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Whatever It Takes to Innovate: Draghi's Plans for EU Competition Policy

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As the European Commission prepares for a new mandate under President Ursula von der Leyen later this year, former ECB President Mario Draghi – famous for his “whatever it takes” approach to saving the Euro – has now turned his focus to the future of EU competitiveness in the digital age. His long-awaited report, commissioned by the outgoing Commission, makes bold recommendations for reshaping competition policy, ensuring resilience and positioning Europe as a global leader in innovation.^[1] While recognising the role of competition in driving growth, the report raises deeper questions about how best to conceptualise the relationship between today’s digital markets and competition, and ultimately argues for a coordinated, new form of EU industrial policy. Is Europe really on the right track by following the report’s recommendations for a new approach to competition policy, or could the push for “European champions” risk stifling the very innovation and resilience it seeks to foster?

Future innovation and competition

To begin with, Draghi makes a compelling case for rethinking how EU competition policy treats innovation, particularly in high-tech sectors where “winner-takes-all” dynamics are common. He urges the European Commission’s Directorate-General for Competition (DG COMP) to give greater weight to innovation in its merger decisions, warning that the traditional focus on short-term price effects could stifle long-term technological progress. Draghi’s recommendation to allow an “innovation defence” in merger cases is particularly noteworthy. This would allow merging firms to argue that their consolidation would allow them to pool resources and compete globally, thereby promoting innovation. Such a framework, Draghi suggests, could reflect the success of industrial collaborations such as Airbus. However, this innovation defence needs to be carefully calibrated to avoid abuse by dominant firms seeking to entrench their market position under the guise of innovation.

In theory, a greater focus on future innovation could be implemented without legislative effort, as the existing flexibility of EU competition law already allows non-price factors such as quality and innovation to be taken into account. In this sense, Draghi’s proposals could be mediated through adjustments in DG COMP’s case selection, working practices, and guidelines. However, concerns arise when considering Hayek’s “presumption of knowledge” principle, which argues that central authorities may lack the necessary information to make optimal decisions about future market

dynamics, especially in rapidly evolving sectors such as digital markets. Increased discretion in enforcement could exacerbate this problem and lead to greater legal uncertainty. This is already a challenge in the EU, where inconsistencies between legislative measures – such as contradictions between the Data Act and the General Data Protection Regulation (GDPR) – have caused friction and confusion for tech businesses.

Balancing scale and competition

More fundamentally, Draghi points to a long-standing tension within EU competition policy: the need for large, globally competitive European firms versus the traditional emphasis on maintaining robust competition within the single market. He points to concerns that competition policy, particularly strict merger control, may be preventing European firms from achieving the scale necessary to compete with their American and Chinese counterparts. The report notes the rising profitability and market concentration of a few dominant firms, particularly in the technology sector. Indeed, the global dominance of “superstar companies” in sectors such as technology, retail, and finance has raised alarms about the decline of competition in recent years – not only in the US, but also in Europe.[2] At least partially, this dilemma has already been addressed by the Digital Markets Act (DMA), which seeks to prevent market dominance by digital gatekeepers, but Draghi suggests that more work is needed to balance scale with maintaining competitive markets.

While advocating greater competition in principle, the report suggests that Europe’s strategy mix may require more tailored, sector-specific industrial policies, encouraging larger companies that can compete internationally (i.e. “European champions”). Drawing parallels with the US experience points to potential problems with this approach. Over the past four decades, US innovation and productivity have slowed down, despite significant increases in R&D investment. Economic research has explained this “innovation paradox” by arguing that, while increased R&D investment is essential, its allocation and focus are important, too.[3] In the US, large firms often hire key innovators from smaller competitors, not to exploit their innovative potential but to neutralise competition, leading to an overall decline in innovative activity. In adopting a costly, large-scale industrial strategy, Europe risks repeating these problems unless it carefully balances support for large firms with measures to promote competition.

State aid as a tool for strategic growth

One of the more radical elements of Draghi’s report is his call for state aid to play a more active role in Europe’s industrial strategy. In the early phase of the Common Market, the removal of tariffs and trade barriers had necessitated strict competition rules on state aid to ensure a level playing field. Historically, state aid was therefore seen as a distortion of competition, but Draghi now argues that coordinated state aid in certain strategic sectors could enhance European competitiveness and innovation. At the same time, he acknowledges that the EU must avoid the pitfalls from the emergency aid provided during the COVID-19 pandemic and the energy crisis, which often fragmented the single market.[4] Going forward, Draghi proposes a more targeted approach to state aid, in particular for “Important Projects of Common European Interest” (IPCEIs). By broadening the scope of IPCEIs to include not only breakthrough innovations but also broader, incremental advances, Draghi argues, the EU could address its widening innovation

gap with the US. Such a shift would require careful monitoring to avoid triggering subsidy races between member states, but Draghi suggests that this could be mitigated by closer coordination at EU level, pointing to the Commission's recent revision of state aid rules for the energy sector as a blueprint for future reforms.

This shift comes at a time of increased geopolitical fragmentation and disrupted global trade, where protecting the single market may become more important as external competitive pressures diminish. In such a context, allowing more flexible state aid could be seen as a sensible response to bolster strategic industries within Europe and shield them from global instability. However, this approach must balance short-term protective measures with the long-term need to preserve the integrity of the single market and avoid distortions that could ultimately weaken competition within the EU itself.

The role of digital regulation

The report underlines the key role of new regulatory frameworks such as the Digital Markets Act (DMA) and the Foreign Subsidies Regulation (FSR) in addressing the twin challenges of digitalisation and globalisation. Draghi stresses that DG COMP must use these tools effectively to prevent the entrenchment of digital gatekeepers and to ensure that foreign subsidies do not distort the single market. In addition to these existing tools, he proposes the introduction of a "New Competition Tool" (NCT), a market investigation instrument designed to address structural competition problems in rapidly evolving markets. This tool, which was discussed by academics a few years ago but has been largely forgotten recently, would allow DG COMP to carry out in-depth market studies and design remedies in cooperation with companies to address systemic failures such as tacit collusion or weak market resilience. The NCT would be activated in specific cases where existing competition tools are insufficient – a recognition that digital markets, with their winner-takes-all dynamics, often require more tailored and faster interventions.

In discussing the NCT, it is worth briefly comparing the proposed tool with similar instruments in Germany and the UK. Germany's recent reform of the German Competition Law (GWB) has empowered the Bundeskartellamt to declare companies to be of "paramount significance for competition across markets", allowing early intervention in digital platforms such as Meta before anti-competitive practices materialise. The UK's Competition and Markets Authority (CMA) has long had a market investigation tool under the Enterprise Act 2002 to address structural competition issues, and its new Digital Markets Unit (DMU) now focuses specifically on platforms with "strategic market status", which requires entrenched market power and strategic importance in UK-related digital activities, and at least a global turnover of more than £25 billion or a UK turnover of more than £1 billion. These tools are similar to the proposed NCT in their aim to address systemic market issues, particularly in digital markets, but differ in their scope and mechanism. The NCT could benefit from incorporating elements of these approaches. It should be noted, however, that both Germany and the UK require a formal designation of companies – "paramount significance for competition" in Germany and "strategic market status" in the UK – before regulators can take targeted action. This step adds a procedural layer that could delay timely intervention in fast-moving digital markets. The new NCT, on the other hand, could be designed to be more flexible, allowing for individual investigations without the need for separate, ex-ante designations or classifications of undertakings.

Still, Draghi warns that all these new regulatory powers should not come at the expense of traditional competition policy. He calls for increased resources and specialised expertise within DG COMP, noting correctly that the effectiveness of the DMA, FSR, and NCT will depend heavily on the Commission's ability to enforce them rigorously. However, can the Commission guarantee this level of regulation as well as "normal" competition law enforcement with sufficient staff and resources? The current economic climate, marked by budgetary pressures and recovery from multiple crises, casts doubt on whether DG COMP will receive the necessary support from Member States. Without adequate enforcement, the EU risks undermining the credibility of its competition policy, which could stall progress in ensuring a competitive single market.

Overlooked? Decentralisation as key to competitiveness

Overall, the report's narrative of scaling up European companies to fight for the next disruptive technologies like AI seems to overlook a key aspect of digitalisation: the transformative power of decentralisation. While Draghi argues that Europe needs bigger companies and industry collaboration to compete globally, the reality of and the vision behind the internet tell a different story. Startups and digital platforms have consistently demonstrated their ability to challenge tech giants by offering innovative solutions that disrupt established business models or remove rent-seeking middlemen – only to be bought out or copied by incumbents. This is even evident in the current state of generative AI, where large language models (LLMs) are being commoditised while the human capital of promising start-ups is "acqui-hired". The rapid pace of innovation in AI research suggests that so-called small language models may be a convenient – and much cheaper – way for European firms to catch up and develop the vertical, sector-specific AI applications that Draghi seems to have in mind.

Similarly, the open source movement shows how decentralised innovation can compete with large proprietary firms, even in sectors such as technology and finance, which Draghi describes as being governed by laws of scale and "winner-takes-all" characteristics. Projects such as Linux and Apache have become part of the backbone of modern computing infrastructure, demonstrating that community-driven development can produce world-class software. In the digital age, size is not the only factor in technology success; collaboration and openness to diverse sources are equally important.

Furthermore, Draghi's focus on large datasets owned by Big Tech overlooks the transformative potential of synthetic data, which allows smaller players to generate the massive, high-quality datasets needed for AI and machine learning, bypassing the traditional advantage of tech giants with access to real-world data.^[5] Recent examples, such as Tsinghua University's fully simulated "Agent Hospital" or NVIDIA's RoboCasa project, show that synthetic data can help AI models perform better by creating diverse, scalable training environments. This technology can democratise AI development, allowing smaller European companies to compete with US and Chinese tech giants on a more level playing field. In addition, synthetic data addresses privacy concerns by mitigating the risks associated with using sensitive real-world data, which is critical for compliance with strict EU regulations such as GDPR. Thus, fostering an ecosystem that promotes data portability and the use of synthetic data in a legally secure way could unlock significant opportunities for innovation across European industries, without recourse to costly state aid or data collaborations that could lead to collusion.

Finally, in terms of resilience, Draghi is right to highlight Europe's strategic vulnerabilities in areas such as defence and cybersecurity. But centralisation is not the answer to these challenges. A diverse and decentralised supply chain, with smaller, more agile companies, can provide a more flexible and resilient system.^[6] The recent CrowdStrike incident – when a flawed Microsoft Windows update caused some 8.5 million systems to crash and fail to reboot properly – is a timely reminder that over-reliance on dominant vendors can expose vulnerabilities rather than mitigate them.

Conclusion

Draghi's call for an innovation-oriented competition policy, coupled with a more strategic use of state aid and effective enforcement of the DMA, provides important starting points for setting up the competition policy agenda for the next Commission. While his reforms will require careful implementation to avoid the pitfalls of market concentration, "presumption of knowledge", and state aid abuse, Draghi's report is a welcome contribution to the debate on how to revitalise European competitiveness through Ursula von der Leyen's "Clean Industrial Deal". However, instead of pursuing a path of creating "European champions" through looser mergers and larger subsidies, the EU should capitalise on the core strength of the digital age: empowering a wide range of innovators rather than just a few. This approach would not only promote competitiveness, but also be consistent with Europe's values of fairness, subsidiarity, and open markets.

[1] Here, and in the following, I refer to the proposals listed in Part B, Section 2, Chapter 4 of the report: Mario Draghi (2024), *The future of European competitiveness – A competitiveness strategy for Europe*, https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en.

[2] Gábor Koltay, Szabolcs Lorincz, Tommaso Valletti (2023), *Concentration and Competition: Evidence From Europe and Implications For Policy*, *Journal of Competition Law & Economics* 19/3, pp. 466–501.

[3] Ufuk Akcigit (2024), *The Innovation Paradox*, *IMF Finance & Development Magazine*, <https://www.imf.org/en/Publications/fandd/issues/2024/09/the-innovation-paradox-ufuk-akcigit>.

[4] Lena Hornkohl, Jens van 't Klooster (2020): *With Exclusive Competence Comes Great Responsibility: How the Commission's Covid-19 State Aid rules Increase Regional Inequalities within the EU*, *VerfBlog*, 2020/4/29, <https://verfassungsblog.de/with-exclusive-competence-comes-great-responsibility/>.

[5] Anselm Küsters (2024), *From Bytes to Bedside: Improving Real-World Applications with Synthetic Data, Common Ground of Europe*, <https://commongroundeurope.eu/blog/from-bytes-to-bedside-improving-real-world-applications-with-synthetic-data/>.

[6] Anselm Küsters (2024), Rethinking Competition and Concentration in Times of Crisis, Common Ground of Europe, <https://commongroundeurope.eu/blog/rethinking-competition-and-concentration-in-times-of-crisis/>.

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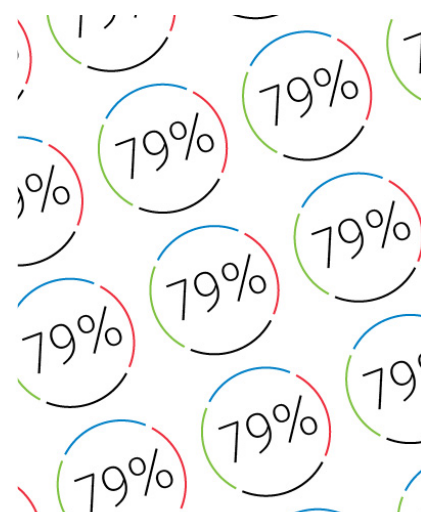
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