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SCHUMPETER PROJECT ON COMPETITION POLICY

700 K Street NW Suite 600
Washington, DC 20001

COMMENTS OF ITIF

Before the

Competition and Markets Authority

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In the Matter of: Discussion paper exploring role of competition policy in supporting UK scale-ups	)	Public Comment

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INTRODUCTION

On September 11, 2025, the United Kingdom's (UK) Competition and Markets Authority (CMA) published a Discussion Paper on scale-ups and competition policy ("Discussion Paper") to encourage engagement and stakeholder feedback in this complex area involving the intersection of competition, innovation, and industrial policy.[1] The Discussion Paper is complemented by an extensive literature review published by the CMA's Microeconomics Unit on studies concerning the relationship between competition and innovation ("Literature Review").[2] The Discussion Paper is part of the UK government's broader industrial strategy, which seeks to help make "start-ups to turn into scale-ups and then global superstars, a journey which too few companies are taking in the UK," including through "an integrated package of support aligning our innovation and R&D interventions with wider government policy."[3] It also coincides with the continued rollout of the UK's Digital Markets, Competition and Consumers Act (DMCCA), a broad ex ante antitrust regulation that will impose heavy restrictions on large American technology firms like Apple and Google.[4]

The Information Technology and Innovation Foundation (ITIF) is a nonprofit, nonpartisan research and educational institute that has been recognized repeatedly as the world's leading think tank for science and technology policy.[5] While ITIF commends the CMA for asking whether competition policy is consistent with broader growth and competitiveness goals, in several respects the Discussion Paper appears to condone policies that would run counter to—not ensure—a faster growing and more globally competitive Britain.

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[1] CMA, Scale-ups and competition policy, Discussion paper (Sept. 11, 2025), https://assets.publishing.service.gov.uk/media/68c15bde7596dbfa052bfdf1/Scale-ups_and_competition_policy_discussion_paper.pdf [hereinafter Discussion Paper].

[2] CMA, Investment and competition over the business lifecycle, CMA Microeconomics Unit Report (Sept. 11, 2025), https://assets.publishing.service.gov.uk/media/68c3e881efd87ef102c87645/Investment_and_competition_over_the_business_lifecycle_.pdf [hereinafter Literature Review].

[3] UK Government, The UK's Modern Industrial Strategy (June 2025), https://assets.publishing.service.gov.uk/media/68595e56db8e139f95652dc6/industrial_strategy_policy_paper.pdf.

[4] Press Release, CMA confirms Apple and Google, (Oct. 22, 2025), https://www.gov.uk/government/news/cma-confirms-apple-and-google-have-strategic-market-status-in-mobile-platforms.

[5] James G. McGann, 2020 Global Go To Think Tank Index Report, Univ. of Pa. (2021), https://repository.upenn.edu/think_tanks/18/.

Indeed, rather than protect small firms, the UK would do better to reassess regulations such as the DMCCA and fine-tune its competition policy to ensure it does not hinder UK competitiveness and innovation.

SCALE-UPS WITHIN THE FIRM LIFECYCLE

ITIF agrees with the Discussion Paper that "if market power stems from rising returns to scale, even as markets become more concentrated, aggregate investment may rise" in a way that helps firms transition from start-ups to scale-ups; by contrast, "market power deriving from anti-competitive behaviour is typically associated with lower subsequent levels of investment," which counsels in favor of vigorous enforcement of the UK's competition laws to protect competition, consumers, and innovation.[6] However, ITIF disputes the Discussion Paper's claim that "[t]he bulk of the empirical evidence suggests that horizontal competition (between firms at the same level) generally raises innovation" to the extent that it suggests a monotonic and Arrowian relationship between deconcentrated market structures and innovation.[7]

Indeed, the CMA's own findings make clear why this is not the case. As the Literature Review states, there is "plenty of evidence supporting the inverted U" relationship between competition and innovation: For example, an oligopolistic industry may be more innovative than one defined by monopolistic competition or one dominated by a monopoly where the Lerner Index is close to 1.[8] What's more, the Literature Review rightly identifies studies that find a negative relationship between deconcentrated market structures and innovation.[9] At bottom, while a general theoretical or empirical causal relationship between market structure and innovation may remain elusive, there is more than sufficient evidence to probabilistically conclude that less product market competition often translates to more innovation.

COMPETITION POLICY AS A TOOL OF INDUSTRIAL POLICY TO SUPPORT SCALE-UPS

As a general matter, the sound enforcement of competition law to promote innovation will further industrial policy goals associated with increased competitiveness. By contrast, the implementation of industrial policy measures may or may not generally further the goals of competition policy, requiring policymakers to make difficult tradeoffs between competitiveness, innovation, and competition. In this vein, ITIF does not fully agree with the Discussion Paper's suggestion that where industrial policies are "successfully deployed to support scale-ups, incumbents will face greater pressure to innovate to stay ahead."[10]

As Joseph Schumpeter recognized long ago, market power can often be a key driver of innovation. In fact, research has found that most productivity growth comes from incremental innovations by incumbents.[11]As such, competition and industrial policies should be implemented in a way that is in principle size neutral, rather than seeking to protect firms of a particular size or stage in development—including scale-ups. Indeed, not only may large Western firms have both greater incentives and abilities to innovate, but they can also be

[6] Discussion Paper ¶ 17.

[7] *Id.* ¶ 19.

[8] Literature Review ¶¶ 7.6, 7.8.

[9] *Id.* ¶ 7.7.

[10] Discussion Paper ¶ 22.

[11] Daniel Garcia-Macia et al., *How Destructive Is Innovation?*, 87 ECONOMETRICA 1507 (Sept. 2019).

in the best position to compete with large global rivals—especially state-backed Chinese firms with more interest in dominating global markets than competing on the merits.

TACKLING SECTOR-SPECIFIC BARRIERS

ITIF agrees that when engaging in public procurement, the UK government may take a broader approach that goes beyond the competition and innovation goals that are the focus of antitrust policy and consider industrial policies to support scale-ups—for example, procuring services from smaller and potentially less efficient UK defense firms rather than larger and possibly more efficient Chinese competitors. Moreover, while ITIF concurs that "regulations often disproportionately burdens smaller firms and, in some cases regulatory design may embed requirements that only established players can realistically meet," regulations that target large foreign firms can also be harmful to innovation and ultimately new entrants.[12]

Indeed, regimes like the EU's Digital Markets Act (DMA) and the UK's DMCCA demonstrate how this latter sort of regulation can go wrong. For example, while the DMA attempts to restrict the business activities of large U.S. tech firms, research shows that U.S. tech firms operating in Europe have contributed approximately €1 trillion to EU GDP, resulting in positive spillover effects that "allow European firms to adapt and innovate."[13] Moreover, recent research has confirmed that the introduction of similar heavy-handed antitrust platform rules in China did not increase entrepreneurship but instead chilled it.[14]

GREATER COMPETITION TO SUPPORT SCALING: UNLOCKING HORIZONTAL ENABLERS

ITIF agrees that data and interoperability play an important role in the digital economy. However, although "these enablers can be tightly controlled by incumbent firms to protect their positions, hindering smaller players from scaling," refusals to share data or provide interoperability are in the vast majority of cases not anticompetitive.[15] Indeed, forced sharing in digital markets may result in direct consumer harms through reduced privacy and security. It may also chill incentives to innovate not only for the firm that, as a result of being forced to share, has a reduced ability to appropriate its investments, but also for third parties who are able to free-ride rather than innovate to acquire their own data and platform-based competitive advantages.

The DMA has made these risks more than clear. As ITIF has explained: "In enforcing the effective interoperability obligation under Article 6(7), the Commission is… imposing a series of measures that will harm consumers and developers—many of whom are SMEs—through increased privacy and security risks. Similar concerns about reduced privacy also exist with the DMA's data portability requirements under Article 6(9), with commentators noting research finding that over 75 percent of applicants are outside the EU, where privacy policies are often more lax. Innovation has also suffered: not only was Apple forced to

[12] Discussion Paper ¶ 34.

[13] Andy King & Surjinder Johal, *The economic contribution of tech diffusion in the EU*, Flint (Oct. 15, 2025).

[14] Ke Rong et al., *Antitrust Platform Regulation and Entrepreneurship: Evidence from China*, Harvard Business School Working Paper 24-039 (2024).

[15] Discussion Paper ¶ 38.

delay the rollout of Apple Intelligence, but the release of new features for AirPods Pro3 have similarly been withheld in Europe."[16]

OTHER POTENTIAL LEVERS TO SUPPORT SCALING UP: BUSINESS COLLABORATION AND M&A ACTIVITY

ITIF strongly agrees with the CMA that "business collaboration can support scaling and deliver wider economic benefits (such as productivity or innovation benefits) that could not otherwise be achieved" and that certain transactions "which may restrict competition to some extent" may nonetheless "be important for supporting critical national policy objectives."[17] To be sure, while industrial policy goals "fall outside the remit of the CMA" when it comes to policing anticompetitive practices that harm consumers and innovation, "the competition law regime has some flexibility built in to enable collaboration in certain circumstances and depending on the benefits that flow from the outcome being pursued."[18]

For example, with respect to market definition, the CMA should ensure that product and geographic markets are defined sufficiently broadly to capture competition from nascent (and non-nascent) Chinese firms, thereby mitigating false positives that condemn, to these firms' benefit, transactions that may build scale in the UK. Moreover, when assessing competitive effects, the CMA should avoid applying a double standard, such as when evaluating so-called "killer acquisitions," whereby the evidentiary bar to show harms to potential competition is in practice lower than what is required to prove a transaction's dynamic efficiency benefits. Finally, when remedying anticompetitive mergers in strategic industries—for example, a merger between critical U.S. and UK defense suppliers competing against a major Chinese rival—the CMA may find that applying a broader public-interest standard shows that structural relief would undermine the UK's competitiveness, and thus be inappropriate. By contrast, competitiveness considerations may also counsel in favor of structural relief in the case of a Chinese firm attempting to acquire a critical UK AI firm, even if the competitive harms could in theory be addressed solely through behavioral means.

CONCLUSION

Amid increasingly intense competition between the West and China for global techno-economic dominance, the UK—with its long-standing special relationship with the United States—is an essential pillar on which the future of Western innovation depends. As such, ITIF lauds the CMA for its efforts to align competition policy with the UK's broader industrial policy objectives, ensuring that its antitrust regime fosters a dynamic innovation ecosystem in the UK that empowers leading British and Western technology firms to achieve global influence amidst Chinese and other rivals. By designing competition policy to drive UK innovation, facilitating strategic transactions between American firms rather than regulating them, and utilizing the flexibility of competition law to ensure it does not undercut competitiveness goals vis-à-vis rivals like China, the UK can cement its place as an innovation leader in the 21st century.

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[16] Joseph V. Coniglio and Lilla Nóra Kiss, Comments to the European Commission for Its First Review of the Digital Markets Act, ITIF (Sept. 24, 2025).

[17] Discussion Paper ¶ 51.

[18] *Id.* ¶¶ 49, 52.

Thank you for your consideration.

Joseph V. Coniglio
Director, Schumpeter Project on Competition Policy
Information Technology and Innovation Foundation