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LUHNIP Monthly Brief on EU Industrial Policy

February 2025

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Every month, our Monthly Brief on EU Industrial Policy provides a bullet-point recap of last 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.

- **1 January**: The EU-Japan Strategic Partnership Agreement (SPA) enters into force, strengthening EU-Japan industrial cooperation in areas such as ICT, research and innovation and space.
- **9 January**: President von der Leyen establishes fourteen Project Groups to coordinate crosscutting initiatives and policies, including the Clean Industrial Deal, AI, economic security, and startups and scaleups.
- **15 January**: The Commission unveils an action plan to boost healthcare cybersecurity, enhancing threat detection and response capabilities for hospitals.
- **15 January**: The Commission publishes a Recommendation calling on EU Member States to review outbound investments of their companies in strategic technologies.
- **17 January:** The European Commission issues additional investigatory measures against X under the Digital Services Act (DSA) to examine its recommender system and ensure compliance. (**see Deep Dive 1**)
- **20 January:** The European Commission requests consultations at the World Trade Organization (WTO) to address unfair and illegal trade practices by China in the field of intellectual property.
- **21 January:** The Council of the EU adopts the European Health Data Space (EHDS) Regulation to make it easier to exchange and access health data at the EU level.
- **21 January:** EU ministers for Economy and Finance meet in Brussels to discuss the work programme of the Polish Presidency of the Council and measures to strengthen the competitiveness of the EU economy, including simplification.
- **29 January:** The European Commission presents the Competitiveness Compass (**see Deep Dive 2**)
- **30 January:** The European Commission launches a Strategic Dialogue on the Future of the European automotive industry.

LUHNIP's Deep Dives

1) The Commission's Investigations into X and the Battle for EU Digital Sovereignty

On 17 January 2025, the European Commission announced three new technical investigative measures targeting platform X as part of ongoing proceedings under the Digital Services Act (DSA), a regulation designed to increase accountability for online platforms and address the spread of illegal content and harmful practices. Launched on 18 December 2023, the investigation focuses on the spread of illegal content, information manipulation, and whether X's algorithms amplify harmful or politically biased content.

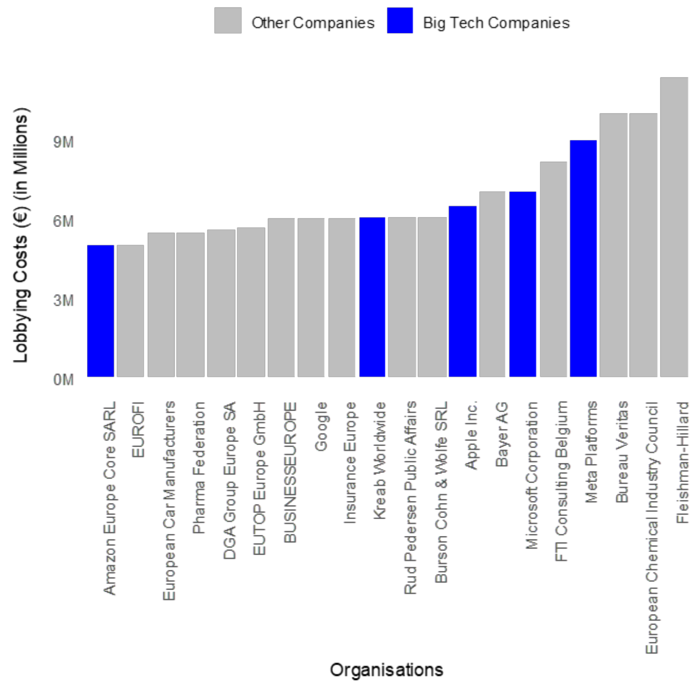
The additional measures specifically target the platform's recommendation systems, requiring X to submit internal documentation detailing the design and updates of these systems by 15 February 2025. X must also retain records of any modifications to its algorithms made during this period or until the investigation concludes. Furthermore, the Commission will gain access to specific commercial APIs to monitor the platform's content moderation processes and account virality. These measures aim to assess systemic risks arising from X's operations and identify strategies to mitigate those risks within the DSA framework.

LUHNIP's take

The Commission's new investigations into X's practices represent a new milestone in the EU's strategy to regulate digital platforms. They were launched following pressure from numerous politicians across Member States who criticized the Commission's sluggish response and urged it to take action. The investigations were triggered by Elon Musk's recent actions, including hosting on X a live interview with the leader of Germany's AfD party ahead of the German legislative elections on 23 February, raising concerns about his potential political interference. Critics argue that X's recommendation algorithms promote posts involving candidates from the far-right party, giving them a considerable political advantage over the other candidates.

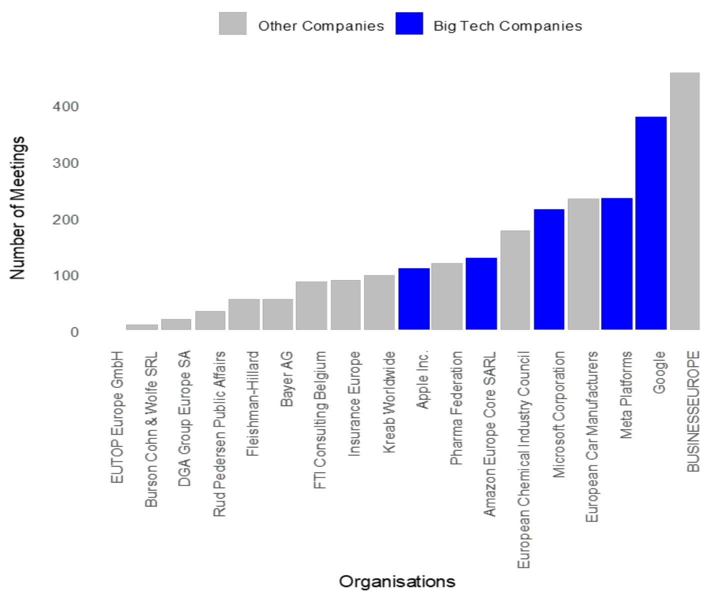
These new actions by the Commission are taking place in a context of growing tensions between the EU and US big tech companies. Recently, the directors of Meta and X have accused the EU of 'institutionalised censorship' because of its digital regulation rules. The pressure on the European institutions to lower the enforcement of EU digital regulations is particularly strong because of the power of lobbying in Brussels of US big tech companies. US tech firms rank among the top spenders in lobbying in the EU and are among the companies that have participated in the greatest number of meetings with the European Commission (**See Graphs 1 and 2**).

Graph 1: Lobbying Costs of US Big Tech and Other Companies in the EU (in Million Euros)



Source: Our elaboration based on LobbyFacts.eu data.

Graph 2: Number of Meetings with the EU Commission: US Big Tech vs Other Companies



Source: Our elaboration based on LobbyFacts.eu data.

At the same time, big tech's pressure on European institutions to reduce the enforcement of EU digital regulations is particularly important because of the likely impact of their lobbying on the overall relationship between the EU and the new US administration. Recently, the director of Meta has called on the new Trump administration to intervene to force the EU to stop fining US tech companies. Donald Trump and James David Vance, for their part, have labelled EU fines against US digital giants as 'discriminatory tax practices' and suggested that NATO support could be linked to Europe's stance on US tech giants. Those statements herald difficult discussions between the two blocs in the coming months.

Against this backdrop, the EU's digital policy stands at a critical turning point. While the bloc once led global regulatory efforts through the "Brussels Effect", its influence is now being tested by geopolitical shifts, Big Tech's lobbying power, and enforcement difficulties under the Digital Services Act. As highlighted recently by the Draghi Report and European tech firms, weak enforcement not only undermines competition but also hampers Europe's digital competitiveness, allowing big tech to dictate market dynamics. To strengthen the competitiveness of the European tech ecosystem, enhance its digital sovereignty and uphold its democratic values, the EU must continue to enforce its digital rules and invest in domestic technological capabilities.

2) The EU's Competitiveness Compass: Balancing Competitiveness and Member States' Interests in a Shifting Global Landscape

On 29 January, Commission President Ursula von der Leyen and Vice-President for Industrial Strategy Stéphane Séjourné presented the Competitiveness Compass, a strategic roadmap to revitalise the EU's economic competitiveness in a rapidly changing global context. The initiative draws on the Draghi and Letta reports and incorporates priorities from the Antwerp Declaration on industrial renewal and the Budapest Declaration advocating for a Competitiveness Deal for Europe. It envisions long-term prosperity, economic security, and global influence while advancing the green and digital transitions.

To address these challenges, the strategy sets out three priorities:

- Firstly, closing the EU's innovation gap by fostering a stronger research and development ecosystem, supporting start-ups, and advancing critical technologies such as artificial intelligence, quantum computing, and biotechnologies.
- Secondly, decarbonising the European industry to strengthen its competitiveness.
- Thirdly, reducing Europe's strategic dependencies by diversifying supply chains, reinforcing domestic production in key sectors, and enhancing economic security in a volatile geopolitical environment.

In addition, the Commission plans to implement five types of horizontal action to strengthen the competitiveness of European industry:

- Simplifying the regulatory environment for companies and favouring speed and flexibility of EU measures
- Strengthening the Single Market by removing remaining barriers
- Reinforcing the financing of EU industrial policy by setting up a Saving and Investment Union and refocusing EU budget on strengthening the competitiveness of European industry
- Promoting skills and quality jobs while ensuring social fairness
- Better coordinating policies at the EU and national level

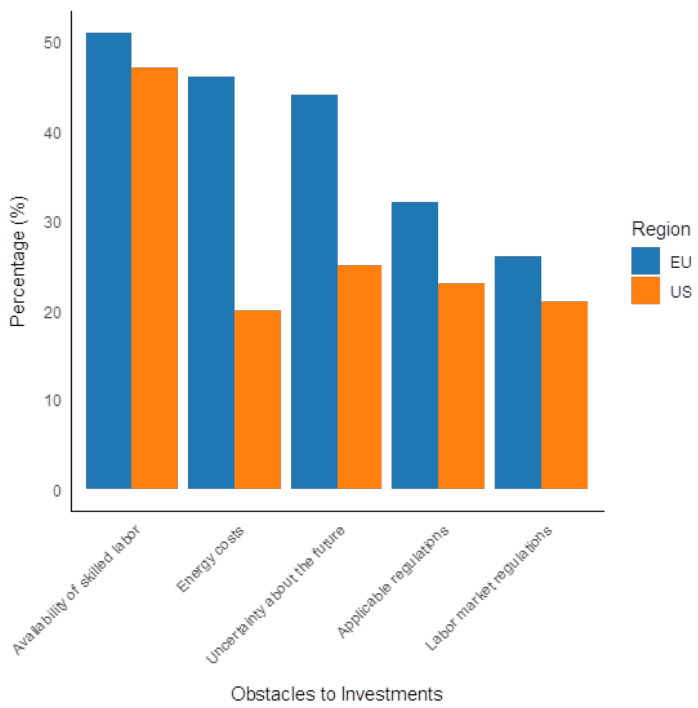
Key measures to close the EU's innovation gap include the introduction of a 28th legal regime to simplify rules to reduce the cost of failure of R&D projects, the presentation of a European Research Area Act to strengthen R&D investment and bring it up to the 3% GDP target, a reform of EU merger rules to better take into account innovation resilience and a wider use of Important Projects of Common European Interest (IPCEIs). To decarbonise the European industry, the forthcoming Clean Industrial Deal will be the key legislation to encourage investment in low-carbon products and increase the level playing field for industry. Finally, to strengthen EU economic security, proposals include the creation of a joint platform for the joint purchase of critical raw materials and the introduction of a European preference in public procurement for critical sectors and technologies.

LUHNIP's take

The presentation of the Competitiveness Compass by the European Commission is a significant event, as it is the first major political initiative of the new Von der Leyen II Commission. The text outlines a clear strategy to strengthen the competitiveness of the European economy in the next years based on the triptych of promoting innovation, industry's decarbonisation and economic security. Following the publication of the Draghi report and the growing criticism of the Green Deal over the last few months, the Competitiveness Compass is an attempt to reconcile EU environmental policies with the objective of strengthening the competitiveness of the European industry. First, it shows the Commission's strong determination to reduce the EU's innovation gap to enhance the productivity of the European economy. To achieve this objective, a number of key measures recommended in the Draghi and Letta reports have been taken up by the Commission. For example, the strengthening of coordination of national R&D policies, a reform of EU merger rules to take better account of the objective of promoting innovation or increasing support for high-risk innovation projects. At the same time, the objective of decarbonising the European economy by 2050 is maintained, with forthcoming proposals on a 'Clean Industrial Deal, a new framework for State aid or a 'Circular Economy Act'. This strategy will complement that of simplification of European environmental legislation, with the adoption of several 'Simplification Omnibus packages' in the next months.

The Commission's strategy of cutting red tape and simplifying regulations is taking place against a backdrop of increasing deregulation in the United States since Donald Trump took office. It aligns with the demands of industry leaders and some Member States, such as France and Germany, which have called for delays and amendments to sustainability reporting regulations like the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD). They argue that these regulations create excessive bureaucracy, particularly for small and medium-sized businesses in a context of increasing competition by the US and China in emerging technologies, as in artificial intelligence. However, as shown in **Graph 3** while regulatory concerns are important, EU companies face other significant obstacles to investment, such as the availability of skilled labour and energy costs, which are viewed as more pressing issues. Finally, focusing exclusively on cutting red tape may risk prioritizing short-term competitiveness over long-term sustainability goals.

Graph 3: Major Obstacles to Investments: Views of EU vs. US Companies



Source: Our elaboration based on the 2024 European Investment Bank (EIB) Investment Survey.

Next, similar to the Net-Zero Industry Act (NZIA) (See our Monthly Brief for February 2024), the strategy proposed in the Competitiveness Compass relies on regulatory simplification and the mobilisation of existing financial instruments, such as the Strategic Technologies for Europe Platform (STEP) and InvestEU. The new European Competitiveness Fund should, in fact, be a simple pooling of budgets from existing research programmes with no new financial resources. The reliance on market-driven solutions like the Savings and Investments Union (the new name for the Capital Markets Union, in a political impasse) and national contributions to the EU budget may limit the EU's ability to match the active Chinese and US active policies to attract investment and lead to a further fragmentation of the Single Market.

Finally, if the Commission proposals to enhance coordination between national industrial policies and encourage demand for low-carbon products are welcome, there is risk that they will be ineffective in the end. The creation of a Competitiveness Coordination Tool to align investments and national industrial policies risks not achieving its objectives without concrete incentives to strengthen coordination between Member States. 'Buy European' procurement measures can, for their part, be opposed by the Council of the EU. While France supports it, more liberal Member States may oppose this initiative. Another risk is that the Commission's proposal is legally contested within the WTO, leading to its severe weakening or withdrawal.

*** Guest Contribution of the Month ***

Jean-Christophe Defraigne, Professor of Economics, UCLouvain

America First or 'après moi le déluge': the potential impact of Trump's second term on EU industry and the economy.

Since the inauguration of the first Trump administration in 2017, the US has shifted towards a more mercantilist policy with a higher level of government support for US manufacturing and R&D capabilities. The last eight years have seen the implementation of massive US federal programmes and high defence spending, amounting to over $5 trillion, a level of support unprecedented since the end of the Cold War and the Strategic Defence Initiative launched during the Regan administration. Beyond diplomatic rhetoric, in 2016 the Biden administration pursued a policy of massive state interventionism (subsidies, tax breaks and protectionism) and de facto unilateralism in most areas. While insisting on a transatlantic dialogue on technology and innovation in new industrial sectors (notably ITC and green tech) and creating new fora such as the EU-US Trade and Technology Council, the Biden administration continued to develop unilateral industrial policies. The most notable case was the Inflation Reduction Act (IRA), which offered tax breaks to companies investing in green tech and attracted high-tech companies, highly skilled workers and investors from the EU to the US, thereby strengthening the US green tech clusters. The EU was not informed of the preparation of the IRA, while it created the risk of a brain and capital drain that would strengthen the US Marshall Islands at the expense of the EU.

Unsurprisingly, Trump continues on this unilateralist path, but without the transatlantic diplomatic rhetoric of his predecessor. In the first week of his second term, Trump already resorted to the bullying and bargaining tactics that characterised his first term, notably over the treatment of traditional allies such as Canada and Mexico on tariffs or Denmark on Greenland. However, Trump has so far refrained from imposing high tariffs on EU exports to the US.

It is too early to assess the will and ability of the Trump administration to continue the high level of public spending on industrial policy that characterised the previous administration. The new president's first move in this regard was to block, at least temporarily, the $300 billion in green infrastructure funding committed by his predecessor and the US Congress.

The new administration and its supporters in US big business appear to be focusing more on re-regulation and further tax cuts to boost US growth. Corporate taxes could be cut from 21% to 15% (Trump had already cut them from 35% to 21% in his previous term). Trump has already torpedoed the OECD global corporate tax deal negotiated by Biden and has threatened to impose punitive taxes on companies and nationals from countries that try to impose additional taxes on US companies, in particular the digital services taxes that would hit the US GAFAM.

In the energy sector, Trump has already signed the "Unleash American Energy" executive order, which favours the use of fossil fuels. It includes deregulation measures to boost production and lower energy costs in the US, although experts question how effective this will be. If successful, it would widen the energy cost gap with the EU, which could encourage more EU companies to produce in the US. The potentially disastrous long-term effects of such a policy on global climate change are neglected or denied by the Trump camp. What seems to matter to them is that, in the short term, this should boost the competitiveness of US companies vis-à-vis their overseas rivals. In fact, it is likely to aggravate the current crisis in the EU manufacturing sector, which has already been aggravated since 2022 by high inflation and energy costs caused by shocks in the global value chain since the rise in US-China tensions, pandemic outbreaks, the war in Ukraine and speculation by European energy traders, all factors well described in the Draghi report on the future of European competitiveness. In this context, it should come as no surprise that there will be voices in the EU advocating the imitation of such reckless short-termist policies in order to create a level playing field for EU businesses, especially on red tape, environmental standards and energy.

However, Trump's unilateral deregulation and detaxation drive in the short term is likely to increase the destabilising forces for the US economy in the medium term. Even before the dramatic environmental effects of Trump's policies are felt, the financial deregulation pushed by the new Treasury and cryptocurrency barons who supported Trump could fuel major financial bubbles, as suggested by the recent performance of US stock market and cryptocurrency indicators. If Musk's "efficiency panel" really manages to achieve its goal of saving $2 trillion by streamlining public spending, the US state could have a reduced capacity to prevent future financial, social and environmental disasters and to respond to a future systemic crisis. Given the projections of the EU's tax cuts and rising public debt, it is anyone's guess whether the US government could financially and socially afford another major financial crisis or pandemic. Transatlantic relations, as well as the rest of the world, have probably now entered a period of uncertainty and potential turbulence unprecedented since the end of the Second World War.