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Competition as a Cornerstone of a Free Economic and Social Order

Speech by

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on the occasion of
the opening of the 13th International Conference on
Competition/ the 14th European Competition Day

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in Munich

Check against delivery!

Dear President Böge,
Dear Lord Mayor Ude,
Dear colleague Huber
Dear Commissioner Kroes,
Dear Delegate Berès,
Dear Dr Kleinfeld,
Ladies and Gentlemen!

1. Welcome

When I was asked to give a speech at this event I hesitated for a moment.

For one could say that today's meeting resembles a merger, or at least a cartel agreement.

I'm referring to the simultaneous opening
of

- the 13th International Conference on Competition
- and the 14th European Competition Day

However, I was told not to worry: this kind of cooperation did not raise any competition concerns.

So I am glad to be here and pleased to welcome you to both events in my capacity as Federal Minister of Economics and Technology and Chairman of the European Competitiveness Council.

The large number of participants from Germany and abroad, from government ministries, competition

authorities, the European Commission, academia, the legal and the business community proves the continuous interest in competition policy issues.

If, in addition, such a conference is hosted at a conference venue as beautiful as the capital of the Free State of Bavaria, the journey is all the more worth the effort.

2. Competition - cornerstone of a social market economy in Germany

The theme of today's event is:

“Competition as a Cornerstone of a Free Economic and Social Order”

In Germany, it was Ludwig Erhard who

first translated this concept into reality.

In 1948, Ludwig Erhard, who was to become our first Minister of Economics, abolished state control of the economy and liberalised prices.

With this landmark decision in favour of competition and a social market economy he freed his citizens from state tutelage.

Ludwig Erhard firmly believed that what people needed was freedom, scope for action and responsibility.

He was convinced that competition was the mainstay of a free social order.

He established a competition regime

without which our present prosperity would be unimaginable.

3. Competition – cornerstone of peaceful integration in Europe

For 50 years now, freedom and competition have been the driving force behind integration processes in Europe.

After the devastation caused by the two World Wars, the foundation of the European Economic Community was the first serious attempt at uniting Europe in a peaceful way.

Starting with originally six member states, the European Union has developed into the world's largest common market with

27 member states and almost 500 million inhabitants.

States that during the Cold War were irreconcilably opposed, today discuss amicably in Brussels how to jointly increase their competitiveness.

4. Competition and globalisation

Europe and its member states nowadays face tough competition from the USA, but also from Asian countries such as China and India.

With rapidly growing exports these countries are steadily expanding their share of global trade and are becoming increasingly attractive to foreign

investors.

I know that these developments and the changes they bring about are a cause of anxiety for many people and also small enterprises.

But globalisation is a reality Europe has to face.

Individual Member States are hardly in a position to successfully defend their interests at the global level.

Europe is a “global player” of first rank and need not fear global competition.

Europe is a winner of globalisation

Instead of protectionism what we need is competition and an open and liberal trade policy.

It is therefore a particular concern of the German EU Presidency and the G8 to reactivate the stalled Doha round.

5. Competition in current policy

To demonstrate that what I just said is not only lip service paid by an economic minister following the tradition of Ludwig Erhard, let me give you a few examples of current policy initiatives.

First: The liberalisation of postal services

I abide by the decision to end the letter monopoly on 31 December 2007.

We need open postal markets in all EU member states: from 2009 all monopoly areas are to be liberalised.

Liberalisation of markets leads to lower prices, greater diversity and better quality. This is also true for the postal markets.

In my view, the often quoted scenario of foreign postal companies invading the German market is not a realistic threat.

Second: Energy

The large energy providers in Europe are suspected of using the lack of competition in the sector to abuse their market power – to the detriment of the consumer.

There are a number of proposals, both from Brussels and individual Member States, on how the situation could be remedied.

The EU Commission, for example, suggests separating network ownership from energy supply and production – so-called “ownership unbundling”.

It remains to be seen whether we will have to go this far. In my view, however, it is important to carefully examine all options.

And despite the criticism raised by various scientific bodies and the Monopolies Commission I am firmly convinced: We must also make full use of the possibilities offered by competition law and we must react without delay.

I intend to enable the competition authorities to prove and effectively combat abusive practices.

I have therefore initiated an amendment to the German Act against Restraints of Competition.

The amendment aims at making the Bundeskartellamt's tools more effective until new power stations have been built and new providers have entered the market.

The renewed suspicion that electricity providers have manipulated prices at the Leipzig Energy Exchange (EEX) has proved once again that there is a need for action.

Third: Competitive federalism

A few days ago the Commission on Federalism was constituted in Berlin.

Its purpose is to reform financial relations between the Federation and the *Länder* and among the *Länder*, and to put an end to the growing national debt.

In my opinion, the success of this reform will be all the greater the more elements of competition are included into our financial constitution.

This would require a greater amount of freedom for the *Länder*.

In practical terms, this means that the *Länder* will need more autonomy with regard to their revenue and expenditure.

Fourth: The labour market

The issue of minimum wages has brought

about strange alliances:

In some sectors trade unions and employers fight hand in hand for minimum wages. However, they do so for entirely different reasons.

One side calls for minimum wages and means in fact minimum income.

The other calls for minimum wages and means in fact the elimination of unwelcome competition.

This is the opposite of freedom and competition.

Neither of the two sides is concerned about jobs in Germany, and even less

about competition.

Fifth: Rail reform

Also in the railway sector there is a need for more, not less, competition.

And I will ensure that this is taken into consideration when the concrete draft legislation on privatisating the railways is debated.

Competitors of the German railways must have non-discriminatory access to the railway network.

And the Federal Network Agency must be enabled to effectively monitor this.

6. The state's responsibilities

As the second President of the Bundeskartellamt, Wolfgang Kartte, rightly said:

„Competition has no lobby“.

Correct! It is therefore the state's responsibility to protect competition and secure freedom for all market participants.

The state must set the rules of the game and ensure that they are adhered to.

As in any game, including those where the referee ensures fair play, competition produces winners and losers.

Competition would not be competition

without the prospect of making a profit
and without the fear of being defeated!

Competition needs this tough and ruthless
principle of selection. It is not particularly
loved for that!

The losers' call for the state to help and
make life less unpleasant is all too
understandable.

It is one of the greatest challenges of the
social market economy to react
adequately without eliminating
competition in the process.

Adam Smith wrote at the end of the 18th
century in his famous work "The Wealth
of Nations": "Merchants and

manufacturers are interested in limiting competition”.

For entrepreneurs, competition implies risks and costs.

Aspirations for a secure market leadership and the associated profits are quite understandable from the entrepreneurs’ point of view.

Some companies use their freedom to eliminate unwelcome competitors by way of cartel agreements or by abusing their dominant market positions.

This is where the state and competition authorities have to come in: it is their responsibility to protect competition to

preserve the freedom of consumers.

In order to effectively and adequately regulate and supervise competition the competition authorities need appropriate tools.

In Germany, the independence of the competition authorities has proved its worth.

Such independence is the best guarantee of a long-term and sustainable competition policy alleviating the pressure of day-to-day politics on those applying the law.

And important cases usually entail such pressure.

Sometimes a safety valve is required to let off this pressure. The ministerial authorisation performs this function.

In exceptional cases the ministerial authorisation allows for corrections for reasons other than those of competition.

The independence of competition authorities, however, also implies that they have a special responsibility vis-à-vis market participants.

It must always be examined whether the restriction of freedom resulting from state intervention weighs heavier than the restriction caused by the practices objected to.

Conclusion: Effective protection of competition leads to better market results.

Better market results, in reverse, are the best advertisement for competition.

7. National champions

One important topic that will be discussed during the conference is the issue of “national champions”.

National champions are among the best of

their country: this applies to sports, schools and universities and it applies to companies, too.

In football, large and successful clubs such as Bayern Munich are important for the attractiveness and success of the German football league and for the reputation of German football in the world.

In the same way, we need companies that play a leading role in their economic sectors:

companies, that are able to negotiate as equals at international level and to stand their ground in global competition.

Such national champions, however, are often not only large enterprises, and this is particularly true for Germany.

National champions are also small and medium-sized enterprises that – in their niches – are leading in terms of innovation and sometimes are even world market leaders.

But, irrespective of company size, as in football the national champions of industry, must observe the generally recognised rules of the game.

Mergers often generate national champions. But they must not result in dominant positions.

National champions which dominate the market on account of internal growth must be subjected to effective abuse control.

Above all, national champions should not be used as an instrument of national protectionism and isolation.

This is the danger I see in the energy sector.

Even the competition authorities are helpless against such practices. As a result, European and international competition fall by the wayside.

And the consumer is left to foot the bill by having to pay higher prices.

8. Consumer Welfare and Efficiency

Tomorrow you will be discussing yet another topical issue: “Consumer Welfare and Efficiency – New Guiding Principles of Competition Policy”?

The choice of this topic rather surprises me. I was and still am convinced:

Competition that works is the best form of consumer protection.

For me, the protection of competition and consumer welfare are therefore no opposites.

It is the task of competition policy to uphold both maxims while observing economic principles.

Positive market results for the consumer can only be regularly achieved via competitive market structures.

It is therefore my aim to leave market mechanisms undisturbed wherever possible.

And I believe the European Commission is of the same opinion. It protects competitive structures as well as consumers.

This is evident from the Commission's proposals for stimulating competition in the energy sector

With its proposals on “unbundling” or independent network operators the Commission uses structural means to stimulate competition in the energy sector.

Successful competition policy, its strict implementation and effective competition law must observe market structures as well as market results.

9. Recognition of Dr Böge’s achievements

Finally, I will not miss this opportunity to thank you, dear Dr Böge, for hosting this double conference.

When you took office in Bonn over seven

years ago, you were the first economist to become President of the Bundeskartellamt.

During your term of office you have rendered outstanding services in promoting competition and its effective enforcement both at national and international level.

In 2001 you were one of the founding members of the ICN (*International Competition Network*) and, until last year, also its Chairman.

Within this forum you have helped to establish and steadily improve international cooperation between the competition authorities.

This has greatly improved the effectiveness and weight of competition law rules.

At national level, you will go down in the annals of competition history as a courageous advocate of consumer interests.

With creativity and perseverance you fought price agreements in different sectors of the economy, e.g. in the cement or insurance sector.

You have also been highly successful in the Bundeskartellamt's proceedings against long-term gas supply contracts.

Dear Dr Böge, let me thank you for your continued commitment over the last seven years and wish you all the best for your future.

I expressly include all members of staff of the Bundeskartellamt in my words of gratitude.

For us and especially for your sake, dear Dr Böge, I wish that this last conference under your leadership will generate a wealth of ideas on how to improve competition.