: GATEKEEPERS

### ➤ BLACK/WHITE LIST: ABSOLUTE PROHIBITIONS/OBLIGATIONS

- Prohibition to combine on-site data with off-site data
- Prohibition to bundle core platform services with ID services or any other core platform service
- ...

### ➤ GREY LIST: PROHIBITIONS/OBLIGATIONS WITH CONSIDERATION

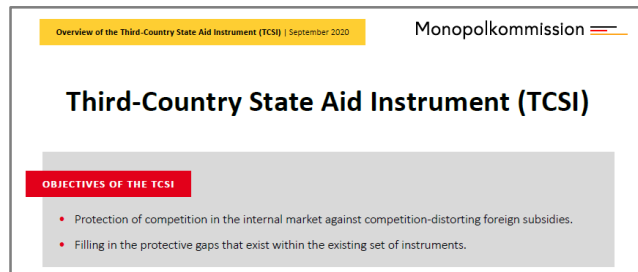
- Prohibition of several types of self-preferential treatment
- Prohibition of impediments to interoperability
- ...



Special Report by the German Monopolies  
Commission on the Digital Markets Act  
// October 2021

# CHINA: MEASURES FOR A LEVEL-PLAYING-FIELD

## EU SINGLE MARKET: BETTER CONTROL OF SUBSIDIES



White paper by the European Commission, June 2020  
Report by the Monopolies Commission, July 2020

## EU-CHINA INVESTMENT AGREEMENT



Agreement on the Comprehensive Agreement on Investment (CAI),  
30 December 2020

# A PROPOSAL

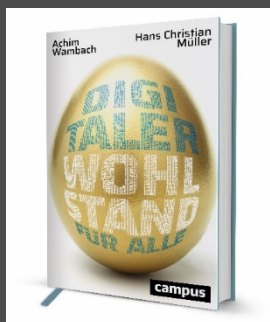
## EU CHIEF ECONOMIST:



The Chief Economist is part of the Commission's Competition Directorate General and assists in evaluating the economic impact of its actions.

**Every two years, the Chief Economist reports on the STATE OF COMPETITION in the EU. The Commission has to deliver an opinion on the matter.**

THANK YOU  
FOR YOUR ATTENTION



Achim Wambach / Hans Christian Müller

## **DIGITAL PROSPERITY FOR ALL**

AN UPDATE FOR THE SOCIAL MARKET  
ECONOMY IS POSSIBLE