More, not less, competition is needed in Europe

We have been looking with preoccupation at the political pressure on the European Commission in the context of the merger between Siemens and Alstom, and even more at the political reactions to the prohibition decision. In particular, the announcement of possible initiatives by the French and German governments to relax European competition policy so as to favour mergers among large European companies is extremely worrying. Competition policy should be independent from political interference based on perceived European industrial goals, and respond to efficiency considerations and the protection of the competitive process.

The argument that it is sufficient for two firms to merge and increase in size to become more competitive in the international markets is fallacious. Siemens and Alstom are already leading firms in the international markets, and as such already benefit from important economies of scale and scope. We have not found in the public domain any explanation of why their union should give rise to significant efficiency gains (and the European Commission states in its press release that the companies have not substantiated any such efficiency claims).

Absent efficiencies from the merger, the elimination of competition between Siemens and Alstom may well increase profits, but it would make the merged firm less competitive in international markets and harm its customers, such as train operators and rail infrastructure managers, which will likely have to pay higher prices and enjoy less innovation and quality, and ultimately final consumers. Unsurprisingly, customers have strongly opposed the transaction (had Siemens become more competitive after controlling Alstom, actual and prospective buyers would have been the first to welcome the merger).

Competition law provisions do not prevent the formation of national or European champions, as long as a merger brings about sufficiently strong synergies and complementarities between the merging parties. Indeed, the European Commission prohibits mergers only in rare occasions, when the predicted anti-competitive effects for buyers and consumers are significant and no compensating efficiency gains are likely.

If anything, the mounting empirical evidence on increased market power and concentration call for stronger competition enforcement, responding only to impartial efficiency criteria and not to political opportunism. Europe needs more efficient, competitive, and innovative firms. Sponsoring mergers which remove competition would achieve the opposite.

Massimo Motta (ICREA-Universitat Pompeu Fabra and Barcelona GSE)
Martin Peitz (University of Mannheim and MaCCI)

Natalia Fabra (Universidad Carlos III de Madrid)
Chiara Fumagalli (Università Bocconi, Milano)
Amelia Fletcher (University of East Anglia)
Christine Zulehner (University of Vienna)

Thibaud Vergé (ENSAE, Paris)
Thomas Rønde (Copenhagen Business School)
Giancarlo Spagnolo (SITE-Stockholm School of Economics, EIEF and Tor Vergata)
Christos Genakos (University of Cambridge)
Frank Verboven (KU Leuven)
Justus Haucap, (Düsseldorf Institute for Competition Economics-DICE)
Tomaso Duso (DIW Berlin and Technical University Berlin)
Giacinta Cestone (Cass Business School, City, University of London)
Yannis Katsoulacos (Athens University of Economics and Business)
Paul Seabright (Toulouse School of Economics)
Giacomo Calzolari (European University Institute, Florence)
Monika Schnitzer (University of Munich)
Volker Nocke (University of Mannheim and MaCCI)
Markus Reisinger (Frankfurt School of Finance & Management)
Pedro Pita Barros (Universidade Nova de Lisboa)
Juanjo Ganuza (Universitat Pompeu Fabra, Barcelona)
Jacques Crémer (Toulouse School of Economics)
Yossi Spiegel (Tel Aviv University)
Bruce Lyons (Centre for Competition Policy, University of East Anglia)
Gerard Llobet (CEMFI, Madrid)
Konrad Stahl (University of Mannheim and MaCCI)
Klaus Schmidt (University of Munich)
Jose L. Moraga (Vrije Universiteit Amsterdam and Rijksuniversiteit Groningen)
Maarten Pieter Schinkel (University of Amsterdam)
Vincenzo Denicolò (Università di Bologna)
Michele Polo (Università Bocconi, Milano)
Philipp Schmidt-Dengler (University of Vienna)
Rune Stenbacka (Hanken School of Economics and Helsinki GSE)
Philippe Choné (Centre de Recherche en Economie et Statistique, Paris)
Nicolas Schutz (University of Mannheim and MaCCI)
Emanuele Tarantino (University of Mannheim and MaCCI)
Otto Toivanen (Aalto University and Helsinki Graduate School of Economics)
Kai-Uwe Kühn (University of East Anglia)
Luis Cabral (Stern School of Business, New York University)
Eric van Damme (Tilburg University).