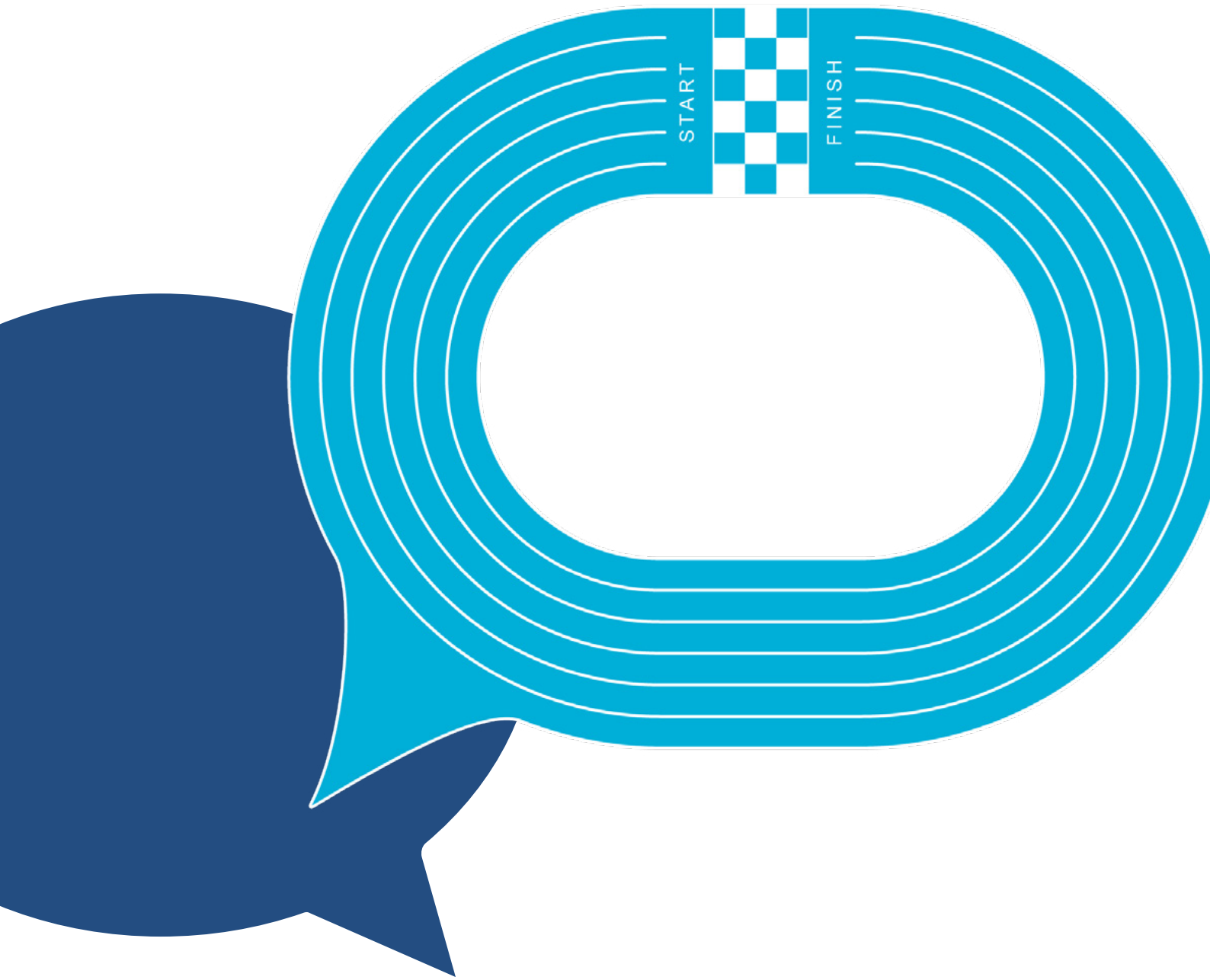
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Competition and Competitiveness:

Understanding the Debate

Sophie Rost

An Irish EU Presidency Priority

Competitiveness is one of the three priorities of the Irish Presidency of the Council of the European Union (EU) that takes place in the second half of 2026, alongside security and values. It can be defined as the EU's ability to run successfully against global actors, by ensuring that European companies lead in key sectors and remain at the forefront of innovation.

According to the Draghi and Letta reports both published in 2024, the EU is not as competitive as it could be. These reports suggest that the EU is falling behind in both traditional sectors such as the automobile sector, where European market shares are declining, and in newer sectors such as the smartphone market, where it is struggling to implement relevant players. This situation should raise concerns among Member States, businesses, and EU citizens alike.

One explanation put forward for the EU's lack of competitiveness is that European companies do not operate on a level-playing field with global competitors. It is said that firms based and operating in the EU are subject to stricter and more complex regulation than many of their third-country counterparts. Competition law has been identified as a particular barrier to competitiveness. Put simply, it has been argued that intense competition within the Single Market generated by strict competition rules may hinder European companies from being competitive on global markets. This explainer will explore to what extent this argument is valid and how the Commission has responded to it in recent times.

Competition Law in the EU

The EU has sole competence in matters relating to the regulation of the Single Market, and as part of its responsibility to ensure the proper functioning of that market, the EU also has competence in the field of competition law. The legal basis for this competence is set out in Articles 101, 102, and 107 et seq. of the Treaty on the Functioning of the EU (the Treaty).

Competition law is traditionally divided into three main branches. First, antitrust, which covers anti-competitive agreements between undertakings, concerted practices, and abuses of a dominant position. Second, merger control, under which national authorities and the Commission review mergers and acquisitions involving companies of a certain size and market importance. Third, state aid control, which restricts the extent to which Member States may support domestic companies. In addition, a fourth branch of competition law is emerging, foreign subsidies control, which seeks to address distortions of competition caused by subsidies granted by third countries.

Throughout these branches, the purpose of competition law is to ensure a fair market where companies are challenged to provide the best products for the best price.

However, it is argued that these rules are too strict and place European companies at a disadvantage compared with their global competitors.

Attention has recently focused on merger rules, with Member States and industry actors arguing that the existing rules make it difficult for companies to scale up and create so-called European Champions. This debate was notably sparked by the prohibition of the merger between Siemens and Alstom, German and French companies respectively, in 2019, which would have created the world's second largest rail company. The aim of the existing merger rules, set out in the EU Merger Regulation (139/2004) and supplemented by Commission guidelines, is to allow mergers while preventing the creation of companies that could distort competition. The criterion used by the Commission in its control is "*whether the merger results in a significant impediment to effective competition (SIEC) in the internal market*". Indeed, a merger that concentrates too much market power may be able to impose a "private tax" on the market (i.e. higher prices, less innovation, lower quality), to the detriment of consumers and Small and Medium Enterprises (SMEs) in the EU.

An Irish example is the RyanAir/Aer Lingus merger, which the Commission prohibited in 2013. One of the determinant elements in the case was that a merger between the two airlines would have created a monopoly on six flight routes. Put simply, where two or more airlines operate on the same route, they can have an incentive to offer lower prices in order to attract customers from competitors. By contrast, a company holding a monopoly on a route can charge higher prices because consumers have no alternative. As the Commission stated in its decision "*Airline customers would have no countervailing buyer power against the merged entity to offset the anti-competitive effects of the merger (…) Customers would be particularly vulnerable to price increases by the merged entity*".

Competition in the Single Market vs Competitiveness on the Global Market

Criticism of the EU's competition policy has come from both Member States and industry actors. Following the aforementioned prohibition of the Alstom/Siemens merger, France and Germany published a Franco-German manifesto calling on the EU to, among other things, ease state aid and merger rules in order to create a policy "*fit for the 21st century*". More recently, in October 2025, CEOs of several major telecommunication companies addressed an open letter to Ursula von der Leyen, urging the Commission to relax merger rules in order to boost investment.

The CEOs' argument is that European companies cannot compete effectively on global markets against larger firms, particularly from the United States, or against companies that benefit from generous subsidies, particularly from China. According to this view, reducing the intensity of competition within the Single Market would allow European companies to have the necessary resources to compete more successfully internationally. The debate has largely centred on merger control, described by financial analyst Rochelle Toplensky as a *"relic of a bygone era"* that prevents companies from scaling up. Larger firms, it is argued, could benefit from economies of scale, lower production and distribution costs, improved access to capital markets, and greater capacity for research and development and innovation (R&D&I). In other words, larger companies would be more efficient. This especially holds true in sectors characterised by high fixed costs or network effects, such as energy and telecommunications, who have been among the most vocal in this debate.

However, this industry-backed point of view is far from unanimous, and experts, economists and some Member States have argued against.

From an economic perspective, it has not been proven that larger companies are necessarily more efficient. Rather, the degree of competition in a market appears to be a more relevant factor in determining a company's efficiency. There is *"strong and consistent empirical and historical evidence"* that *"industries subjected to effective competition experience stronger productivity growth, while weak competition undermines productivity growth"*. This can be illustrated by the case of China, where companies are highly competitive globally, not only because of state support, but also because intense competition in the domestic market has driven innovation.

Responding to the criticism raised by the telecommunications industry, Paul de Bijl, Chief Economist of the Netherland's Authority for Consumers and Markets, argues that European telecommunications companies have some of the highest dividend-payout ratios on the stock market, suggesting that if the sector lacks investment that this may be because companies have chosen to distribute profits to shareholders rather than reinvest them. In this view, the problem is therefore not necessarily about a lack of resources caused by competition rules, but rather about how those resources are allocated.

In addition, the numbers themselves paint a telling picture: in practice, the Commission prohibits very few mergers, and there is no evidence that merger activity is lower in the EU than in other major jurisdiction. This year alone, the Commission has already approved more than ten mergers, including those between the German and Swiss construction material suppliers Xella and Holcim, and between the dairy cooperatives Arla, DMK, and DOC from Denmark, Germany, and the Netherlands.

Lastly, beyond the economic debate, this is also a political question. It concerns not only the role that competition law should play, but also how the EU positions itself on the spectrum between protectionism and liberalism. Opposition to a relaxing of merger rules has been supported by several Member States and five of them, including Ireland, have submitted a note to the Commission warning of the potential consequences of easing merger controls.

The debate between competition in the Single Market and competitiveness on the global market appears in similar terms when it comes to state aid. In principle, in order to maintain fair competition between companies, Member States are not free to allocate state aid and must obtain the Commission's approval that any aid they wish to grant is compatible with the Treaty. However, state aid can foster innovation and support large investments where there are market failures. Again, a balance must be found between limiting state aid to ensure fair competition between companies from different Member States, and allowing state aid in order to boost the EU's competitiveness outside the Single Market and against competitors that receive subsidies from states.

Recent Reforms: How Has the Commission Responded to This Debate?

In reaction to these debates, and in accordance with the EU Competitiveness Compass and the One Europe, One Market roadmap, the Commission has taken a number of steps in recent months.

First, on mergers, the Commission has published a proposal for a long-awaited review of the Merger Guidelines. The Merger Guidelines are soft law instruments intended to guide both national authorities and the Commission in their assessment of mergers. As recommended in the Draghi Report, the proposed new guidelines published in April 2026 constitute an "*evolution not revolution*". The review mainly updates the current 20-year-old guidelines in light of recent case-law and introduces a few new elements. The main change is methodological rather than substantive. Merger controls rely on balancing the harm to competition that a merger would cause against the efficiencies that would arise from it. The review of the Guidelines leaves greater scope for assessing efficiencies, moving away from a solely consumer-oriented perspective and taking into account additional considerations such as resilience, investment opportunities, and innovation. Put simply, the Commission plans to give companies more leeway to defend their mergers. According to the Directorate-General for Competition's Director-General Anthony Whelan, this new approach will allow "*companies to scale up… to deliver better products, services, innovation, security of supply to their customers and ultimately to consumers*", thus appearing to respond to industry demands while still maintaining consumer welfare as a key priority.

However, these proposed changes have not been unanimously welcomed. There are some concerns from experts, such as the Open Markets Institute' Claire Lavin, that these guidelines are too lenient towards large companies, helping them prepare their defence even though they have the legal and financial resources to do so on their own, at the expense of SMEs that could be disadvantaged by the creation of champions. Furthermore, a more relaxed assessment of efficiencies is also viewed by some with scepticism, as it could give way to speculative claims.

Following extensive rounds of public consultation, the Commission is expected to publish an updated version of its proposal for a revision of the Merger Guidelines by the end of 2026.

In addition to mergers, the Commission has also addressed the topic of state aid by publishing a proposal for a review of the General Block Exemption Regulation (GBER) in February 2026. The GBER is an instrument through which the Commission can declare certain categories of state aid, under specific conditions, compatible with the Treaty, meaning that they are permitted. If a state aid measure falls under the scope of the GBER, it does not need to be notified to the Commission and be subject to its approval. With this review, the Commission does not introduce major substantive changes but rather simplifies and clarifies existing

provisions in order to make state aid less complex and more flexible. For example, the review proposes to simplify rules governing aid for R&D&I and for investment in infrastructure (whether related to energy, broadcast, or other sectors) and clarifies the rules on aid for digital technologies. A concrete example of how this review may foster competitiveness is the introduction of the possibility for SMEs to benefit from subsidised access to regulatory sandboxes in order to facilitate research and support innovation. The revised GBER is expected to be adopted by the end of 2026 and to enter into force in early 2027.

Beyond these specific texts, the Commission provides a broader response to the debate between competition in the Single Market and competitiveness on the global market, one that goes beyond this dichotomy, by viewing a stronger Single Market as the springboard for global competitiveness. So, to the question of either the "Single Market or global market?", the Commission's answer is "both". Global competitiveness will come from an expanded Single market with intense competition. Or, in the words of former EU Competition Commissioner Margrethe Vestager, *"[T]he most important thing for Europe is not in competition enforcement, that is in making the single market work. That is real core of competitiveness and dynamic. That is what is important"*.

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The Institute of International and European Affairs,

8 North Great Georges Street, Dublin 1, Ireland

T: +353-1-8746756 F: +353-1-8786880

E: reception@iiea.com W: www. iiea.com