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LUHNIP Monthly Brief on EU Industrial Policy

December 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

- **3 December**: EU Health ministers meet to discuss the pharmaceutical package, ensure medicine supply security, and enhance competitiveness of the European health sector. (**See Deep Dive 1**)
- **3 December**: The European Commission and the European Investment Bank (EIB) announce a partnership to strengthen the European battery manufacturing value chain, providing €3 billion in public support, including €1 billion in grants and €1.8 billion in EIB investments.
- **4 December**: EU ministers responsible for digitalisation and telecommunications meet in Brussels to approve conclusions on the EU's cybersecurity agency (ENISA) on the future digital infrastructure and the digital decade policy programme 2030. (**See Deep Dive 2**)
- **6 December**: The Council of the EU approves conclusions for a stronger EU agency for cybersecurity to enhance cybersecurity capacities for industrial and digital sectors.
- **9 December**: The 9th Raw Materials Week launches the European Raw Materials Academy and addressed the implementation of the Critical Raw Materials Act.
- **12 December**: The Council of the EU and the EU Parliament reach a provisional agreement on financial benchmarks, to alleviate the burden on SMEs and simplifying authorisation and registration requirements for benchmark administrators.
- **16 December**: The Council of the EU adopts a directive al era to expand the use of digital tools and reduce red tape in cross-border situations.
- **16 December**: The European Commission signs a concession for IRIS² to provide secure satellite connectivity for EU Member States and high-speed broadband for private and underserved areas (**See Deep Dive 2**).
- **17 December**: The European Commission opens formal proceedings against TikTok on election risks under the Digital Services Act.
- **17 December:** EU Environment ministers meet in Brussels to discuss the revision of the REACH regulation and the regulation on CO2 standards for cars and vans.

[1] We would like to thank Francesco Montaña Paladini and Francesco Rosazza Boneitin for their research assistance.

LUHNIP's Deep Dives

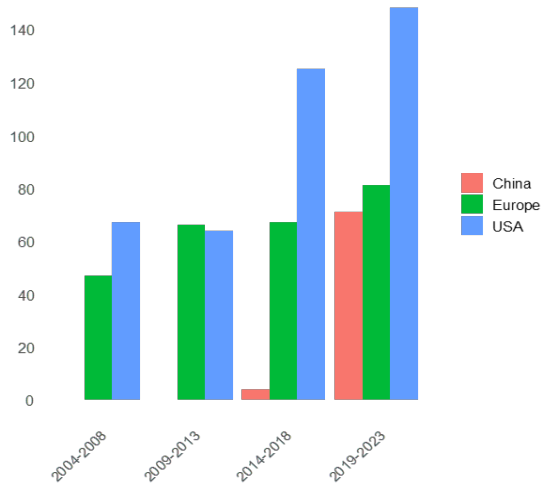
1) Critical Medicine Supply and Capacity-Building

On 3 December, EU Health Ministers convened in Brussels to discuss the European Health Union in relation to the Draghi Report on the future of European competitiveness, released in September 2024. They explored the report's conclusions on health challenges, identifying synergies and gaps between its recommendations and the Council's priorities, including those set out in its conclusions on the future of the European Health Union. Ministers also examined how the Draghi Report's recommendations could affect national healthcare systems and discussed ways for Member States and the Commission to coordinate their implementation. Additionally, they reviewed the progress made on the Pharmaceutical Package, a regulation and directive published in April 2023 aimed at modernizing the EU's pharmaceutical framework.

LUHNIP's take

The latest meeting of the Health Council was an opportunity for the EU Health ministers to discuss the implementation of the Pharmaceutical Package and to formulate a mandate for the future European Commission to strengthen the competitiveness of other health-related industries. For example, several key obstacles persist in Europe's pharmaceutical sector to reach this objective. The Draghi Report highlights barriers such as fragmented research and development (R&D), slow regulatory processes, and insufficient funding. Despite Europe's R&D expenditure growing at an annual rate of 4.4% since 2010, it still lags behind the U.S. (5.5%) and China (20.7%). This widening gap has resulted in Europe falling behind in discovering new molecular entities (NMEs), essential for pharmaceutical innovation and market growth (**see Graph 1**). The US outpaced Europe in the 2010's while China caught up quickly.

Graph 1: Number of New Chemical and Biological Entities by Region (2004-2023)



Source: Our elaboration based on EFPIA data.

Furthermore, Europe's heavy reliance on China and India for 60-80% of active pharmaceutical ingredients (APIs) exposes vulnerabilities in the supply chain. Rising production costs in Europe and reduced transparency in Chinese manufacturing, due to tightened anti-espionage laws, only exacerbate the situation. Diversifying API sourcing beyond China and India is essential to ensure a more stable and secure supply chain. The implementation of the Pharmaceutical Package and the announced proposals of Critical Medicines and Biotech Acts will be key to address these challenges.

2) Results of the latest Telecommunications Council meeting

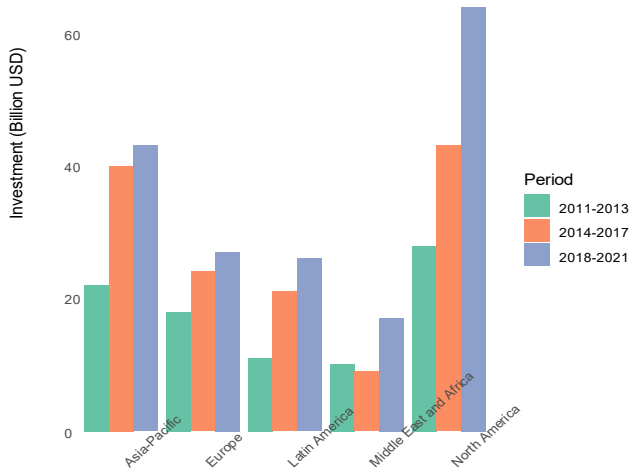
On 6 December 2024, EU ministers responsible for digitalisation and telecommunications met in Brussels for a Transport, Telecommunications and Energy Council meeting. They adopted the first conclusions on the future of the EU's cybersecurity agency (ENISA) and European digital infrastructure. The ministers underlined ENISA's importance in cybersecurity, especially after the publication of the Cyber Resilience Act and the NIS (Network and Information Systems) 2 Directive. The second text of adopted conclusions was directly linked to the Commission's White Paper on mastering the EU's digital infrastructure needs. Ministers endorsed recommendations aimed at advancing innovation and enhancing security and resilience. Also, they stressed the importance of assessing convergence of cloud and telecommunications in the digital ecosystem and the implications of market consolidation. Finally, there were regulatory considerations with some ministers observing the necessity of maintaining ex-ante controls on access markets and considering Member State's specificities, market traditions, competition, and consumer protection in the transition from copper to fiber infrastructure.

Given the rapid evolution of technological developments, the Council also held a policy debate on the Digital decade 2030 to discuss where the EU should recalibrate its targets in 2026. A majority of delegations called for the objectives to be recast to take account of the very rapid development of the cutting-edge technologies and the fact that the EU is lagging behind in many of them.

LUHNIP's take

The latest Telecommunications meeting addressed three fundamental issues for the EU's digital sovereignty: cybersecurity, consolidation of the telecommunications sector and the revision of the targets of the Digital Decade Policy Programme. In the telecommunications sector, increased investments are of particular importance to strengthen social inclusion, achieve environmental goals and increase the competitiveness of the sector, as highlighted by the Letta Report on the Single Market and the Draghi Report on European Competitiveness. **Graph 2** shows that Europe's investment levels in telecommunications infrastructure have remained behind those of North America and Asia-Pacific, while Latin America has been catching up. The EU's lag in digital transformation is also confirmed by the data of the Commission's latest report on the state of the Digital Decade, which shows that Member States are currently falling short of the targets set by the Commission.

Graph 2: Regional Investments in Telecommunications Infrastructure (2011–2021) (in billion USD)



Source: Our elaboration based on Analysys Mason's data.

Finally, the EU is currently experiencing strong competition from external players in the sector, such as the US private company Starlink, which is threatening EU strategic autonomy and competitiveness. In response, the European Commission signed on 16 December the concession contract for the Infrastructure for Resilience, Interconnectivity and Security by Satellite (IRIS²), a multi-orbital constellation of 290 satellites, but they are not expected to be operational before early 2030.

However, the latest Telecommunications meeting showed that the European Commission's push for the consolidation of the sector, in line with the Draghi and Letta reports' recommendations, is facing opposition from some Member States. Concerns include the impact that the creation of pan-European actors might provoke competition in national markets and EU regional cohesion. Also, it confirmed the inadequacy of the Digital Decade targets to achieve the digital transition objectives. It will be up to the European institutions in the coming months to formulate new proposals to overcome the opposition of Member States and adapt the Digital Decade program to meet the objectives set in the digital field.

Guest contribution

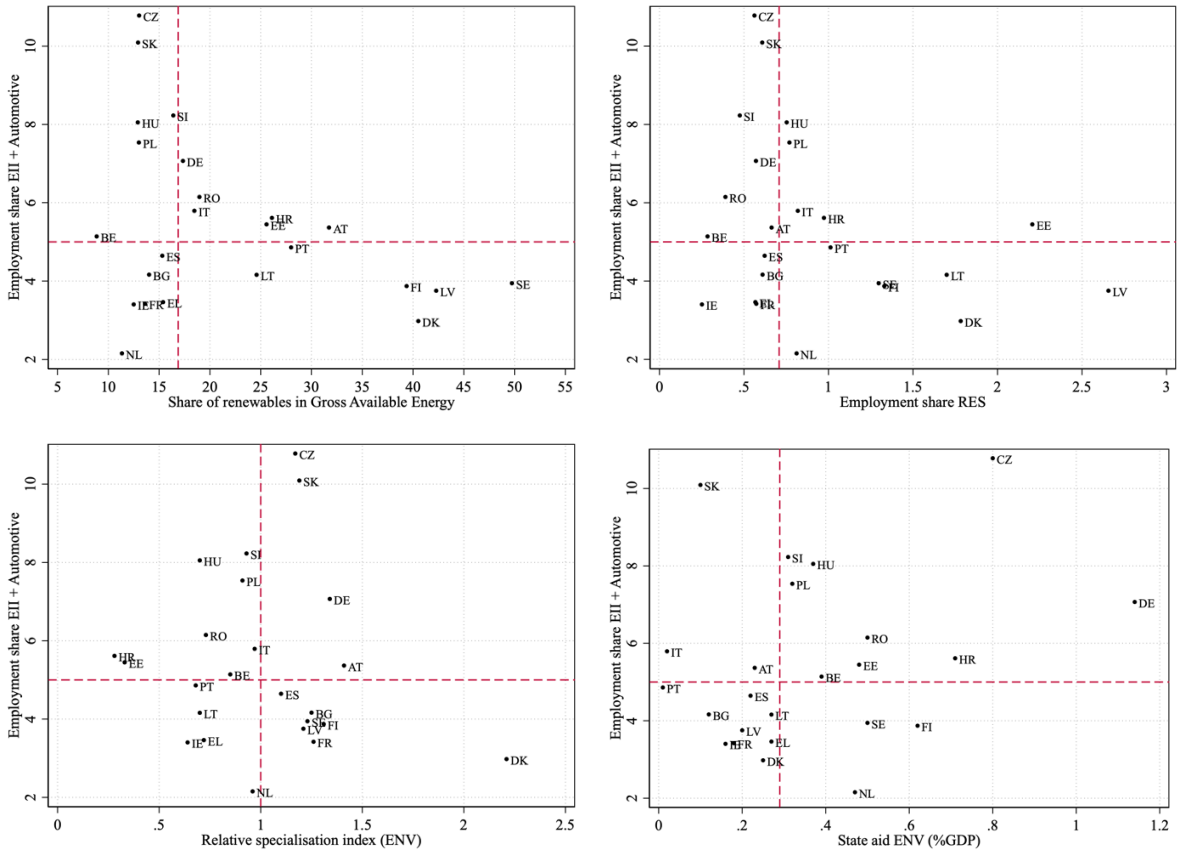
Dario Guarascio, Jelena Reljic, Sapienza University of Rome
Annamaria Simonazzi, Sapienza University of Rome

EU cohesion and industrial policies

The green transition is central to the EU's industrial strategy, aiming to achieve climate neutrality while strengthening economic resilience. However, its success depends on addressing structural asymmetries among Member States. In fact, unevenly distributed costs and benefits risk deepening the persistent core-periphery divide, threatening not only cohesion but also the political feasibility of the transition.

Member States display significant differences in their readiness for the transition (Graph 3). Key disparities include sectoral specialisation (e.g., weight of energy-intensive industries), green manufacturing (e.g., employment share in green sectors) and technological capabilities (e.g., specialisation in environment-related technologies), and political commitment to green policies (e.g., state aid for environmental protection). Germany and its Eastern neighbours, heavily reliant on energy-intensive sectors and automotive industries, face significant restructuring challenges. Nordic countries lead in renewable energy and green innovation, while Southern countries struggle with limited green technological capabilities and fiscal constraints, making their transition particularly challenging.

Graph 3: Key variables and asymmetries



Source: Guarascio et al. (2024). All variables refer to 2021 or the latest available year.

These asymmetries call for targeted EU policy action. However, the EU green industrial policy set-up risks becoming a driver of further divergence. Recent initiatives—such as Fit for 55 and RePowerEU—signal strong decarbonisation ambitions but rely heavily on subsidies to encourage technology adoption rather than domestic production. While this approach has boosted the share of renewables in the EU's energy mix, it has also served as a major subsidy for foreign producers (e.g., photovoltaic manufacturers), particularly Chinese, undermining the EU's green sector capabilities. Furthermore, nationally funded initiatives—such as Important Projects of Common European Interest (IPCEI) and Industrial Alliances—predominantly benefit advanced industrial regions with pre-existing capabilities, often concentrated in core economies, leaving peripheral regions with insufficient support to overcome structural disadvantages.

To overcome these challenges, the EU requires a fully-fledged green industrial policy, a 'vision' that unifies all aspects of the green transition, from resource production to consumption, while explicitly prioritising regional convergence.

First, EU funding mechanisms should incorporate place-based conditionalities to direct investments toward lagging regions and those at risk of brown deindustrialisation. For instance, investing in renewable energy infrastructure in Southern Europe could unlock untapped potential, build local green capabilities and reduce the social costs of transition.

Second, greater fiscal coordination at the EU level is essential. Reliance on national budgets for green investments (e.g., IPCEIs) disadvantages fiscally constrained countries, exacerbating regional inequalities. A centralised funding mechanism—similar to the Next Generation EU but scaled to match the public investments of the US and China—would not only strengthen the EU's global competitiveness but also provide greater manoeuvre to foster internal cohesion.

Third, regulations and subsidies alone are insufficient; substantial investments in public goods are also necessary. Sustainable mobility should be a central pillar of the EU's green strategy. Large-scale EU-funded initiatives to strengthen public transport systems with e-buses and trains may help to green consumer preferences. Similarly, the expansion of the EV market requires supporting infrastructure, including charging stations, renewable energy grids and digital services.

Finally, a holistic policy approach is essential. Strategic public procurement can sustain demand, while labour market policies such as re-skilling and training programmes can equip the workforce with needed green skills. Together, these initiatives can reduce uncertainty, stimulate private investment and boost domestic production and employment.

The EU's green transition, therefore, presents a historic opportunity to redefine its economic trajectory. Success requires a strategy that is both sustainable and inclusive, balancing decarbonisation with internal cohesion. Achieving this balance demands bold, coordinated action to ensure no country or region is left behind, transforming the green transition into a shared engine of growth and resilience.