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Analysis of today
Assessment of tomorrow

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Europe wants bigger companies, but not new monopolies

On 24 September in Brussels, European Union industry ministers brought the proposal for the Chips Act 2.0 – through which the Union seeks to reduce its reliance on foreign semiconductor suppliers – and the final phase of the revision of European merger control guidelines within the same policy framework.

On the same day, they also considered how to integrate economic security into competitiveness policy, effectively merging three processes that had for years run almost in parallel into a single debate on European economic power.

For decades, European competition policy has aimed to prevent market concentration that can push up prices, restrict choice and weaken incentives to innovate, and the European Commission stresses in its draft guidelines that the core purpose of merger control remains the protection of a vibrant, competitive single market.

What is changing is the scope of the assessment the regulator must conduct before reaching a decision.

In an economy where technological advantage depends increasingly on vast investments, access to capital, computing infrastructure and global markets, it is no longer enough simply to calculate post-merger market size.

It is also necessary to assess whether European companies that lack a sufficiently large home market, revenue and access to capital, can finance the development of technologies and manufacturing capacity on which their competitiveness will depend in five or ten years' time.

The Chips Act 2.0 and the revised merger control rules in fact address different aspects of the same challenge: the former should expand Europe's technological and production capacity, while the latter should define more precisely when a larger firm can contribute to that objective, and when its scale begins to undermine the very competition European policy seeks to protect.

Without European customers, new chip factories will not be enough

On 3 June, the European Commission proposed the Chips Act 2.0 because the original European chip legislation had failed to address a fundamental challenge: Europe remains dependent on third countries for cutting-edge semiconductor design and manufacturing.

For this reason, the new proposal is no longer focused exclusively on building factories.

Its aim is also to forge closer ties between European chipmakers and the major buyers that will consume ever greater volumes of semiconductors over the coming years – chiefly data centres, cloud service providers and prospective AI gigafactories.

This marks a significant shift in Europe's approach to strategic technological autonomy.

A subsidised plant can boost semiconductor output in Europe, but this will still be insufficient without major domestic firms to purchase these chips, integrate them into end products and develop next-generation technologies around them.

If the largest chip customers, leading cloud platforms and foremost AI enterprises remain outside Europe, European manufacturers will continue to be subject to commercial decisions taken in the US and Asia.

> Domestic demand has become an integral pillar of the new semiconductor strategy

The production facilities may be situated in Europe, but the pace of capital expenditure, production volumes and the development of new semiconductor generations will still be dictated primarily by customer demand in other markets.

This is why domestic demand has become an integral pillar of the new semiconductor strategy.

Europe needs not only chip fabrication plants, but also companies of sufficient scale to place orders for cutting-edge semiconductors at volumes that justify subsequent investment cycles, develop products for the global marketplace and anchor an ecosystem of suppliers, research institutes and smaller technology firms.

At that point, the semiconductor debate ceases to be a narrow question of industrial policy and becomes an inquiry into the types of companies the European single market is capable of generating.

Brussels is seeking ways to allow growth without creating monopolies

The current European guidelines on horizontal and non-horizontal mergers date from 2004 and 2008, predating the contemporary significance of cloud infrastructure, artificial intelligence and supply-chain resilience.

For this reason, the European Commission published draft revised guidelines on 30 April – the most extensive revision of the EU merger control framework in two decades – with the aim of embedding innovation, investment, operational resilience, prospective competition and corporate growth potential more firmly into its substantive assessment.

On 24 September, member states endorsed an approach under which the Commission, when evaluating proposed concentration, will place greater weight on whether a transaction helps European firms to scale up, invest and withstand supply disruptions.

Particular emphasis has been placed on the so-called innovation shield, intended to clarify the conditions under which the acquisition of a less innovative firm may be approved.

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The central test will be to ensure that any such acquisition neither eliminates a company that could pose a serious competitive constraint in future nor further strengthens a company that already has excessive market power.

The Commission's challenge will be to determine whether the claimed merger efficiencies will in fact be passed on to the market, or whether they will merely produce higher profit margins and dampen competitive pressure to innovate.

Although a larger firm can more readily fund research and capital-intensive infrastructure, it risks losing the commercial impetus to invest as the number of effective competitors diminishes.

Consequently, future merger investigations will hinge primarily on the standard of evidence: notifying parties will have to demonstrate far more convincingly that a merger generates substantive new investment, products or manufacturing capacity, rather than simply entrenching market dominance.

Larger companies did not automatically bring more innovation

The argument in favour of large firms has a clear economic rationale, but European regulators have sound reasons to treat it with scepticism.

On 4 September, the European Commission's Directorate-General for Competition published an empirical study examining more than 3,000 mergers cleared between 1990 and 2024.

On average, following those transactions, innovative activity – measured not only by patent filings but also by their subsequent technological impact – declined both among the merged entities and across their market competitors, while average margins and accounting profits rose.

The authors conclude that this outcome reflects the entrenchment of market power rather than a broad-based dividend from economic efficiency.

> The 2019 Siemens/Alstom case clearly illustrates where the Commission draws its red line

This empirical finding does not imply that large-scale mergers are inherently anti-competitive, or that innovation flourishes only in fragmented markets; rather, it underscores why industrial strategy cannot simply supersede competition law.

While a larger firm may command more capital, superior research infrastructure and more extensive distribution networks, that very scale can blunt the commercial incentive to invest and take risks if the transaction removes the competitive discipline previously exerted by a key rival.

The 2019 Siemens/Alstom case clearly illustrates where the Commission draws its red line.

At the time, the claim that Europe required an industrial champion in rail manufacturing capable of countering Chinese competitors was dismissed: the Commission found that the proposed merger would substantially impede effective competition in European markets for railway signalling systems and very-high-speed rolling stock.

Although the revised guidelines will require regulators to give greater weight to global competitive dynamics, future investment commitments and technological roadmaps, mere corporate size will still be insufficient to justify regulatory clearance.

The real problem is that the single market is still not single enough

Debate over merger control can easily obscure a deeper structural issue. European firms lag behind American and Chinese rivals not merely because the Commission enforces strict limits on market concentration, but because they operate across a territory that formally comprises some 450 million consumers yet remains fractured along national lines in finance, company law, taxation, administrative procedure and cross-border commerce.

European institutions acknowledged this reality in the joint One Europe, One Market roadmap, adopted in April, which explicitly identifies the fragmentation of the single market as a barrier to corporate scale.

For technology enterprises, this impediment arises at an early stage of development.

A US company capitalising on an expansive domestic market can swiftly secure the funding, client base and critical mass required for international expansion.

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By contrast, a European start-up is often forced to navigate divergent national regulatory frameworks far sooner, or to seek venture funding outside the continent.

The proposal for a unified European corporate regime, EU Inc., emerged precisely as an attempt to eliminate part of that cost; however, its significance will depend on the extent to which member states embrace deeper integration rather than merely adopt another voluntary administrative framework.

It would be a mistake to assume that looser merger clearance rules alone will foster European technology champions.

If capital markets, service sectors and business environments remain divided among member states, facilitating corporate consolidations will not dismantle the structural impediments to growth.

National governments may subsidise production, and the Commission can attach greater weight to capital investment and long-term competitiveness when reviewing concentrations, but in the absence of a genuinely integrated European single market, such interventions will remain inadequate.

The Commission changes the criteria, but does not give up control

The Commission intends to finalise new merger control guidelines by the end of this year, while political agreement on the Chips Act 2.0 is anticipated in the second quarter of 2027.

The most likely outcome is not an outright reversal of European competition policy, but rather an evolution in how large concentrations are assessed. Companies will enjoy greater latitude to invoke anticipated investments, technological innovation and their capacity to compete in global markets as mitigating factors, but they will be required to substantiate such arguments with verifiable commitments and empirical data.

This marks the end of an era in which European industrial strategy and competition policy operated in isolation

The initial landmark decisions adopted under the revised guidelines will test the substantive reality of this shift.

Regulators will need to determine not merely the degree of market power created by a concentration, but also whether the transaction generates investment and technological capabilities that the merging parties could not achieve organically.

In such cases, a new dividing line will be drawn between industrial ambition and the safeguarding of competition.

This marks the end of an era in which European industrial strategy and competition policy operated in isolation.

Brussels increasingly regards them as complementary facets of a unified economic agenda: Europe seeks companies capable of deploying vast capital expenditure and competing globally, but without permitting market structures in which a few large actors stifle the next generation of domestic challengers.

Whether this represents a genuine structural realignment or merely a recalibration of regulatory rhetoric will ultimately depend on the enforcement decisions the Commission takes under the new regime.