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LUHNIP Monthly Brief on EU Industrial Policy

November 2024

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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.

Last Month in Brief

- **5 November:** The Council of the EU reaches an agreement on the VAT in the Digital Age package to fight tax fraud, support businesses and promote digitalisation in the EU.
- **6 November:** The European Commission opens a formal investigation into Corning for potential abuse of dominance in the specialty glass market to ensure fair competition and innovation in high-tech materials.
- **7-8 November:** EU heads of state or government meet in Budapest for an informal meeting to discuss proposals to strengthen the competitiveness of European industry and the future of EU-US relations (**See Deep Dive 1**)
- **12 November:** The Consumer Protection Cooperation Network and the European Commission notify Apple of potential geo-blocking violations and urge it to comply with fair digital market practices.
- **14 November:** The European Commission approves €300 million in funding for cross-border defence procurement projects under EDIRPA to strengthen the EU's defence industry and industrial interoperability (**See Deep Dive 2**).
- **14 November:** The European Commission fines Meta €797.72 million for anti-competitive practices related to Facebook Marketplace to safeguard competition and innovation in digital industries.
- **19 November:** EU ministers of Defence meet in Brussels for a Foreign Affairs Council, in its Defence configuration, to discuss EU military support for Ukraine and defence readiness and preparedness (**See Deep Dive 2**).
- **21 November:** EU ministers for Trade meet in Brussels for a Foreign Affairs Council, in its Trade configuration, to discuss the future of the EU's trade policy, trade relations with the US and WTO reform.
- **25 November:** The European Commission formally requests WTO consultations regarding China's provisional anti-dumping measures on EU brandy imports to defend EU trade interests and brandy producers.
- **27 November:** The European Parliament approves the new College of Commissioners presided by Ursula von der Leyen.
- **28-29 November:** EU ministers for Economic Affairs and Industry meet in Brussels for a Competitiveness Council to discuss the future of European competitiveness, including proposals for better regulation, improved research policies and the reinforcement of EU capabilities in the space sector (**See Deep Dive 1**).

[1] We would like to thank Francesco Rosazza Boneitin, Romain Cohen, Francesco Montaña Paladini, and Giulio Petrillo for their research assistance.

LUHNIP's Deep Dives

1) The Budapest declaration on the new European competitiveness deal and the outcomes of the 28-29 November Competitiveness Council

On 8 November, European Union (EU) leaders convened in Budapest for an informal European Council summit to address pressing geopolitical and economic challenges, particularly in the wake of Donald Trump's re-election as President of the United States. At the summit, they underscored the importance of achieving EU strategic autonomy to bolster the bloc's resilience and competitiveness. This commitment was formalised in the Budapest declaration, which had been built on insights from earlier EU summits, such as those in Versailles (2022) and Granada (2023), and which incorporates recommendations from the Letta and Draghi high-level reports presented in April and September this year.

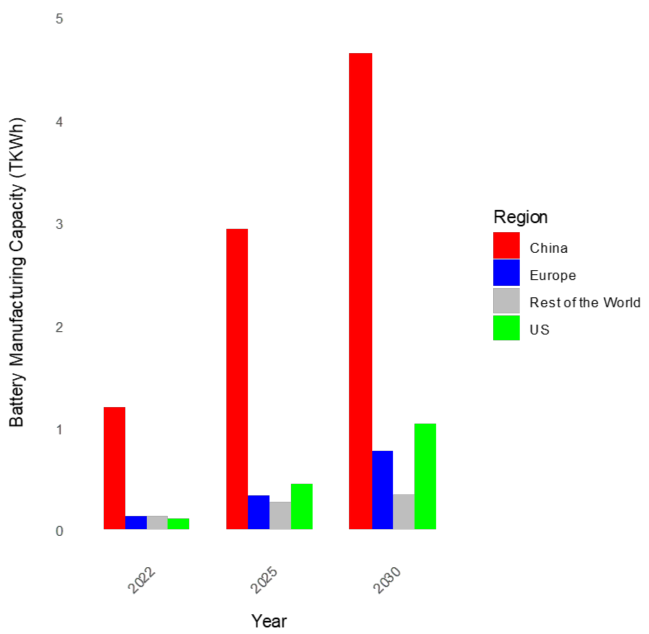
The declaration articulates the EU's vision for enhancing its competitiveness, sovereignty, and global influence. It prioritises strengthening the Single Market to foster innovation and economic resilience while advancing the Capital Markets Union and creating a union of savings and investment by 2026 to support innovative companies and critical technologies. The plan also emphasises industrial renewal, decarbonisation, and technological leadership through a robust industrial strategy. This includes, first, the simplification of regulatory frameworks, the reduction of administrative burdens for companies and the enhancement of support for small and medium-sized enterprises (SMEs); second, the strengthening of Europe's industrial and technological defence base (EDTIB) to enhance the EU's defence capabilities. Also, EU leaders committed to an increase in investments in research and innovation, with the setting of a target of allocating 3% of GDP to R&D by 2030 and achieving energy sovereignty and climate neutrality by 2050 through an integrated energy market and circular economy initiatives. Furthermore, the EU will promote skills development, digital transformation, and quality employment. Finally, a robust, open and sustainable trade policy will be adopted, focusing on diversification and resilience while reinforcing the World Trade Organization (WTO) framework.

A Competitiveness Council met on November 28 and 29, 2024 to discuss measures to boost the EU's competitiveness. The ministers for Economic Affairs and Industry held a general debate about the Council's views on the future of competitiveness and adopted almost unanimously (25 of the 27 national delegations supported the text) conclusions on the topic. The ministers agreed with the Draghi report on the future of European competitiveness's main diagnosis and called for urgent action based on its recommendations. They highlighted the need to deepen the Single Market, reduce regulatory burdens, pursue the twin transition of European industry, and better prioritise and coordinate the funds and tools to devote to boosting the competitiveness of European industry. Also, they held discussions regarding the situation of several European industrial sectors (automotive, batteries, biotech) and measures to improve their competitiveness. Finally, ministers exchanged views on the strengthening of EU research and space policies. They called for a reinforcement of the European Research Area (ERA) and its Innovation Committee (ERAC), and an acceleration of initiatives to strengthen research and innovation and R&I infrastructures. Finally, concerning EU space policy, they requested that the upcoming initiatives in this area take into consideration dual-use needs to strengthen EU strategic autonomy.

LUHNIP's Take

The informal European Council in Budapest and the Competitiveness Council meeting of November provided an opportunity for European governments to discuss in depth the analysis and recommendations of the Draghi report on the future of European competitiveness and set out a roadmap for the new Von der Leyen II Commission in this area. The Budapest Declaration and the Council conclusions provide the foundation for drafting the future EU Competitiveness Compass, which Ursula Von der Leyen presented as the first major initiative of her new Commission, and the future EU horizontal Single Market Strategy. The adoption of new EU industrial policy measures is considered urgent by EU leaders in the view of the difficult situation facing European industry. Over the last few days, the European battery champion Northvolt declared bankruptcy, while German firms like Bosch and Volkswagen are experiencing financial difficulties and announced important redundancy plans to cut costs. These setbacks underscore the EU's difficulty in competing with China, which dominates the electric vehicles market and lithium-ion battery manufacturing. Projections indicate that China's production capacity will continue to surpass Europe and the US, with the gap widening significantly by 2030 (**See Graph 1**).

Graph 1: Projected Lithium-Ion Battery Manufacturing Capacity by Region (2022, 2025, 2030)



Source: *Our elaboration based on IEA data*

However, although the Budapest Declaration provides general guidelines to strengthen the competitiveness of European industry, the text stops short of specifying concrete new financial commitments or the creation of new EU financial own resources, mentioning only their willingness to explore "the development of new funding instruments". The Council conclusions, for their part, only emphasise that the need for "EU financing should contribute to development and manufacturing of key strategic technologies in Europe by using EU funds to leverage and de-risk private investments; and through a simpler EU funding system." Resistance from fiscally conservative countries like Germany and the Netherlands, and stricter EU fiscal rules, may delay action in the area until the next budget cycle (2028-2034). Focusing on private financing and market integration, such as advancing the Capital Markets Union, may fall short of addressing Europe's challenges and signals the limited ambition of the EU leaders. Furthermore, persistent disagreements between EU Member States over the type of energy and technologies to be supported by the EU institutions can hamper the elaboration of an efficient industrial strategy for the dual transition of the European industry.

Finally, if the adoption of guidelines by the EU Member States to strengthen the competitiveness of European industry enables the Commission to formulate concrete proposals to reach this objective, there is a risk that divisions over future relations with China and the US also impede the EU from reaching this goal. Fear of US tariffs on exports of EU products may lead certain European governments and heads of European institutions to buy more American military equipment and weapons, to the detriment of the objective of achieving EU strategic autonomy in the defence sector. Differences of opinion between Member States on the policies to adopt concerning Chinese industrial imports and Foreign Direct Investment (FDI) can also hamper the objective of adopting a common EU trade policy to mitigate Chinese industrial competition, as the debates around the establishment of a list of critical technologies that would be subject to FDI show.

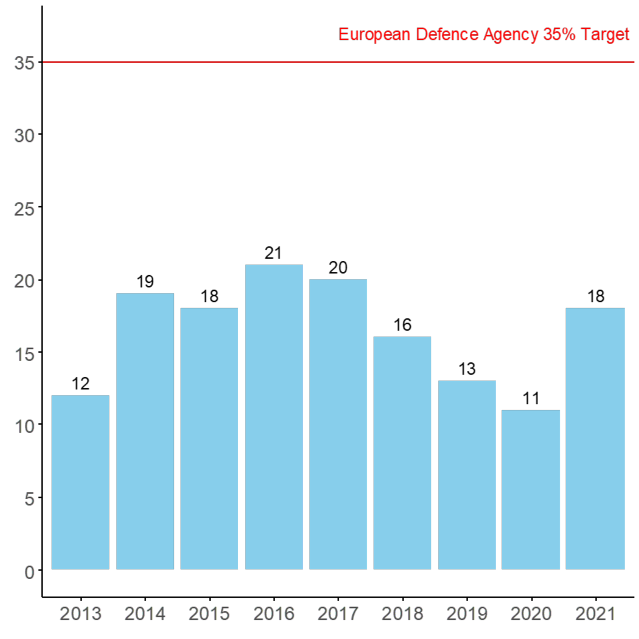
2) The Future of EU Industrial Defence Policy: the latest Foreign Affairs Council (Defence) and the Niinistö Report

On 19 November, the Member States' defence ministers convened in Brussels for a Foreign Affairs Council (Defence) meeting. It was an occasion to discuss many topics, such as the European Investment Bank's contribution to defence industrial policy initiatives and the implementation of the European Defence Industrial Strategy (EDIS). Moreover, two documents were adopted: the conclusions on the PESCO review and the Coordinated Annual Review on Defence (CARD) report elaborated by the European Defence Agency. Finally, European ministers of defence discussed the recently published Niinistö report on EU preparedness and readiness. In this high-level report, the former president of Finland offers various recommendations to strengthen EU preparedness. The report stresses the need for a consolidation of European defence capabilities through enhanced cooperation between Member States and European projects of common interest (for example, the European Sky Shield Initiative). The report introduces the concept of 'EU's comprehensive preparedness' to face the current technological gaps and shortfalls in the European defence sector. This approach combines the strengthening of EU defence industry through the implementation of the European Defence Industry Strategy and the creation of a Single Market for Defence with an increased interoperability between military and civilian solutions. This objective would be pursued through a whole-of-government approach by enhancing civil-military cooperation, dual-use technologies and infrastructures at the EU level. Finally, in the report, the former President of Finland stresses the need to increase funding to support EU initiatives in the defence sector and for the promotion of dual-use technologies.

LUHNIP's take

The latest Foreign Affairs (Defence) meeting and the publication of the Niinistö Report come at a crucial time for the future of EU defence industrial policy. The recent re-election of Donald Trump as President of the United States forces the EU to accelerate the integration of the European defence industry (**see on this topic our Monthly Brief for October 2024**). The European Commission, for its part, is currently preparing a White Paper on the future of European Defence, which is scheduled to be published in the first 100 days of the new Von der Leyen II Commission. The discussions at the Foreign Affairs (Defence) Council focused on two main issues: firstly, the difficulties of promoting joint public procurement and reducing external dependence in the defence sector; and secondly, improving the framework for defence cooperation, both at the EU and at the industrial level. Despite the European Defence Agency's target of allocating 35% of defence budgets to European collaborative projects, which represents the benchmark for spending on joint research and procurement, Member States are falling short of this goal (**see Graph 2**).

Graph 2: Collaborative Defence Equipment Spending Share (2013-2021) in the EU



Source: *Our elaboration based on EDA data*

Disagreements between Member States include the question of participation or not of non-associated third countries in EU-funded defence initiatives. Among them, France has always been in favour of imposing high standards for non-associated third countries' participation (this position emerged, in particular, during the negotiations for the European Defence Fund Regulation). The institutional position was supported by French industries, which consider that one of the eligibility criteria must be the minimum of 80% of European components in the capacity aiming to obtain EU funds. However, the Hungarian Presidency of the Council of the European Union recently proposed lowering this criterion to 65% and adding other two eligibility criteria to allow products by non-EU countries to obtain EU funds. This position was backed by Italy, Germany and Spain and by many European industries. The main argument for this proposal lies in the fact that more flexible criteria for US companies to access EU funds would make discussions with the future Trump administration on future US military involvement in Europe less difficult. However, the adoption of this proposal could hinder the objectives set out in the EU Defence Industrial Strategy and the Draghi Report. The formulation of new proposals by the European Commission to strengthen joint public procurement will be key to finding a common European position on this issue.

Guest contribution

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Industrial policy: a way to relaunch EU global actorness?

In the context of the post-pandemic recovery, the ongoing energy crisis, the defence issue, and the rise of global protectionist tendencies, financing the EU's industrial policy has become more critical than ever. Substantial investments are urgently needed to drive innovation, decarbonise industries, and achieve ambitious climate goals. A well-funded industrial strategy is essential not only for boosting economic growth and competitiveness but also for addressing Europe's persistent productivity and innovation gaps. Moreover, in an increasingly volatile global environment, financing a robust industrial policy is indispensable for safeguarding the EU's strategic autonomy and global actorness. By aligning financial resources with strategic priorities, the EU can bolster its resilience and sustainability, while reinforcing its integration process, through shared projects supported by common financial instruments.

The financing of EU industrial policy has a complex history, marked by efforts to reconcile national priorities with the need for a common European approach. Historically, fragmented funding mechanisms and Member States' reluctance to cede control over industrial strategies resulted in underfunded and uncoordinated initiatives. In turn, big companies of Member States, the so-called national champions, have been quite reluctant to get involved in European industrial alliances and perceive themselves as EU actors. These elements of fragmentation limited the EU's ability to achieve economies of scale and undermined the coherence of its policy outcomes. However, the New Community Instrument (NCI), introduced in the 1970s, was a ground-breaking tool that allowed the European Commission to borrow funds for strategic investments in infrastructure and energy. Reviving such tools could help address similar challenges today.

Lessons from past strategies, such as the Juncker Plan, highlight the critical need for a unified and strategic framework. While the Juncker Plan demonstrated innovation in leveraging EU budget guarantees to mobilise private investments, it faced significant limitations, including insufficient scale, overly broad project priorities, and questions about the additionality of its funded initiatives. These shortcomings underscore the importance of ensuring that future financing mechanisms are well-targeted and adequately resourced.

The introduction of the Next Generation EU programme marked a potential turning point, raising the question of whether it constituted a "Hamiltonian moment" for the Union. NGEU introduced joint debt issuance to support recovery and transformation efforts, with a strong focus on green and digital transitions. This initiative demonstrates a stronger political commitment to aligning financial resources with strategic goals, fostering industrial alliances, and promoting cross-border collaboration among Member States. However, challenges such as securing sustained funding and avoiding resource dispersion must still be addressed.

Looking ahead, the EU must prioritise several actions to strengthen the financing of its industrial policy. Enhancing fiscal capacity by introducing new own resources, such as digital taxes and green levies, would create a stable and independent funding base. Revisiting tools like the NCI could provide innovative financing mechanisms to mobilise capital for strategic projects. A mission-oriented approach to innovation policy, focusing on transformative goals such as carbon neutrality and digital sovereignty, would ensure investments are directed towards high-impact initiatives. Concentrating resources in critical sectors and fostering cross-border industrial alliances would further encourage collaboration and innovation, reinforcing Europe's industrial and technological leadership.

Addressing governance challenges is also essential. As shown in past initiatives, improved coordination across EU institutions, Member States, and private actors is crucial to avoid fragmented efforts. Establishing integrated governance platforms for resource tracking and monitoring could enhance transparency, streamline decision-making, and ensure accountability. Such structures would align with the broader need for more cohesive and strategic management of EU industrial policy.

However, after the complex negotiation process that led to the formation of the second von der Leyen Commission, the current prospects for the realisation of this scenario are highly uncertain. On the one hand, the current period of instability in some large European countries, the strengthening of sovereigntist parties and the not always encouraging signals on the implementation of the NGEU militate against the chances of success of a highly ambitious European industrial policy. On the other hand, the combination of global geopolitical tensions, a rather gloomy European economic horizon and a certain disorientation in some of the leading Member States could have the opposite effect, creating the conditions for a grand relaunch of European industrial policy. Much will depend on the compactness of the new Commission, the negotiating skills of its President and, above all, the willingness and ability of the most pro-European political forces and actors to relaunch the European project, rallying public opinion around it.

Only if these conditions are met will the EU move closer to a unified and ambitious industrial strategy. As suggested by Mario Draghi, this would enhance Europe's competitiveness, foster innovation, and secure its strategic autonomy, positioning the Union as a global leader in the green and digital transitions.