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## **LUHNIP Monthly Brief on EU Industrial Policy**

**April 2024**

**Dimitri Zurstrassen and Donato Di Carlo**

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[Dimitri Zurstrassen](#) and [Donato Di Carlo](#)<sup>1</sup>

Every month, our 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

- **3 April:** The European Commission [launches](#) two in-depth investigations under the EU Foreign Subsidies Regulation on the subsidies granted by the Chinese government to solar photovoltaic companies ENEVO Group, Shanghai Electric UK Co and Shanghai Electric Hong Kong International Engineering Co.
- **4-5 April:** EU and US representatives [meet](#) in Leuven (Belgium) for the sixth ministerial meeting of the Trade and Technology Council ([see Deep Dive 1](#)).
- **11-12 April:** European Telecommunications ministers [meet](#) in Louvain-la-Neuve (Belgium) to discuss the strengthening of EU digital infrastructure, digital safety and cybersecurity ([see Deep Dive 2](#)).
- **12 April:** European Economic and Finance ministers [meet](#) for an informal ECOFIN meeting to evaluate the implementation of the Recovery and Resilience Facility ([RRF](#)) at mid-term.
- **17-18 April:** European Heads of State and Government [meet](#) for a special European Council meeting devoted, among other topics, to the strengthening of EU competitiveness ([see Deep Dive 3](#)).
- **22 April:** The European Commission [opens](#) proceedings against TikTok under the DSA regarding the launch of TikTok Lite in France and Spain.
- **22-25 April:** The European Parliament [meets](#) in plenary to adopt, among other texts, the Single Market Emergency Instrument ([SMEI](#)) package and the Gigabit Infrastructure [Act](#).
- **23-24 April:** European ministers for health [meet](#) in Brussels for an informal meeting devoted, among other topics, to strengthening the security of the EU's supply of medicines.
- **24 April:** The European Commission [launches](#) under the EU's International Procurement Instrument ([IPI](#)) an investigation into Chinese public procurement in the medical devices sector.

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<sup>1</sup> We would like to thank Romain Cohen, Giovanni Pacchiardi and Francesco Rosazza Boneitin for their excellent research assistance.

## LUHNIP's Deep Dives

### 1) The results of the last TTC meeting and the future of transatlantic cooperation

On 4-5 April, the 6th EU and US Trade and Technology Council ([TTC](#)) ministerial [meeting](#) took place in Leuven (Belgium). It was co-chaired by EU commissioners Valdis Dombrovskis and Margrethe Vestager, and by US Secretary of State Antony Blinken, Secretary of Commerce Gina Raimondo, and Trade Representative Katherine Tai. The meeting focused first on the outcome of the joint work on emerging technologies, the promotion of more secure and more sustainable transatlantic trade. Next, a dialogue with stakeholders representing academia, industry, and civil society was organised to discuss the current issues and the future of transatlantic cooperation.

During this summit, the representatives of the EU and the US [tried](#) to coordinate the regulation of new technologies (artificial intelligence, quantum technologies, 6G, biotechnology) and their respective industrial policies aimed at strengthening semiconductors' value chains. They reaffirmed their commitment to cooperate to reduce the divergence of approaches to AI governance and regulatory systems and to create interoperable and international standards in the area. A joint "6G vision" was also [adopted](#) to foster collaboration in research and innovation for the development of this technology. Finally, the two administrative [arrangements](#) were extended for a period of three years, namely the one aimed at identifying and counteracting potential supply chain disruptions, and the one aimed at sharing information on subsidies for the semiconductor sector.

The EU and US representatives also decided to continue their cooperation to make their policies more sustainable and more secure to reduce their strategic dependencies. To this end, a Joint Catalogue of Best Practices on Green Public Procurement was [issued](#) to accelerate the deployment of publicly financed sustainability projects in the EU and the US. At the same time, they agreed to continue cooperation on diversifying global critical minerals supply chains, in particular through the new Mineral Security Partnership launched in [March](#). Finally, the two parties reasserted the need to cooperate on economic security practices, the sharing of information concerning foreign non-market policies and the defence of human rights and democratic values on social platforms.

## LUHNIP's take

The 6<sup>th</sup> Trade and Technology Council ministerial meeting was an important event, as it was the last occasion to strengthen the cooperation between the EU and the US in industrial policy issues before the US presidential elections in November. Since its establishment in 2021, the TTC has seen notable [success](#), including alignment on export controls and sanctions in the context of the war in Ukraine or collaboration on the regulation of emerging technologies like Artificial Intelligence. The convergence between the EU and the US in this area follows a [shift](#) in US strategy in recent months in favour of tighter regulation of digital trade. At the same time, both parties have made significant progress in enhancing transparency within their industrial policy programmes and subsidy schemes. This is particularly important, especially in industries like semiconductors, where subsidies have increased significantly in recent years in the EU and the US to avoid overdependency on Asian suppliers ([see Table 1 below](#)).

**Table 1: The various public support programmes for semiconductors in the EU and the US from 2018 to 2024**

EU	US
<p><b>IPCEI Microelectronics (2018):</b> €1,75 billion</p> <p><b>IPCEI Microelectronics and Communication Technologies (2023):</b> €8,1 billion</p> <p><b>EU Chips Act (2023):</b> € 3,3 billion (expected leverage up to €43 billion with combined investment by EU budget, Member States and private sector)</p>	<p><b>American Innovation and Competition Act (2021):</b> €47,9 billion</p> <p><b>Chips and Science Act (2022):</b> €48,9 billion</p>

Source: European Commission and White House Press Releases

The 6<sup>th</sup> Trade and Technology Council ministerial meeting enabled the EU and the US to pursue the work done during the previous years. The adoption of the joint “6G vision” to foster collaboration in research and innovation for the development of this technology is a major step forward in the context of the current discussions within the EU to strengthen digital infrastructures ([see Deep Dive 2](#)). The extension of the two administrative arrangements on support for the semiconductor sector for a period

of three years is also a major event, as it allows the European Union and the US to collaborate on this crucial issue in the coming years, even if the US will adopt a more unilateral approach to the issue in 2025. Finally, the elaboration of a Joint Catalogue of Best Practices on Green Public Procurement can also lead to better coordination between EU and US industrial policies if the TTC survives the November presidential elections.

In the field of trade policy, the establishment of a Mineral Security Partnership with 14 third countries to secure stable access of raw materials will enable the EU to reduce its [dependence](#) on China in this area. Despite this success, however, it is worth noting that the last TTC ministerial meeting was not able to resolve the trade dispute between the US and the EU regarding tariffs on steel and [aluminium](#) or to reach a bilateral agreement allowing EU businesses to qualify for tax credits for electric vehicles under the US's Inflation Reduction Act. At the same time, The resolution of these problems is therefore [uncertain](#), as they will have to be resolved under the next US administration.

## **2) The future of EU Industrial Policy in the telecommunications sector**

On 12 April, the European Telecommunications ministers [convened](#) in Louvain-la-Neuve for an informal meeting to discuss the strengthening of digital infrastructure in the EU, infrastructure security, cyber security and user responsibility. The discussion on strengthening the digital infrastructure took place on the basis of the European Commission [White Paper](#) “How to master Europe’s digital infrastructure needs”, released on 21 February 2024. It included various proposals, such as the reinforcement of investments in digital infrastructure, of its security, the further integration of the Single Market, and a more centralised EU regulatory framework, with a view to approving a new telecommunications law during the next Commission mandate. These proposals were received with mixed feelings by the Council, with some Member States [opposing](#) the harmonisation of the national rules at the European level, arguing that critical infrastructures must remain in the hands of the Member States for reasons of national sovereignty. Other ministers, such as Petra De Sutter, who was chairing the meeting, [proposed](#) to focus on the implementation of measures voted recently rather than considering the formulation of new ones. Finally, the ministers discussed strengthening digital security and the responsibility of Internet users. The discussion led to the [adoption](#) of the “Louvain-la-Neuve Declaration on Promoting a Safer, More Responsible and Trustworthy Online Environment”.

## LUHNIP's take

The informal meeting of European Telecommunications ministers on 12 April was held against the backdrop of growing awareness of the importance of strengthening digital infrastructure inside the EU to achieve its goals in terms of digital transition and strategic autonomy. For example, in Enrico Letta's report on the future of the Single Market ([see Deep Dive 3](#)), one of the proposals to strengthen EU competitiveness is to achieve an effective Single Market for Electronic Communications Networks and Services. Despite the [efforts](#) made by the EU institutions since the 1980's to liberalise and create EU regulations in the telecommunications sector, the industry and regulations are still [fragmented](#) at national level. At the same time, even if the [evolution](#) of revenues and investments are considered positive by ETNO, the European lobby for telecoms operators, the European [Commission](#) states that further investments may be required to reach the 2030 [targets](#) set by the EU Digital policy programme. In particular, the institution considers that there is a gap of € 26-79 billion of investments to ensure full coverage of transport corridors and a gap of €80 billion of investments until 2027 in software and cloud-based capacities.

Results of the last informal Council of European Telecommunications ministers show that the European Commission's push for closer integration of the national telecommunications markets and harmonisation of their regulations faces significant opposition from Member States who wish to retain their sovereignty in this highly strategic area. At the same time, the European Commission proposals face [criticism](#) from European organisations traditionally in favour of competition between different national operators. Discussions on this subject within the European institutions are therefore likely to be difficult over the coming months.

### 3) European Council discussions on the competitiveness of the European Union

On 17-18 April, the European Heads of State and Government met for an extraordinary European Council meeting to discuss, among other things, how to strengthen the competitiveness of the European economy, with the presentation and discussion of Enrico Letta's [report on](#) the future of the European Single Market. This document includes various proposals to strengthen the European Union's competitiveness vis-à-vis China and the US. In particular, the report suggests, first, to establish a 5<sup>th</sup> Single Market [freedom](#) to enhance the EU research and innovation policies and to put forward proposals to finance the necessary investments for the twin transition and achieve open strategic

autonomy. Proposals are then put forward to strengthen the internal market in strategic sectors (defence, energy, telecommunications, transport, health, space) and the sustainability of the single market (by strengthening the social dimension, the inclusion of SMEs, tax harmonisation and the fight against tax fraud, etc.). Finally, Letta's report includes proposals to enhance the effectiveness and simplification of EU regulation, and the external dimension of the Single Market. The European Council [welcomed](#) the proposals of Letta's report and asked the Council of the EU to implement its recommendations by the end of 2024.

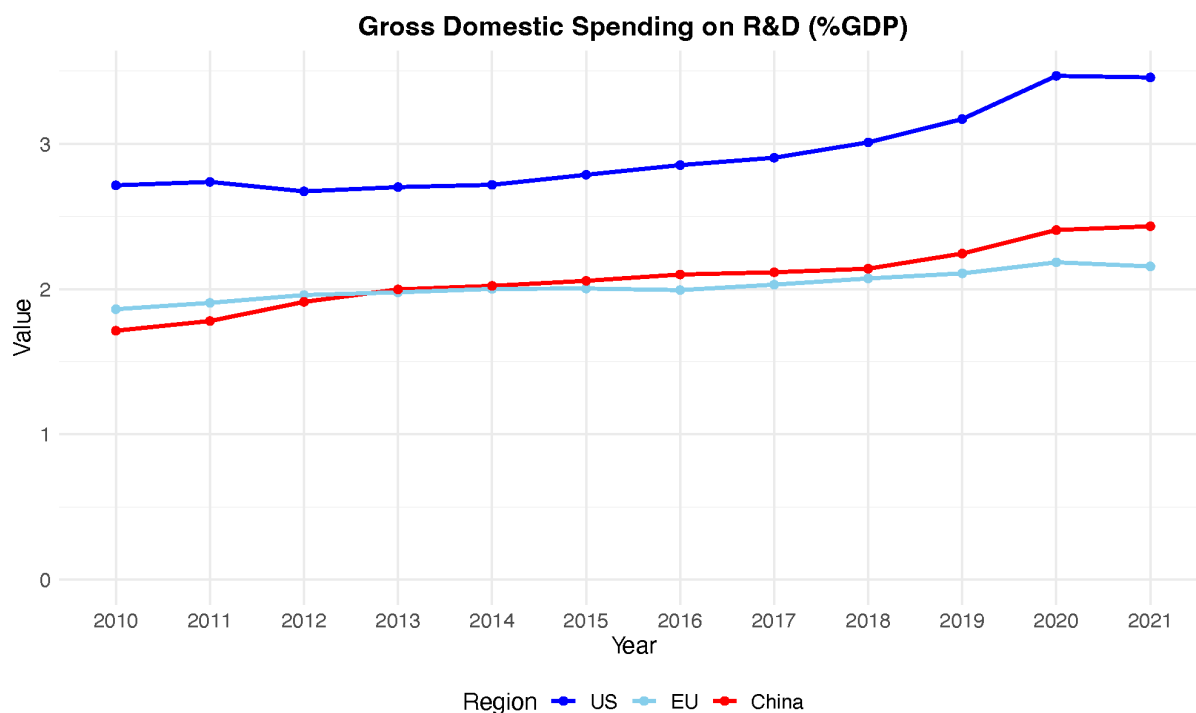
The second issue discussed was the completion of the Capital Markets Union ([CMU](#)), considered essential to finance the necessary investments to achieve the objectives set by the EU ([see the Guest contribution at the end of this brief](#)). On this topic, the European Council [asked](#) the Council of the EU and the Commission to accelerate its work on various aspects, like the harmonisation of national corporate insolvency frameworks or the improvement of financing and exit options for European scale-ups.

Finally, the European Council discussed the future of EU Industrial Policy. It asked the Council of the EU and the Commission to work on the development of an industrial policy focused on achieving the EU's objectives for the twin transition, to promote a regulatory environment more conducive to innovation and less burdensome on industry, but also to increase spending on research and development to reach the spending target of 3% of GDP. Lastly, it also asked to formulate effective social and trade policy measures to achieve the Union's industrial policy goals.

### **LUHNIP's take**

The organisation of an extraordinary European Council last 17 and 18 April, devoted exclusively during the second day to the problem of the lack of competitiveness in European industry, demonstrates the importance for the Heads of State and Government of rapidly finding solutions to this issue. The situation described in Enrico Letta's report on the future of the Single Market is indeed alarming: it shows the diminishing share of the EU economy in the world in favour of Asian economies, the decline of the EU's GDP/capita ratio compared to the US since the 1990's and its widening technological external dependency on the US and China. One of the key reasons for this is the EU's low level of spending on research and development compared with its main competitors ([see Graph 1](#))

**Graph 1: The evolution of domestic spending on private and public R&D in China, the EU and the US from 2010 to 2021**

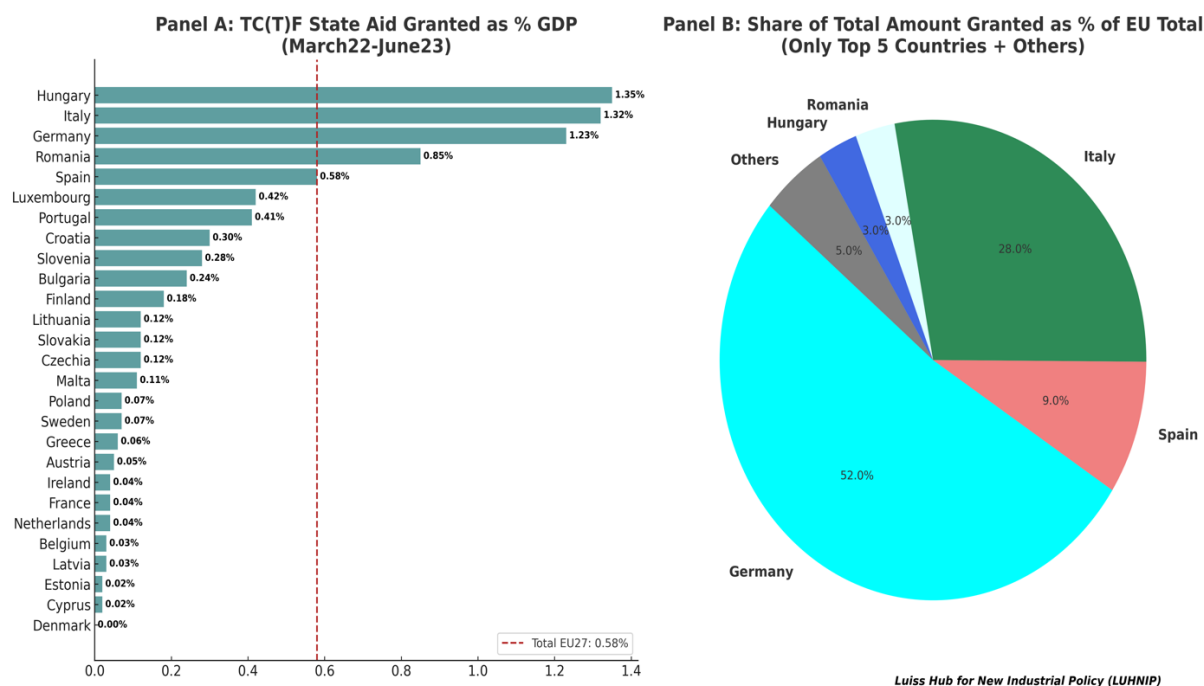


Source: our elaboration based on [OECD data](#).

Letta's report contains several proposals enabling the EU to equip itself with the instruments it needs to solve these problems. The development of a new European technological infrastructure based on open knowledge can enhance the EU's investment gap in research and innovation while improving public access to research results, technologies and data. At the same time, the creation of a "European degree" will enhance the mobility of students and researchers in the Single Market. Concerning the financing of EU industrial policy, the creation of a State Aid contribution mechanism, obliging Member States to allocate a portion of their national funding to the financing of EU initiatives, can help prevent the fragmentation of the single market following the increase in State Aid in recent years (see **Graph 2**). The proposal to introduce local-content and social conditionalities for private enterprises in exchange for public subsidies, for its part, would ensure that State Aid strengthens European industry and pursues social objectives. Finally, the proposal to achieve the single market in strategic sectors (defence, energy, finance, telecommunications) can help the EU to achieve its goals in terms of dual transition and open strategic autonomy.



**Graph 2: State Aid granted in the EU as % GDP from March 2022 to June 2023 and its share among Member States**



Source: our elaboration based on [European Commission data](#)

While Letta’s report contains some interesting proposals for strengthening the competitiveness of European industry, there are some concerns about how they will be implemented in practice. The existence of too many proposals without clear priorities and an adoption timetable risks resulting in most of them not being implemented, as was the case after the submission of the Monti [report](#) in 2010. The fact that the European Council has not drawn up a list of concrete proposals from Letta’s report - and which the other institutions should prioritise - is the first indicator of this possibility. Secondly, the fact that Letta’s report was published so close to the European elections - where the right-wing parties could [increase](#) their influence on European policies - and to Draghi’s [report](#) on the future of EU competitiveness (expected in June), may lead the European institutions to focus from autumn 2024 on measures not proposed in Letta’s report.

**\*\*\*Guest Contribution of the Month\*\*\***

**Sarah Guillou, Director – Department Innovation and Competition and co-leader of the ‘Public Policy and Business Competitiveness’ cluster, OFCE-SciencesPo**

**The importance of completing the Capital Markets Union for EU industrial policy**

Since the first [IPCEIs](#) and [NextGenerationEU](#), government support to influence productive specialisation is no longer taboo and discreet in Europe and is less suspected than it used to be of creating distortions of competition. This rehabilitation of industrial policy is well established at a time when international competition is challenging the European Union's technological positioning, and international relations are increasingly using economic power as a weapon of influence.

Within these European frameworks for the authorisation of public funding, the Member States of the European Union, and in particular the larger ones, have not shied away from supporting their companies in the face of recent shocks (COVID-19 pandemic and then energy crisis) and financing support plans to sustain technological sectors (green industries, quantum computers, cloud, artificial intelligence, etc.) or subsidising foreign investment in production deemed strategic (batteries, semi-conductors).

Nevertheless, on the eve of the European elections, the European model is being widely questioned, especially in terms of economic growth and competitiveness (the [Draghi Report](#) touches upon the subject) and in terms of an environment conducive to breakthrough innovations and technological [excellence](#). But the financial resources deployed by recent national and European plans are a response that does not seem to be exactly equal to the challenges. The stakes are measured by technological metrics. Whether we are talking about patents in disruptive [innovations](#), scientific publications, the number of companies among the world's major R&D investors, investment in ICTs or in intangible assets, the European Union is moving away from the trajectory of the United States and faces stiff competition from China in many technologies. A recent OFCE Policy [Brief](#) shows that the eurozone invests 5 times less per job in information and communication technologies (ICTs), and 3 times less in intangible assets (R&D, software and databases). With an unchanged volume of employment on both sides of the Atlantic, and assuming that the United States does not change its capital intensity, over the next 5 years of the European mandate we would need to invest around €260 billion more in ICTs to catch up with the US level of investment per job. In terms of R&D, an additional annual investment of €313 billion would be needed to match the average volume of R&D per job in the United States. This represents a total effort of 5% of GDP in the eurozone. This difference in capital intensity partly explains why the European Union's GDP per capita is falling behind that of the United States due to much slower productivity gains, and thus hampering its ability to absorb major cyclical shocks, particularly the [energy shock](#).

A tremendous amount in investment is needed to catch up in terms of technology world rankings and to raise the European growth pace. Is EU industrial policy up to the challenge? If we add up all the [IPCEIs](#) since 2018, we reach a total of €27.75 billion in public funding, to which additional private investment of around €50 billion is expected. To this can be added financing from [NGEU](#), which amounts to 750 billion euros. These 828 billion euros would seem to meet the investment challenges of the next five years, in particular for the energy transition (150 billion euros per [year](#)) and artificial intelligence (150 billion euros per [year](#)), or to catch up with the US level of investment per job in ICT assets and R&D (573 billion euros per year). But one condition would be that the NGEU be renewed over the next 5 years, and secondly, that private investment would complement public intervention, as expected. But private investments are not legally committed and are also not guaranteed.

How can we change the scale of investment in Europe? Given the limited resources of public money, it is imperative to speed up the integration of European capital markets. This is a prerequisite for leveraging the private investment that accompanies all public intervention plans. It is these private investment levers that determine the scale and success of industrial policy. It is these levers that will vitalise the fabric of European production.

Completing the Capital Markets Union means finalising the harmonisation of the rules governing clearing houses and, if not merging them, making them substitutable, allowing European savings to flow into common European investments, harmonising bankruptcy and liquidation rules and unifying financial market supervisory bodies. Of course, we could be even more ambitious for European industrial policy with the creation of a funding agency similar to the US [DARPA](#) or a common intervention fund similar to the [NGEU](#) programme. But as the European institutions stand, the first achievable objective for rapidly strengthening the effectiveness and scope of industrial policy is to finalise the integration of capital markets.