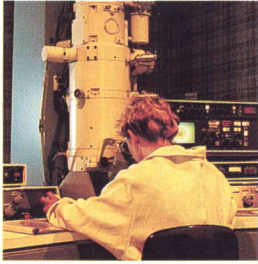


# COMPETITION POLICY IN THE EUROPEAN COMMUNITY



Europe  
on the move



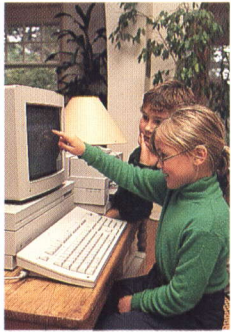
*In the Community and throughout the world firms compete to develop new products. A close relationship between research and industry is essential.*

*'... the central objective is simple to define: to give Europe its proper political personality with all that that entails. It can be done gradually, of course, but it must be done irreversibly and so make everything the Community does all the more credible.'*

*Jacques Delors,  
President of the  
European Commission,  
press conference  
before the Maastricht  
European Council,  
5 December 1991*

Competition means more customer choice. It also means lower prices. The consumer's best guarantee for obtaining quality goods and services at competitive prices is to have a number of suppliers competing for his business. Free and open competition is a cornerstone of our market-based economic system. This is why the European Community has consistently made competition policy a high priority since its creation 35 years ago. The Community has put in place a set of rules to make sure that throughout the EC firms are operating on a fair basis and that customers get the benefits to which they are entitled, for competition and price-cutting do not always come naturally to firms, whose first duty to shareholders is to maximize profits. They may seek to form anti-competitive cartels to share markets between them or to keep prices artificially high or again to block newcomers from breaking into their markets. Governments also sometimes distort competition by subsidizing some firms so that they gain an unfair competitive advantage over their rivals. Every year, the European Commission investigates well over 1 000 alleged breaches of Community rules. It has the power to order illegal practices to cease and to impose fines on the most serious corporate offenders.





Worldwide competition has brought advanced technology within the reach of young people.

## THE BENEFITS OF COMPETITION

Competition policy is an abstract notion to many but its benefits to us all are tangible. To identify many of these, one need only look at the shoddy goods and inadequate services provided under the State monopoly systems which operated in former Communist Europe. Within the Community, competition policy has played a key role in integrating previously separate national markets into a single market – to the benefit of consumers and industry, as well as the economy as a whole.

### What are these benefits?

Competition provides consumers with a choice of goods and services from companies in all Member States of the European Community.

It obliges manufacturers and suppliers to keep prices as low as possible – or risk losing business to their rivals.

A system of free competition makes companies more sensitive to customer requirements and wishes; otherwise they will be left behind by competitors who are more aware of client needs.

Firms in a monopoly position can supply the consumer with what they want to produce rather than with what he or she wants to buy.

It also stimulates companies to invest and innovate so as to produce better products than their rivals.

Companies which are forced to compete within the Community market are better able to withstand the pressures of non-European rivals on world markets.

More generally, competition is a basic mechanism of the market economy which ensures that prices reflect the real relationship between supply and demand. This enables the economy to reallocate resources to the most efficient ends.

*'The continuing integration of the Community, and the ever-present need for the protection of the consumer from competitive abuses, ensures that competition policy will always play a vital role in Europe.'*

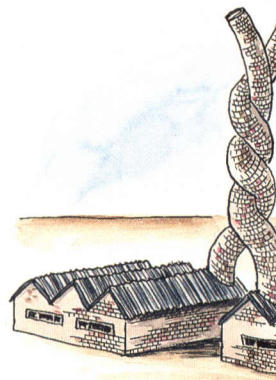
Sir Leon Brittan,  
Member of the  
European Commission  
with responsibility  
for competition policy,  
15 July 1991



A typical market. Markets come in all shapes and sizes, for goods and for services. Competition spurs producers and retailers to greater efforts, leading to innovation and better quality.



Keen competition forces firms to rationalize. The result for the consumer is the large-scale production of goods at low prices.



## SAFEGUARDING THE BENEFITS

Because the Community has created a single market open to firms in all Member States, it has developed a single set of competition rules which apply at EC level. These rules are aimed at safeguarding consumer benefits by preventing companies and governments from behaving in ways which restrict competition.

The rules applying to companies cover all firms – European or non-European – selling goods and services in the Community. Firms based outside the Community are in breach of the rules if any anti-competitive behaviour they adopt is then implemented on the EC market. Several have been fined in the past.

Community competition policy centres on the following well-defined areas:

**Cartels:** Companies do not always like competition. They can be tempted to cooperate rather than compete with rivals through the creation of anti-competitive cartels in which they jointly fix prices and carve up markets among themselves. This way they get a steady revenue and can plan future production levels with more certainty.

Customers, both private consumers and industrial users, have to pay the price of their behaviour.

**Dominant positions:** Being big is not a sin. But if big firms with a large share of any market abuse this dominant position to make customers pay higher prices or to squeeze out smaller compe-

titors, they are breaking EC rules. They can do so in a variety of ways, e.g. charging different prices in different markets for no good reason or imposing customer 'loyalty' through long-term exclusive contracts.

They can eliminate competitors in other ways, e.g. predatory pricing or by cutting off supplies to dealers who market the competitor's goods.

**Selective distribution systems:** Agreements between manufacturers and dealers can be justified in the interest of

*'It is no accident that the wealthiest and most productive nations on earth are those whose markets are based on free competition.'*

Sir Leon Brittan,  
15 July 1991

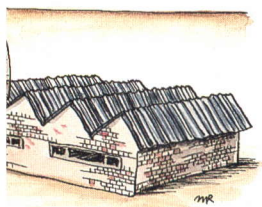
## Mergers in the European Community, 1989-90<sup>1</sup>

	(a)	(b)	(c)	Total
Industry	622	180	156	958
Trade	52	21	13	86
Banks	113	96	30	239
Insurance	46	44	11	101
	833	341	210	1 384

<sup>1</sup> Operations between firms from the same Member State, between firms from different Member States and between firms from a Member State and firms from third countries with an effect on the Community market: (a) acquisitions of majority holdings, (b) acquisitions of minority holdings, and (c) joint ventures.

Source: Twentieth report on competition policy, Commission of the European Communities, Brussels; Luxembourg, 1991.





The Community needs firms whose size matches that of the market. However, the abuse of dominant market positions is prohibited.

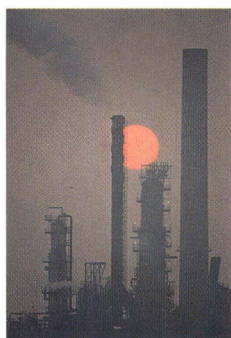
efficient distribution or the provision of high quality after-sales service. However, they can be used to prevent customers in one EC country from buying a product in another where the price is cheaper.

**Mergers and take-overs:** As a major innovation in EC competition policy, the European Commission was given, in September 1990, the authority to control big mergers and take-overs which could restrict competition on the EC market. In 1991, the first full year of operation, it investigated more than 60 mergers of which it vetoed only one.

## Motives for mergers, 1989-90

Strengthening of market position	250
Expansion	141
Complementarity	29
Diversification	17
Restructuring	79
R&D, production and marketing	21
Cooperation	24

Source: Twentieth report on competition policy, Commission of the European Communities, Brussels; Luxembourg, 1991.



Aid for investment may be allowed in certain industries and regions which need support. However, strict measures are applied when aid is granted to prosperous areas.

## THE ROLE OF GOVERNMENTS

Governments also restrict or distort competition in a number of ways. They may be tempted to subsidize national firms to help them face competition from companies in other parts of the Community. Sometimes they subsidize State-owned firms to enable them to compete with private sector rivals.

As physical barriers come down, governments are no longer able to protect national firms directly from outside competitors by shutting out imported products. This is why they may resort to indirect protection through subsidies instead.

By granting exclusive rights to certain monopolies for the supply of basic services such as electricity, water, transport or telecommunications, governments directly restrict competition. The results can be poor quality service, little innovation and high prices.

## COMPETITION WORKS

Those who doubt the effect on price levels of introducing competition need only consider a few examples. In the air transport sector, prices have fallen sharply on routes where competition has been introduced, e.g. London-Amsterdam or London-Dublin.

In telecommunications, the introduction of competition has stimulated the development of innovative customer-related services and a greater diversity of terminal equipment at lower prices. Nevertheless, charges remain high for telephone services which are still largely under monopoly control, with considerable differences between Member States for the same service.

EC charges over the same distance are higher than those in the deregulated American market. Within the Community, long-distance calls inside a Member State over a certain distance are cheaper than a call over a similar distance but which crosses a national frontier. Cross-border calls are often between two and a half and three times more expensive.

## HOW THE 'TRUST-BUSTERS' OPERATE

Unannounced early morning calls at a company's office by Brussels investigators is the traditional image of Community 'trust-busters' at work. These are the so-called 'dawn raids' during which companies suspected of being involved



in anti-competitive behaviour must open their books and files to EC inspectors. However, such cases only occur where firms are suspected of trying to hide evidence.

*Consumers have a key role to play in the large market for consumer goods: as the people who actually use the products they have the final say.*



*The European Commission believes that public utilities, such as postal services, should also be exposed to greater competition in the European internal market.*

'European companies sometimes complain that we have a transparent and open system of competition policy in the Community, while the situation is far less clear elsewhere. I am afraid that it is not enough to tell these companies that competition is doing them good and that companies operating from a base in a country without a proper competition policy suffer from a lack of competitiveness. This may be true, and I think it is, but it is clearly not a sufficient answer to worried industrialists.

What we need, therefore, is a coherent and clear set of rules agreed internationally with a proper enforcement system, to be accompanied by national laws following the same objectives.'

Sir Leon Brittan, Vice-President of the Commission of the European Communities



The normal procedure for applying competition policy is more straightforward:

1. Companies involved in agreements that could affect free competition should notify the European Commission of them before they come into effect. Most get rapid clearance.

2. In cases where the Commission feels an investigation is necessary, it can seek additional information in writing or meet with representatives of the company or companies concerned. Following the investigation, the Commission will then authorize the agreement in the form submitted or with modifications, or forbid it altogether.

3. Where cases of actual anti-competitive behaviour are brought to light, the Commission can impose fines on guilty companies up to the equivalent of 10% of total turnover. The largest fine for anti-competitive behaviour to date was ECU 75 million (in 1991). The fines act as both a punishment and a deterrent.

4. Companies who do not agree with a decision taken by the Commission can appeal against it before the Court of Justice of the European Communities in Luxembourg.

5. Many anti-competitive cartels or other abuses come to light as the result of complaints to the Commission by rival firms adversely affected by such behaviour or from members of the general public. For example, the Commission has acted on a flow of complaints from individuals who have been prevented by car manufacturers and distributors from buying a car in the EC country of their choice.

'Competition will increase in importance within Europe now that we have reached an agreement on the creation of the European Economic Area. Together the Community and EFTA account for almost half of world trade. In 1990 they made 47.2% of total exports and 46.6% of imports. Most of this trade is carried out with each other: in 1990, 68% of the EEA trade was internal.'

Sir Leon Brittan, Vice-President of the Commission of the European Communities

According to a Commission investigation, prices for the same model can differ by up to 40% from one Member State to another. Swift action has been taken to establish consumers' rights to buy cars wherever they are cheapest even if this is outside their country of residence.



*At motor shows, rival firms compete with each other and present their models and prices to the consumers.*



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