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European competition policy and the innovation economy


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Outline of presentation

- Introduction
- What do we mean by the Innovation Economy?
 - The conditions for productivity growth
 - The economic characteristics of new product and process development
 - The growing importance of the innovation economy
- The rules and procedures of European competition policy
- A Way Forward?

Introduction

- Is competition policy hostile to innovation?
 - Question not as absurd as it looks: “actually existing” competition policy consists of various rules and procedures that may not be keeping up with the needs of the innovation economy – trying to hit a moving target
 - So need to define innovation economy and note how it is different from traditional domain of application of competition policy
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What do we mean by the Innovation Economy?

- The conditions for productivity growth: surprisingly little systematic empirical evidence until recently
- Now growing consensus on following factors:
 - Enough competition within the market
 - Ease of entry and exit
 - Public support for R & D
 - Adoption of IT
 - Improved communications



Figure 1: IT Capital per Hour Worked, US and Europe, 1980-2005

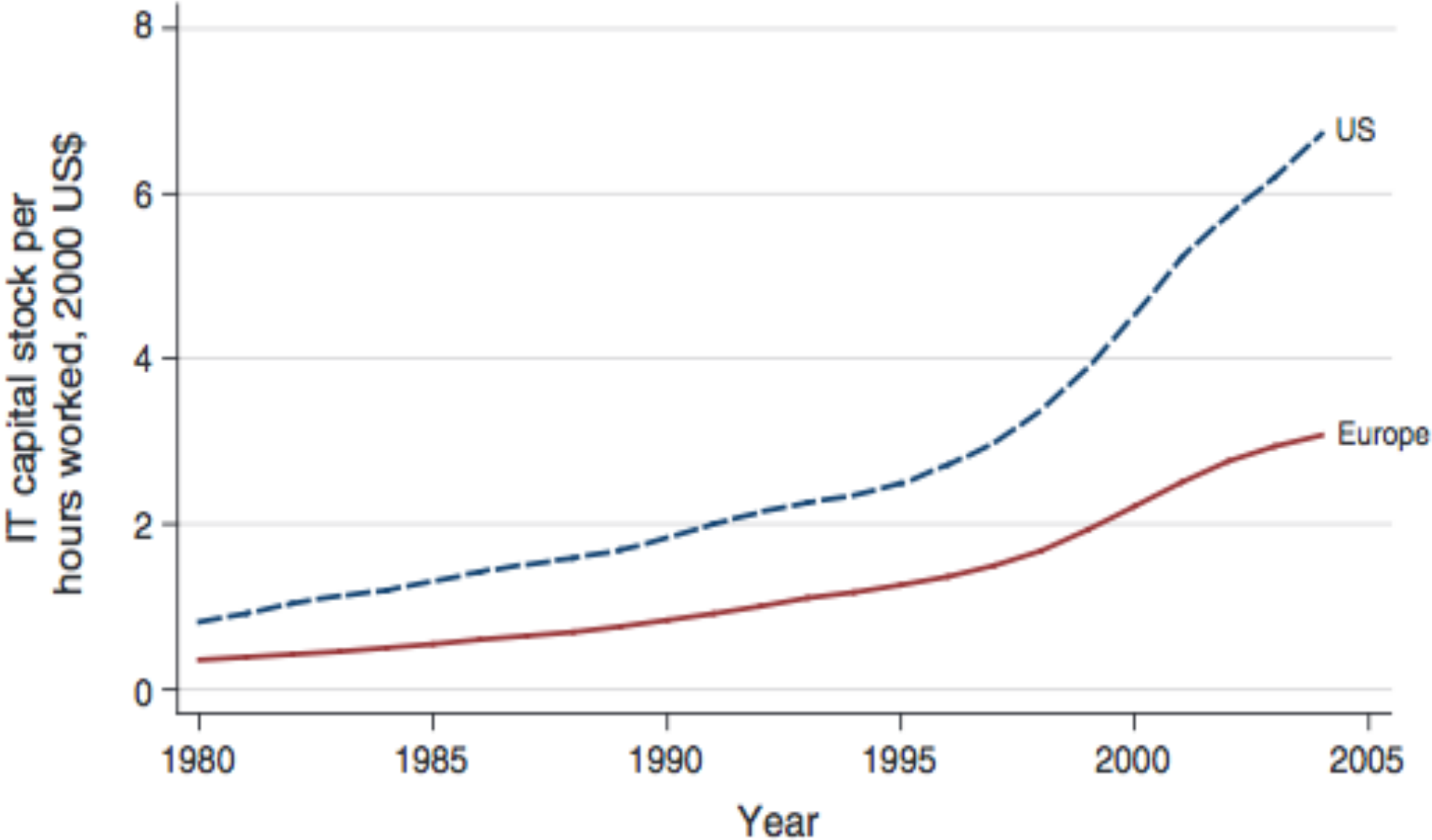
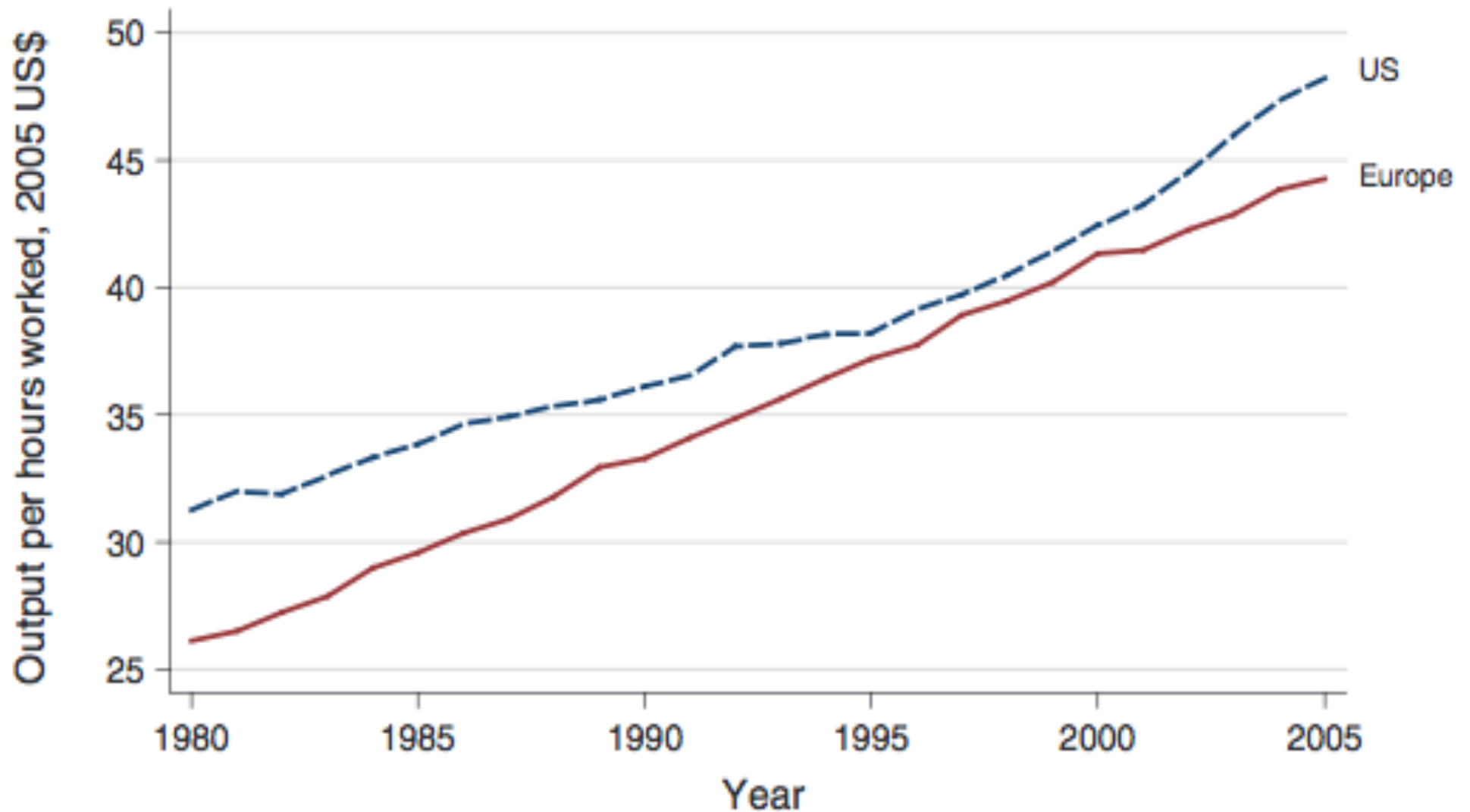


Figure 2: Output per Hour Worked, US and Europe, 1980-2005



The economic characteristics of new product and process development

- High fixed, low variable production costs
 - Platforms in multi-sided markets
 - Collaboration between firms
 - Firms produce portfolios of goods and services
 - Increasing convergence of markets
 - Economies of scale and turbulence in markets
 - Real scarce resources are not always what they appear to be
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Growing importance of the innovation economy

- Proportion of German firms engaged in cooperation over innovation with others increased by c. 50% in 2000-2010
 - Nearly half of German firms with > 250 employees cooperate over innovation with other firms
 - Cooperation among firms in EU-27 rises from 21% of firms w. 10-49 employees to 54% of firms w. > 250 employees
 - > 12% of German firms with over 250 employees reported cooperation over innovation with their competitors in 2010
 - Traditional innovation measures do not capture the changing innovative landscape
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Figure 3: Percentage of German Firms Engaged in Cooperation with Other Firms

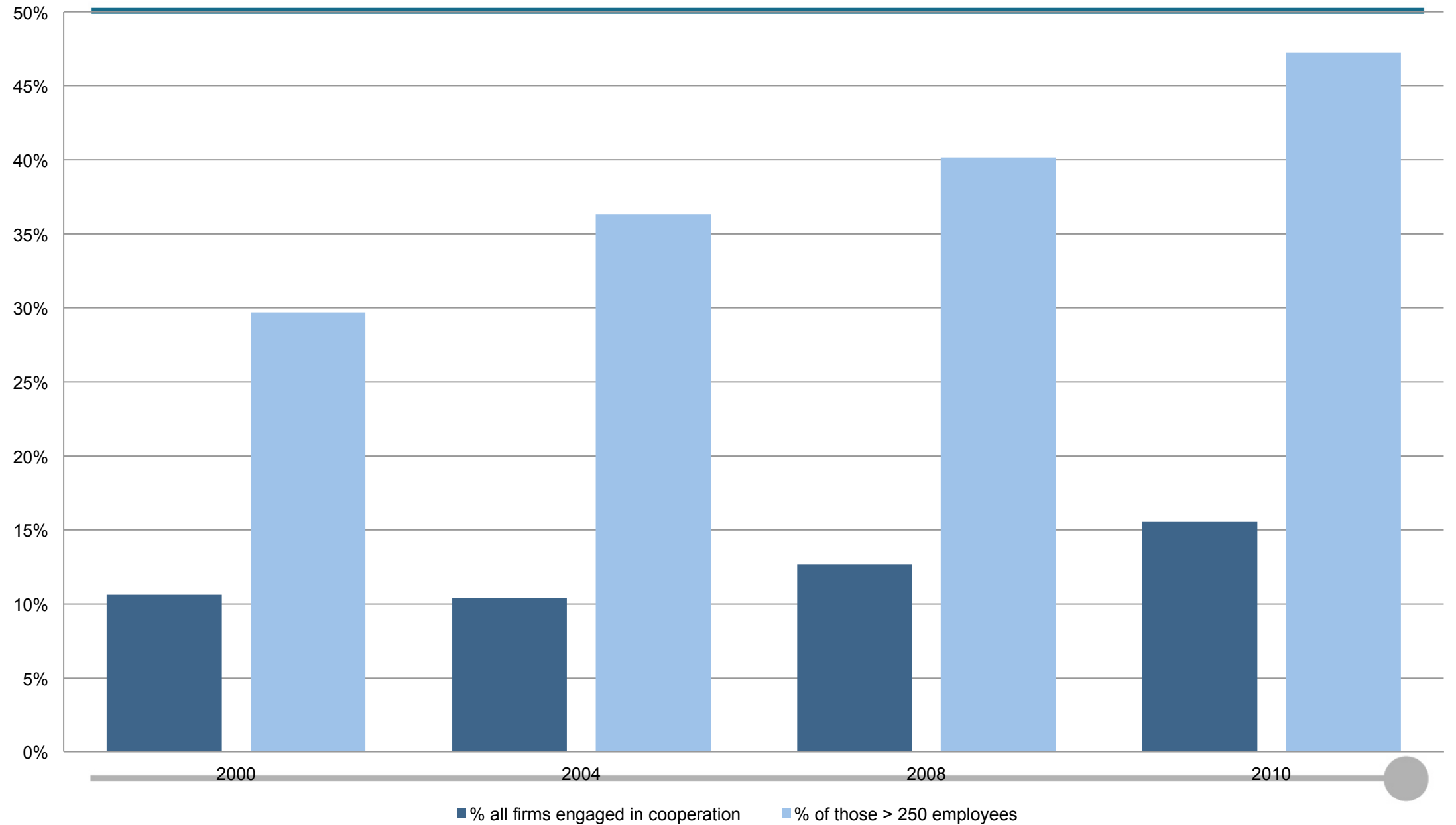


Table 2: Proportion of product and/or process innovative enterprises engaged in any type of cooperation by size class, 2008-2010

	Total	From 10 to 49 employees	From 50 to 249 employees	250 employees or more
EU-27 (1)	25,5	20,5	32,7	53,9
Belgium	42,3	35,0	53,4	74,1
Bulgaria	22,4	19,0	22,3	44,5
Czech Republic	34,2	25,1	45,9	62,1
Denmark	39,7	35,1	43,5	70,4
Germany	24,3	19,8	29,1	55,8
Estonia	42,1	35,6	53,1	70,0
Ireland	28,5	22,8	37,0	60,8
Spain	22,3	18,0	28,9	47,1
France	36,1	30,9	42,0	58,7
Italy	12,1	9,3	20,2	40,2
Cyprus	62,3	59,2	70,4	73,0
Latvia	29,1	28,4	22,5	57,2
Lithuania	43,3	35,2	53,1	69,4
Luxembourg	32,2	33,8	23,7	48,5
Hungary	43,2	32,1	54,2	66,8
Malta	18,5	15,5	16,4	47,4

Table 3: "Traditional" Measures of Innovation, EU-27 and Germany, 2000-2010

	2000	2004	2008	2010
R & D expenditures (Euros per person, EU-27)	354,5	396,9	481,2	491,8
R & D expenditures (% GDP, EU-27)	1,85%	1,83%	1,92%	2,00%
R & D expenditures (Euros per person, Germany)	616,1	666	809,2	855,1
R & D expenditures (% GDP, Germany)	2,47%	2,50%	2,69%	2,80%
Patent applications to EPO, EU27	51720	55265	56021	54921
Patent applications to EPO, Germany	22110	23076	22843	22719
Patents granted by USPTO, EU27	32834	26306	16922	n.a.
Patents granted by USPTO, Germany	13378	11196	7006	n.a.

The rules and procedures of European competition policy (I)

- Market definition as a necessary step for establishing market power
 - National and regulatory restrictions shape market definition
 - Current market shares as the measure of market power
 - Use of status quo as the counterfactual
 - Suspicion of claimed efficiency benefits
 - Presumptive suspicion of cooperation between firms
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The rules and procedures of European competition policy (II)

- Presumption in favor of market entry
 - Presumption against complex contracts (eg exclusive dealing)
 - Presumption against state aids to industry
 - Slow and burdensome procedures outside merger control
 - Assumption that alternatives to existing procedure must be very complex
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A Way Forward?


- Improvements to economic analysis in merger control
 - New Competitor Analysis
 - Efficiency Audit
- A new procedure for assessment of cooperation agreements
 - Credible Optional Fast-Track Approval (COFTA)



COFTA

- Applicable to all collaborations between firms and any third party, whatever domain of competition law currently applies (including state aids)
 - Firms notify collaborations for one of three procedures:
 - Super-fast: clearance within one month (clearly unproblematic cases only)
 - Fast: two months (uncertain cases)
 - Regular: four months (potentially problematic cases)
 - Incentives for truthful declaration: in case of knowing concealment, automatic fine and barring for 5 years
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Overview and conclusions

- Collaboration is increasingly at the heart of innovation
 - Even competitors need to collaborate sometimes, even collaborators find themselves needing to compete
 - To the pricing dimensions of competition are being increasingly added investment dimensions, generating complementarities even between apparent competitors
 - Most firms know very well which are the agreements with anti-competitive potential – they need to be given the incentives to reveal these truthfully
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