LUHNIP Monthly brief on EU Industrial Policy
November 2023

Dimitri Zurstrassen and Donato Di Carlo

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Every month, LUHNIP's Monthly Brief on EU Industrial Policy provides a bullet-point recap of the month's main events, followed by three reasoned deep dives into significant developments in EU industrial policy. Our analysis is complemented by a monthly guest contribution from renowned experts or practitioners in the field.

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Last Month in Brief

- 6-7 November: European ministers responsible for space meet in Seville for an informal meeting (see Deep Dive 1 below)

- 9 November: The European Parliament approves the interinstitutional agreement (between the Parliament and the Council of the European Union) on data legislation ('Data Act')

- 10 November: Thierry Breton, European Commissioner for the Internal Market, pays an official visit to Beijing to meet the Chinese Minister of Industry and Minister of Commerce, as well as the Chinese Vice-Premier, to uphold the EU's current industrial and trade strategies

- 13 November: The European Parliament and the Council reach a political agreement on the EU Critical Raw Materials Act (see Deep Dive 2 below)

- 14 November: The European Defence ministers meet in Brussels

- 21 November: The European Parliament approves its resolution on the Net-Zero Industry Act (NZIA) (see Deep Dive 3 below)

- 27 November: The EU trade ministers meet in Brussels to discuss ongoing trade negotiations and the preparation of the 13th Ministerial Conference of the World Trade Organization

- 30 November: The European health ministers meet in Brussels to discuss the EU's open strategic autonomy in the field of health

- 30 November: The representatives of the Member States meet for a General Affairs Council dedicated to cohesion policy (see our Monthly Guest Contribution below for a deep dive on the relationship between cohesion and industrial policies)

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LUHNIP's deep dives

1. The meetings of EU defence and space ministers

The European ministers responsible for space met in Seville for an informal meeting on 6-7 November. The event took place against the backdrop of a crisis in the EU's space policy, marked by industrial and technical difficulties and Member States' divergent strategies. The meeting aimed at finding a political solution to ensure funding for the "Ariane 6 programme" - a project for a new European rocket launched in 2010 - after the Commission signed a €180 million deal with Elon Musk's Space X to enable the launch of its satellites. The ministers also worked to define a common strategy to strengthen European space infrastructures and services to boost the EU space industry's competitiveness and achieve technological autonomy. The conclusions adopted support the main priorities of the first EU Space Strategy for Security and Defence presented by the Commission and the EU High Representative for Foreign Affairs on 10 March 2023. Spearheaded by France, an agreement between the French, German and Italian governments guarantees funding for the Ariane 6 programme starting in 2026.

On 14 November, European defence ministers met in Brussels to discuss the continuation of military assistance to Ukraine, and to update the Capability Development Plan adopted in 2018. Support for Ukraine was reaffirmed together with the expansion of EU-level ammunition production to meet the Council's objective (set on 20 March 2023) to supply Ukraine with one million artillery shells by March 2024. As of November 2023, the target was far from being met - only 30% of the promised production having been achieved - due to various factors, including: (1) scarce funding for ammunition production; (2) shortages of skilled labour and machinery; excessive export (40%) of EU-produced ammunitions to third countries. The meeting also led to the conclusion of the EU Defence Capability Development Plan for 2023 - which includes 22 priorities (see table 1 below) to achieve an overarching aim: "give a common direction to Member States to adapt their warfare, and identify defence equipment to purchase, develop or research."

LUHNIP's take

November events in the fields of European defence and space policies show the practical difficulties Member States face in implementing the guidelines for strengthening EU strategic autonomy. Despite publicly-declared intentions by EU governments to outcompete China, India and Russia in the space sector and to bolster the EU defence industry, in practice Member States have been reluctant to Europeanise their strategies in salient core state powers. At the same time, while steps have been made recently toward the Europeanisation of industrial policies in these sectors, the EU's industrial capacity in space and defence cannot yet fully guarantee its strategic autonomy. The agreement between France, Germany and Italy on the future of European space policy and the application of the Commission's new

strategy to strengthen the European defence industry could represent an important step towards reversing the previous trend.

Table 1: Capability Development Priorities in the field of EU Defence

Category	Priorities to strengthen EU defence capabilities
LAND	Ground Combat Capabilities; Land Based Precision Engagement; Future Soldier Systems
AIR	Air Combat Platforms & Weapons; Airborne Command & Inform Capabilities; Integrated Air & Missile Defence; Air Transport
MARITIME	Naval Combat & Maritime Interdiction; Underwater & Seabed Warfare; Maritime Domain Awareness
SPACE	Space Operations; Space Services
CYBER	Full Spectrum Cyber Defence Operations Capabilities; Cyber Warfare Advantage & Readiness
STRATEGIC ENABLERS & FORCE MULTIPLIERS	Electromagnetic Spectrum Operations (EMSO) Dominance; Persistent Resilient C4ISTAR; Military Mobility; Critical Infrastructure Protection & Energy Security; Sustainable and Agile Logistics; Medical Support; Chemical, Biological, Radiological & Nuclear (CBRN) Defence; Cohesive & Well-Trained Militaries

Source: our elaboration from the European Defence Agency.

2. The Council and European Parliament reach a political agreement on the Critical Raw Materials Act

On 13 November, the Council of the EU and the European Parliament reached a provisional political agreement on the Critical Raw Materials (CRM) Act. The CRM Act was first announced by Commission President Ursula von der Leyen in her 2022 State of the Union speech and officially presented as a proposal for a Regulation on 17 March 2023. The Act's goal is to secure and strengthen the supply to the EU of CRMs for the twin green and digital transition and to achieve EU strategic autonomy (including in space and defence). The aim is to minimise supply chain disruptions and avoid supply shortages (as occurred during the Covid pandemic) stemming from the EU's import-dependencies on third countries (see figures 1-2 and check our LEAP colleagues' study on European and Italian strategic dependencies). This pending agreement is waiting to be officially adopted by both institutions.

The Commission's communication sets out actions to:

- Develop the value chains of critical materials in the EU.
- Diversify supplies from third countries.
- Foster sustainable sourcing and circularity.

With the following specific aims to be met by 2030:

- Ensure that EU extraction capacity covers at least 10% of the annual consumption of critical raw materials.
- Increase EU processing capacity to at least 40% of EU annual consumption of these materials.
- Boost EU recycling capacity to at least 15% of EU annual consumption of these materials.
- Have no external supplier of critical raw materials providing more than 65% of the EU's total annual consumption.

The political agreement reached by the Council and the European Parliament does not subvert the content of the Commission's proposal, but it makes some modifications to strengthen certain points.

Changes to the List of Critical Raw Materials:

- Original proposal identified 34 critical raw materials, with 16 labelled as strategic.
- Council-EP agreement maintains a total of 34 materials but adds aluminium to the strategic list; currently, it includes 17 raw materials.
- This results from lobbying by the European Aluminium Association.

Review of Benchmarks:

- Commission's targets: 10% for extraction, 40% for processing, and 15% for recycling.
- Council-EP agreement retains the first two but increases the recycling target to 25%.

New Administrative Obligations/simplification:

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- Projects for innovative raw materials may become candidates for strategic projects, i.e. a new label allowing critical materials exploitation projects to be given priority treatment for the granting of permits and their financing.
- Member States must establish contact points at various government levels for collaboration.
- Countries with strategic projects will have dedicated administrative units for speeding up and facilitating the issuance of permitting procedures.
- Permit granting process duration: max 27 months for extraction projects, 15 months for processing and recycling.

Risk Assessment Reports:

- Companies in key technological sectors must regularly present supply chain risk assessment reports.

Emphasis on Strategic Partnerships:

- The European Parliament highlighted the importance of strategic partnerships.
- The agreement includes measures for technology transfers and training/upskilling in collaboration with strategic partners.

LUHNIP's take

The adoption of a political agreement between the Council and the European Parliament on the CRM Act is an important step in the legislative process. It is important to underline that the CRM Act was, together with the Net-Zero Industry Act, one of the key pieces of legislation of the Green Deal Industrial Plan presented by the Commission in February 2023. The fact that a pending agreement could be reached without major changes to the Commission's proposals demonstrates institutional unity and the intention to adopt the CRM Act before the end of the European Parliament's legislature. Looking at the contents of the Council-EP agreement, the new permitting procedures rules and the stress on strategic partnerships are crucial. The former measure shows that the EU is aware it needs to boost its internal production and recycling of critical raw materials to become more autonomous. The focus on the negotiation of external partnerships demonstrates, for its part, the awareness of the EU to limit its strategic dependencies on some countries. The two elements taken together display the EU approach to tackling the critical raw material issue: operate both internally and externally to foster strategic autonomy without remaining isolated.

Figure 1: EU import reliance for extracted and processed critical raw materials

EU Import Reliance for Extraction

EU Import Reliance for Processing
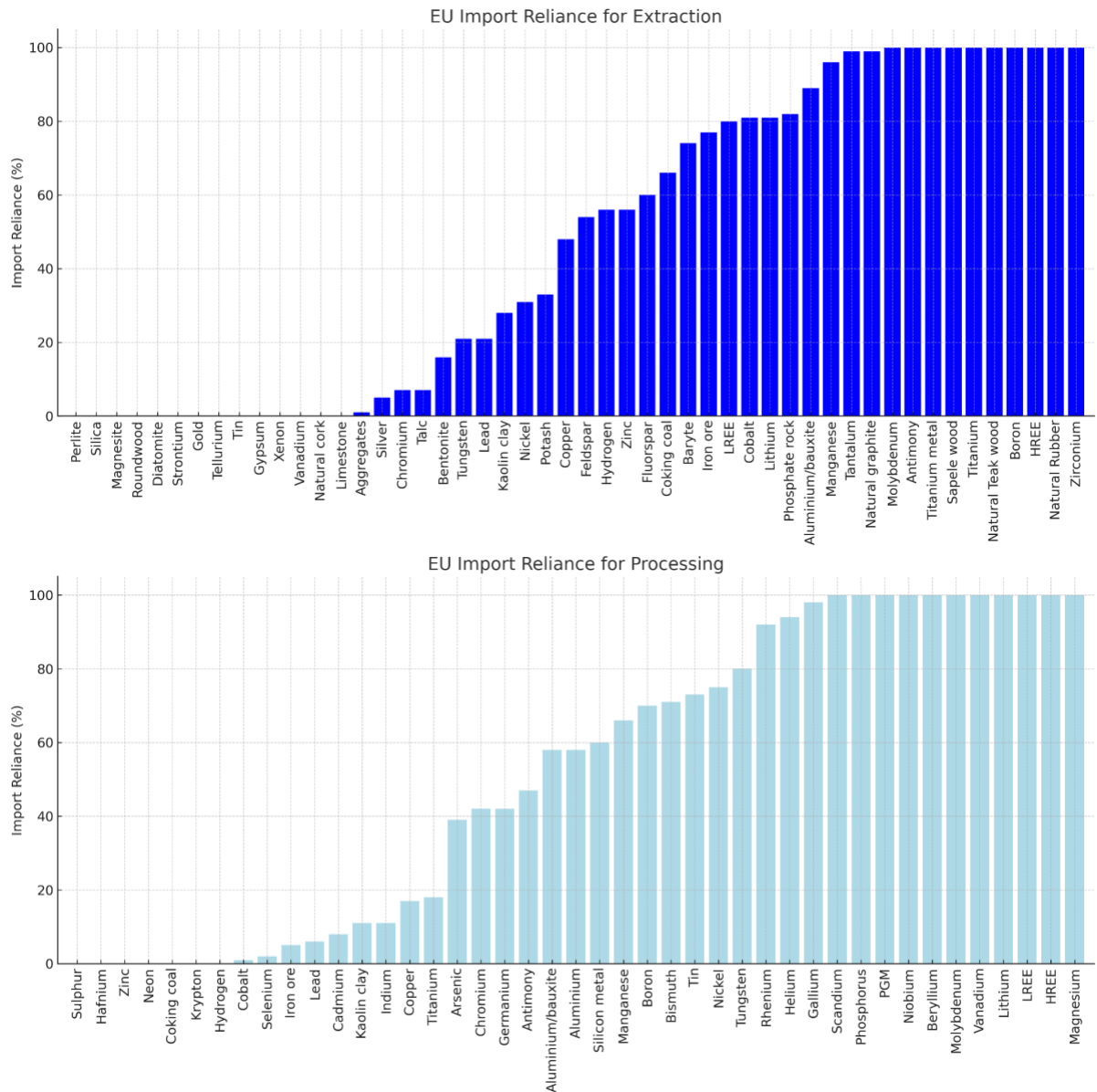
Source: our elaboration based on data provided by the European Commission (p. 117, Annex 10).

Figure 2: Major EU suppliers of critical raw materials

Source: "European Commission, Study on the Critical Raw Materials for the EU 2023– Final Report"
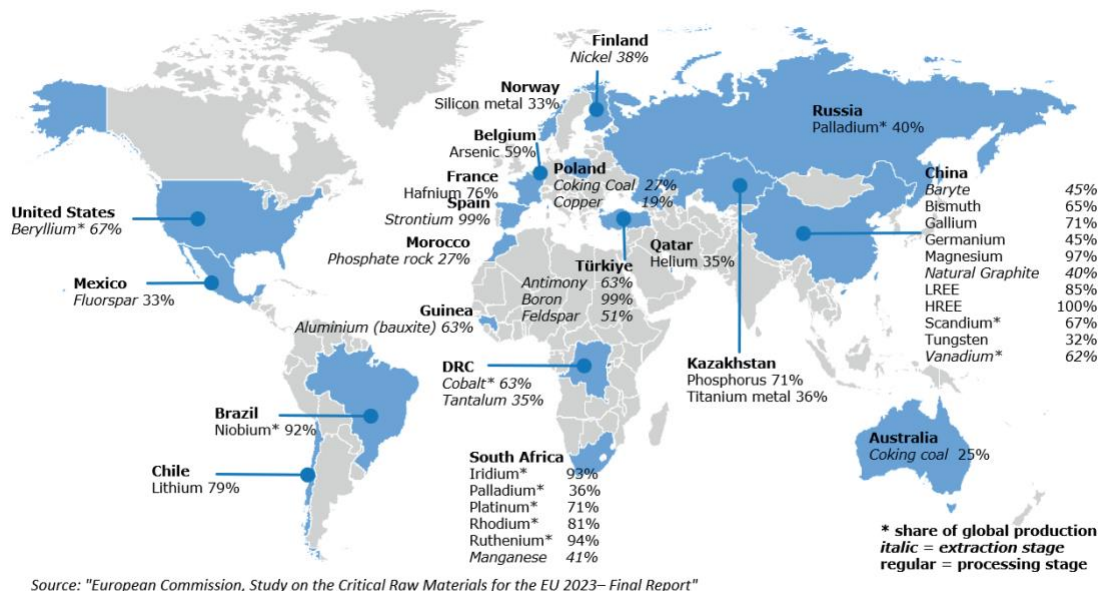
Source: European Commission (p.10).

3. The European Parliament approves its resolution on the Net-Zero Industry Act

On 21 November, the European Parliament approved its resolution on the Net-Zero Industry Act (NZIA), adopted by the Commission on 16 March, with 376 votes in favour, 139 against and 116 abstentions. The text adopted by the European Parliament includes major changes compared to the Commission's proposal for a regulation, namely:

A concrete list of Strategic Technologies:

- The Parliament has elaborated a list of 17 technologies deemed strategic for decarbonizing the European economy - an expansion from the Commission's original mention of only "net-zero technologies".

- Notably, this list includes nuclear energy, a subject of heated debate between the European Commission and Member States lately.

Boosting EU Technological Sovereignty:

- The Parliament emphasised the need to develop the EU's technological sovereignty. The goal of EU industrial policy shall be "to strengthen its ability to innovate and produce in Europe, particularly with regard to clean technologies."

- It introduced pre-qualification criteria for projects from companies in third countries which make it more difficult for third-country companies to gain access to EU public procurement.

Maintaining an Open Single Market:

- As a key necessity, the MEPs highlighted the need to keep the Single Market open.

Strengthening EU's Budgetary Capacity:

- The Parliament emphasised the need to strengthen the EU's budgetary capacity to enable the development of clean technologies in the EU and ensure a level playing field among the different Member States.

- It suggested utilising the current review of the 2021-2027 Multiannual Financial Framework.

- And it proposed to increase the allocation from Member States' revenues from the ETS (Emissions Trade System) to reach the objectives of the NZIA.

Developing Net-Zero Industry Valleys:

- The Parliament proposed the development of "Net-Zero Industry Valleys" to create industrial clusters.

- The aim is to promote "industrial symbiosis to minimise the environmental impact of the activities as well as providing efficiency gains for industry."

- These Valleys and the related manufacturing activities would be designated by Member States.

Reducing the Administrative and Regulatory Burden:

- In its resolution, the Parliament stressed the importance of reducing the administrative and regulatory burden on industry.

Strengthening Education and Training:

- It emphasised the need to enhance education and training to develop net-zero technologies.

Following the adoption of this resolution, an agreement must now be reached between the European Parliament and the Council on the European Commission's text.

LUHNIP's take

By deciding to draw up an explicit list of net-zero technologies under the NZIA and by proposing a new set of measures, the European Parliament is adopting a more ambitious position than the Commission and it is demonstrating strong determination to achieve the objective of strengthening EU technological sovereignty in net-zero sectors. The request for more budgetary resources to be allocated to the NZIA's objectives, in particular through the use of a greater proportion of resources from the ETS, is an important one. However, the Parliament's move risks delaying the adoption by the European institutions of the Net-Zero Industry Act, for two reasons: (1) the Parliament's decision to include nuclear energy in the list of clean technologies was taken without waiting for the Council's negotiating position on the issue. (2) The Parliament has proposed the establishment of a "European preference" – i.e. measures to give European firms preferential access to the single market – that is highly

controversial in the light of the EU's international commitments. There is now a concrete risk that Member States' divergent preferences over protectionist industrial policies to buttress the EU's strategic autonomy will be further exacerbated in the coming months, due, in part, to the inclusion of nuclear energy in the list of clean technologies. The European Parliament's initiative could end up being counterproductive and hamper its own industrial policy objectives.

*** Guest Contribution of the Month ***

Gian Paolo Manzella

Gian Paolo Manzella is SVIMEZ's Vice President. In the past, he was Councillor for Economic Development of the Lazio Region and Undersecretary at the Ministry for Economic Development. He currently teaches EU Industrial Policy at the Department of Political Science of Luiss University.

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Interestingly enough, on 30 November 2023, the informal meeting between Member States at the European Council was centred on the link between cohesion policy and strategic autonomy. This is a thematic choice which highlights, once again, the need for coherence between EU's cohesion and industrial policies. As a matter of fact, this relationship has been a recurring theme in the EU narrative.

In 1970, the European Economic Community's first official industrial policy document – the "Colonna Memorandum" – was clear on the need to integrate industrial policy measures with regional policy ones to achieve the twin objective of guaranteeing a homogeneous distribution of economic activity across the Community's territory and avoiding excessive concentration in given productive areas. Again, the 1994 communication "An Industrial Competitiveness Policy for the European Union" highlighted the risk of potential economic losses due to high territorial concentration of industrial activities. In the same vein, recent years saw the introduction of Smart Specialisation Strategies within cohesion policy to foster innovative industrial profiles tailored to different regions' characteristics. Today, this close linkage between industry and cohesion is more needed than ever. It is increasingly clear that the Commission's recent – interventionist industrial – shift carries the risk of deepening European divergences. This is made evident by the data on State aid approved under the Temporary Crisis Framework(s) – showing Germany's predominant fiscal capacity – and by the growing concentration of strategic investments in Europe's most advanced areas.

As a result, the well-known "Innovation Divide" among EU countries and regions risks, therefore, being exacerbated by the new EU industrial policy shift if it is not accompanied by decisive interventions in the field of cohesion policy. These developments, and their crucial implications in terms of a "geography of discontent," thus reopen the issue on how to combine "industrial competitiveness" and "harmonious development" enshrined in the Treaties: "competitiveness and cohesion", welcome back.

In policy terms, it means questions such as: how cohesion and industrial policies can truly "speak" to each other; how to achieve more integrated EU policies; how to effectively focus actions in the most underdeveloped areas of the Union. And, along the same lines, they

highlight "general" issues – like addressing the infrastructure gap to reduce the "distance costs" from the Europe's core to periphery – and "specific" ones – like the concentration of venture capital in more advanced areas of the EU.

From an Italian perspective, this turn of EU policy necessarily implies supporting Southern Italy's territories in this new industrial context. There are already good starting points in this respect: examples such as ENEL's 3Sun photovoltaic panel factory in [Catania](#) or STMicroelectronics' [new Sicilian plant](#), provide decisionmakers with clear signs to understand the conditions needed for the *Mezzogiorno* to be part of this "new industrial policy" trend, namely: a clear focus on European strategic productions such as chips and net zero technologies; strengthened links between firms, universities and research institutions; and key actions in support of FDIs attraction. The road to ensure competitiveness and cohesion in tomorrow's Europe starts, thus, at home. From a clear vision of the increasingly tight connection between industry and territories.

In this context in flux, ideas and policy indications are strongly needed. I therefore cherish the LUHNIP colleagues' new research initiatives in the field of EU industrial policy, and I congratulate them for the launch of this dialogue platform at Luiss and beyond.