Competition Policy

Introduction

Controlling competition between companies is an area in which the EU is particularly powerful and where its decisions are clearly felt by European citizens. The EU's control over competition policy gives it the power to rule on mergers, takeovers, cartels and the use of state aid. The EU has been able to develop competition regulation into a key area of EU leadership. It has had wide success in imposing its vision of open market competition on member states and has a direct effect on European citizens' daily lives, with actions being taken against big names like Microsoft. However, it has also been criticised for going beyond its accepted remit and for pursuing a free market policy that might undermine parts of the social market model that has operated in many European countries.

History

The EU's role in competition policy was set out in the Treaty of Rome (1957), which gave it wide-ranging powers to oversee and prevent activities that it judges likely to stop competition between firms. During the 1990s, the EU became much more active in its pursuit of breaches of competition law, increasing the number of prosecutions it brought. It also began to act against cases that are not strictly within the EU jurisdiction, such as the 1997 merger of two large US aircraft manufacturers, Boeing and McDonnell-Douglas. In May 2004, the EU's powers were reformed following criticism that the EU was too unaccountable in its pursuit of breaches of competition law. The new rules, while passing some power over managing competition back to national authorities and setting stricter deadlines for decisions to be reached, also empowered the EU Commission to investigate more pan-European and large violations of competition (as seen in its action against Microsoft in 2004, 2006 and 2008).

How does EU Competition Policy work?

Under the Treaty of Rome, the Commission is empowered to investigate price fixing, the abuse of market position by dominant companies and agreements that fix market share, limit production or technical development. Significantly, it is also allowed to intervene against governments who attempt to prop-up uncompetitive companies with state aid. Competition policy is run by a part of the EU Commission called the Directorate-General for Competition. Along with the European Court of Justice (ECJ), they investigate potential breaches of competition law and prosecute companies that fail to reach the required standard. This involves not only court cases but also active investigation, with the EU conducting dawn raids on businesses that it suspects of engaging in illegal practices. Its main sanction is to impose fines on those who do not comply. Its far reaching power has brought it into conflict with some governments, particularly the French, who believe that they have a right to protect so-called 'national champions' – companies that are seen to be strategically important.

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Facts and figures

- Between 2011-2015, the EU imposed €6.3 billion of fines for illegal cartels, compared to €10.5 billion 2007-2011.
- Between 1990 and 2005 the EU prevented 18 mergers; however between 2005 and 2011 only 2 mergers were prevented.
- The EU has imposed a number of fines on Microsoft for abusing its dominance of the market, including: €497m in March 2004; €280m in July 2006; €899m in February 2008 and €561 million in 2013.
- The EU's largest fine to date was the fine of €1.9 billion for Philips in December 2012. The company was fined for uncompetitive practices.

Arguments

For

- Competition is vital to promoting economic growth because it forces companies to become more efficient.
- Competition is central to a properly functioning free market economy.
- Because competition policy is a cross-border issue, it makes most sense to run it at a European level.

Against

- Competition is not always a good thing – some industries, for example defence, healthcare or nuclear power, are so sensitive that they should be protected from market forces.
- The Commission has taken its remit too far in pursuing cases outside its jurisdiction. This dilutes the authority of the EU.
- The EU has been too activist in hunting out problems, thus creating extra costs for taxpayers and businesses.

Technical Terms

- ***Competition:*** the rivalry between companies that is part of driving the market process.
- ***Cartel:*** a group of producers who enter into an agreement to limit production in order to raise prices.

Links

- http://ec.europa.eu/competition/consumers/index_en.html
- http://www.eubusiness.com/topics/competition/

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