Competing in a Global World

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It is a pleasure to be back at this fantastic students' initiative.

I want to focus these initial remarks on **how competition policy contributes** to competitiveness, as well as to growth, jobs and welfare.

The value of competition policy

As you probably know, there have been calls for more strategic autonomy in the EU, together with calls for more reciprocity in procurement markets and a level-playing field in the EU's internal market regarding firms which are subsidized by their governments.

So let me start with a pillar of the European Union that we have built together over more than six decades now.

Competition rules have always existed in our Treaties[1] and they are a distinctive feature of our common, single space.

These rules are kept because we all see *value* in them.

Value for us, *citizens*, because competition brings more choice to us, because it fosters innovation and even allows for cheaper prices.

We see value in such rules also for *firms*. Because they can count on such rules to operate in a large single market, without facing undue barriers or illegal arrangements such as cartels or abuse from a dominant firm.

Our single market is built on the principle that a company should be able to operate in any EU member state without facing discrimination according to their origin.

This is why competition authorities –and others- are *agnostic* in terms of nationalities. To paraphrase some of our staff when dealing with mergers or antitrust cases: "for us there is only company A, B or C". For us, what matters is an *objective*, *unbiased* competition analysis. Not the name, nor the origin of a company.

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[1] Namely in articles 101 and 102 of the Treaty of the Functioning of the European Union (TFEU): https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012E%2FTXT

Other policy-makers may have complementary concerns which are also valuable, such as health hazards or national security.

Having given you these premises, let us turn to current issues at stake.

A global, interdependent economy

No doubt our economies have become deeply integrated and very much anchored in global supply chains. This is visible wherever we go.

An example[2] that illustrates global economic *interdependence*: the giant container ship that blocked the Suez Canal two weeks ago. The media reported that more than 360 vessels were left waiting in the Mediterranean and in the Red Sea.[3]

And the cost of the obstruction of the canal has been estimated at around €5-7 billion per day[4]. And this is because at least 12% of global trade goes through the Suez Canal.

So global interdependence is a fact.

It can be wider or narrower, depending on the country, but it is not going away.

We also know that global markets are shifting, which is normal: things change, life doesn't stand still.

And to tackle this feeling of *uncertainty*, we can start by *identifying* factors which are causing change. For example: global competition, protectionism, trade tensions and challenges to the rules-based system.

To help us *tackle* these challenges, we can use a compass which is our very own EU internal market.

Our own market allows people, goods and services to circulate freely. Letting aside temporary restrictions due to Covid. And it allows for firms to have a larger market to expand on, no matter how small the country of origin.

So, how does this compass, together with competition policy contribute to *increase* competitiveness, which is what is being discussed today?

Competition in the EU single market and beyond

Competition between firms is, as you know, what drives them to innovate, to be more productive and ultimately to grow.

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[2] Another example that has underscored the value of understanding and mitigating supply chain risks: on top of supply disruptions caused by the pandemic, the shortage in semiconductor chips, whose production is mainly located in Asia. Semiconductors are used for laptops, gaming consoles, cars and other electronic devices.

[3] The Wall Street Journal, March 29, 2021: https://www.wsj.com/articles/ship-blocking-suez-canal-is-partially-freed-11616989503

[4] Allianz, March 26, 2021*:* The Suez canal ship is not the only thing clogging global trade (allianz.com)

In competitive markets, in order to attract customers, firms have incentives to differentiate themselves. This means higher quality and more choice for consumers.

To guarantee this, competition policy must make sure that there are no barriers for firms to innovate, nor to enter a market.

Competition has also important implications for the distribution of wealth and income.[5]

Just think that, often, higher concentration and market power translate into higher prices for consumers[6], which hits everyone and lower income households the most[7].

So what can competition enforcers do?

First, regarding *legal barriers* in our own countries and throughout the internal market, we issue recommendations to decision-makers, on *all* sectors with no exception, so as to eliminate unnecessary or disproportionate barriers.

Numerous laws and regulations restrict competition in the marketplace. Many of these laws go further than necessary to achieve their policy objectives.

And enforcers must be *vocal* so as to avoid this.

Second, authorities praise an open economy because competition from EU and non-EU firms alike

keeps firms on their toes. It keeps them under a healthy competitive *pressure*.

Some have raised doubts about this approach, claiming that Europe needs to do more to protect its interests.

But let me assure you: protectionism will not help firms in the medium-run.

Nor will consumers be happier with less choice and possibly higher prices.

On the other hand, it seems understandable that the EU demands **reciprocity** from other countries, which means requesting the *same* openness and fairness that we apply within the EU's internal market.

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[5] OECD (2017), *Inequality: a hidden cost of market power*. https://www.oecd.org/daf/competition/Inequality-hidden-cost-market-power-2017.pdf

[6] De Loecker, J., Eeckhout, J., & Unger, G. (2020). The rise of market power and the macroeconomic implications. The Quarterly Journal of Economics, 135(2), 561-644.

[7] At the same time, recent empirical studies also show that the trend of increased concentration may be related to the decline of the labor share in GDP. That means concentration and market power may entail, not only a transfer of wealth from consumers to firms, but also from workers to shareholders. Higher concentration also means less firms in the market and therefore less choice for workers and less labor mobility.

For EU firms, it means being able to participate in third countries procurement procedures, or to be able to buy foreign firms. And that's because *we allow* such third country firms to do exactly that in the EU's single market.

Moreover, we should ensure conditions for a **level playing field**. Which means that if EU firms only receive state aid (or subsidies) under strict conditions, then to compete in our market, foreign firms should not be heavily subsidized by their home countries.

By the way, there are other tools which can deal with these issues. For example, trade agreements or a EU scrutiny of foreign investment.

But be aware that using such instruments should mean ensuring a level-playing field in the internal market – but never insulating ourselves from competition.

Europe can thus make use of such tools to the benefit of firms and citizens and at the same time avoid compromising what needs to be a *strong, objective* and *impartial* competition policy.

A separation between such tools and competition policy must be preserved. But both can work in tandem.

The role of competition policy in the context of the economic recovery

But let me make a few other points on what competition policy can achieve.

We are far from exhausting its full potential. There is still a lot than can be done.

As I said before, increased competition can improve a country's performance. Making the economy more resilient for the *long-run*.

And at the present time, decision-makers are looking at the best way to recover the economy from the shock it is going through[8].

This is why I will argue in favor of **more competition, not less**, so as to obtain a prompt and resilient recovery.

Some have been calling to relax competition rules and pleading for exceptional measures. I am not referring only to state aid and subsidies, but for example to calls for allowing greater concentration, sometimes even to pick national or European champions.

But protectionism and insulating firms from competition does not make them stronger, as we saw for example during the Great Depression[9] or even in the 2008 financial crisis.

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[8] Declines in Q2 2020 (YoY): -13.9% in Portugal, -11.8% in the Euro area. Source: Eurostat, *GDP quarterly data, YoY rates:* *https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/2-08092020-AP-EN.pdf/43764613-3547-2e40-7a24-d20c30a20f64*.

[9] if you are curious, read about the National Industrial Recovery Act, adopted in the US because of the Great Depression. It suspended competition laws as a means to strengthen American industry; but it only prolonged the crisis. Cf. Shapiro C. (2009), *Competition Policy in Distressed Industries*: https://www.justice.gov/atr/file/519906/download

This is something students here today will understand well. Your success at school and university is based on your own merits, on your effort. Not on where you are from or who you know, nor other exogenous factors.

True champions stand out in a market based on their own merits.

This is why, during the pandemic, competition rules have been – and are – fully in force. Competition enforcers have continued to uncover cartels and other unlawful behavior. In fact, during crises we may be more likely to see unlawful behavior take place.

Crises can be tremendous opportunities for innovative firms. So these should not be barred by undue obstacles.

But it's not just about firms. During a crisis, professionals may need to find another job or even another career. That's called labor mobility.

So professionals should not be prevented to do so by regulations that seek to insulate a given occupation or career from healthy competition from more individuals. In other words, legislation that protects the incumbent.

Decision-makers must grasp this opportunity to **revise laws**[10] so that the full potential from firms and individuals is unleashed.

Final remarks

To sum up, I would highlight a few points: that we should always remember that rather than an obstacle, competitive pressure is a source of innovation and welfare.

That even with current challenges, economies must remain open.

We also saw that those challenges should be addressed by tools such as trade agreements, reciprocity for procurement markets, foreign subsidy screening, along with other FDI screening that guarantees the EU's security and integrity.

In my opinion all this is preferable to the option of relaxing competition rules.

However challenging it may be in the current context, we need more competition, not less. We must promote free and fair markets, in line with the European values that have served us well in the past decades and have made the EU one of the best areas to live in.

And also, one that is getting better with its new focus on sustainability and digitization.

Thank you and I look forward to your questions.

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[10] OECD (2018), *Competition Assessment Reviews - Portugal – Self-regulated professions*: http://www.oecd.org/daf/competition/Portugal-OECD-Competition-Assessment-Review-Vol2-Professions-preliminary-version.pdf