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LUHNIP Monthly Brief on EU Industrial Policy

March 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 two 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.

- **3 February**: European Union leaders gather for an informal European Council meeting to discuss developing collective defence capabilities, funding of defence policy and strengthening strategic partnerships (**see Deep Dive 1**).
- **3-4 February**: EU ministers for the Internal Market, Industry and Trade meet in Warsaw for a joint informal Competitiveness and Foreign Affairs (Trade) Council.
- **10-13 February**: The European Parliament meets in plenary session to discuss the future of EU trade policy, EU economic security and the EU Competitiveness Compass.
- **11 February**: European Commission President Ursula von der Leyen launches the "InvestAI" initiative at the Artificial Intelligence Action Summit in Paris to mobilize €200 billion for AI investments across Europe, including a €20 billion European fund dedicated to establishing AI gigafactories.
- **14-16 February**: Leaders from EU Member States, the United States, and NATO gather at the Munich Security Conference to discuss pressing global security and geopolitical challenges.
- **17-18 February**: EU ministers for European Affairs meet in Warsaw for an informal meeting to discuss EU hybrid threats, the Multiannual Financial Framework post-2027 and strengthening Europe's military and civilian readiness and preparedness.
- **18 February**: EU ministers for Economy and Finance meet in Brussels for an Economic and Financial Affairs Council to discuss the Competitiveness Compass initiative.
- **26 February**: The European Commission presents the Clean Industrial Deal and the first Omnibus package (**see Deep Dive 2**).
- **26 February**: EU industry and political representatives gather in Antwerp for the European Industry Summit.
- **27 February:** Ministers from various Member States and representatives from the steel industry gather in Paris for a Summit on the future of the European steel industry.

LUHNIP's Deep Dives

1) EU Leaders' February Summits: strengthening defence amid geopolitical shifts and EU-US tensions

On 3 February, EU leaders held an informal European Council meeting dedicated to the strengthening of Europe's defence capabilities, the funding of EU defence policy and the strengthening of strategic partnerships in a context of growing security challenges. These include threats such as the ongoing war in Ukraine, cyber and hybrid attacks, and instability in the Middle East. During the meeting, EU leaders agreed to develop the most critical gaps in defence capabilities identified by Member States through the work of the European Defence Agency, in full coherence with NATO commitments. These are, in particular, military mobility, air and missile defence, and ammunition production. To increase the production of these capabilities and increase their production speed, EU leaders emphasised the need to increase collaboration, joint procurement, and strategic investments within the defence sector. Next, regarding the financing of EU defence policy, EU leaders emphasised the need to continue increasing national spending and mobilise private and public investments in this area. Several mechanisms were considered to achieve these objectives, including greater involvement of the European Investment Bank or the use of flexibilities within the new EU economic governance rules. Finally, the EU reaffirmed the importance of strategic partnerships with NATO, the US, and the UK for European security.

The informal European Council meeting of 3 February was followed on 17 February 2025 by an emergency summit in Paris with leaders from Germany, the UK, Italy, Poland, Spain, the Netherlands and Denmark, along with NATO and EU officials. The aim of the meeting was to discuss the implications of the initiation of US-Russia talks to put an end to the war in Ukraine and its implications for European security. EU leaders reaffirmed the need to strengthen the EU's strategic autonomy and to provide strong and credible security guarantees for Ukraine in the event of a ceasefire agreement.

Finally, on 26 February 2025, EU leaders participated in a video conference meeting convened by the President of the European Council Antonio Costa. The aim of the meeting was to discuss the results of the meeting between French President Macron and US President Trump on 24 February in preparation for the special European Council meeting on 6 March dedicated to the EU's support for Ukraine and European defence.

LUHNIP's take

The organisation of the first European Council meeting dedicated solely to EU defence policy, along with subsequent emergency meetings of European leaders, underscores the EU's increasing drive and urgency to strengthen its military capabilities amid shifting geopolitical realities. Recent developments, such as Trump's threat to invade Greenland, a Danish territory, and his unclear stance on future US support for Ukraine's security, have highlighted a new geopolitical context for the EU. This geopolitical shift became even more evident after Trump's phone call with Russian President Vladimir Putin without prior coordination with Western allies and US Vice President J.D. Vance's speech at the Munich Security Conference.

Trump's administration views Europe as losing global significance, accusing the continent of exploiting US security guarantees while running a trade surplus and imposing stringent regulations on American tech companies (see our Monthly Brief of February 2025). His goal is to shift defence responsibilities onto Europe and potentially scale back US military presence on the continent and pivot US attention to the Pacific. In February, Trump announced a 25% tariff on EU cars, stoking fears of a trade war with the EU. This followed threats of reciprocal tariffs, potential tariffs in response to EU regulations on US tech firms, and the 25% tariffs on steel and aluminium to take effect on March 12. These tariffs present significant economic challenges for Europe, at a time when its industry is still suffering from US-Chinese competition and high energy prices. In anticipation of the US protectionist policy, the EU has accelerated in the last weeks the diversification of its exports through the negotiation and conclusion of trade deals with Mercosur, Mexico, and India. However, the importance of the transatlantic trade relationship is that US tariffs could have a considerable impact on several European industrial sectors. This impact may be further increased by the redirection of Chinese industrial overcapacities to Europe due to increasing difficulties for Chinese companies to access the US market.

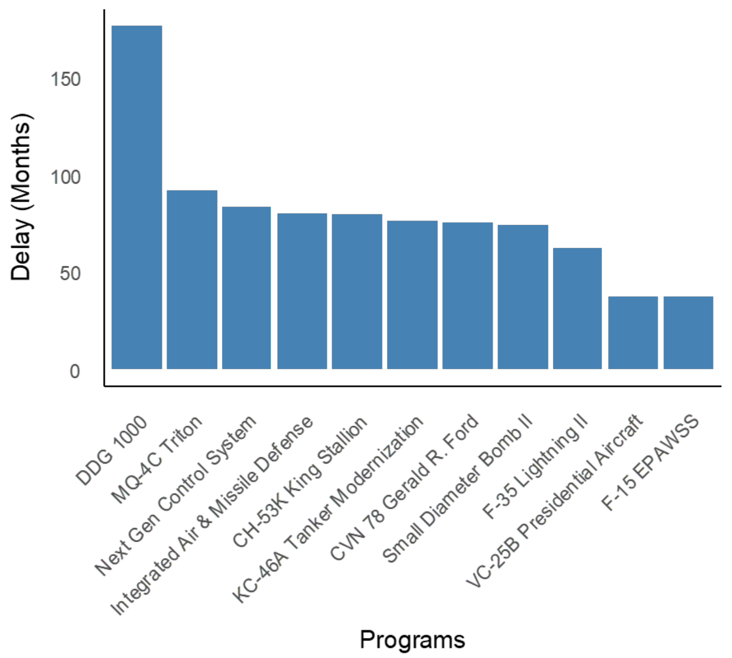
In this challenging context, there seems to be no other choice for the European Union but to accelerate the strengthening of the competitiveness of its industry and its strategic autonomy vis-à-vis China and the US. As emphasised by EU leaders during their informal European Council meeting on 3 February, the two objectives are closely linked. In addition to constituting a response to the new geopolitical realities, strengthening the EU's strategic autonomy in the defence sector is an urgent matter due to the weak production and low readiness of the US military-industrial base. As **Graph 1** shows, the US defence industry is struggling with production delays, especially for advanced systems, further complicating its ability to meet domestic and international needs.

The increase in the number of European Council meetings dedicated to these topics, and the decision of the Polish presidency to hold joint Councils on strengthening the competitiveness of European industry, reveal that EU leaders are taking the importance of the issue into account. Another important signal in this direction is the fact that the Commission is multiplying innovative proposals to finance the EU's defence policy, such as the use of the flexibilities of the EU fiscal rules or the design of a new instrument to focus EU spending on the development of key strategic capabilities. Finally, we must emphasise the significance of the calls of Friedrich Merz, who is projected to become German chancellor, to strengthen the EU's independence from the US and to consider the extension of British and French nuclear umbrella to Germany.

If these events are signs in the right direction for the reinforcement of EU strategic autonomy in the field of defence, we will have to analyse their concrete effects on the European Defence Technological and Industrial Base (EDTIB). Despite the multiple calls to strengthen the EU's strategic autonomy since the beginning of the war in Ukraine, the EU's military-industrial dependence on the US has increased and the European Defence Technological and Industrial Base (EDTIB) remains fragmented. At the same time, the current negotiations within the Council of the EU on the European Defence Industrial

Programme (EDIP) remain blocked due to differences between Member States over the possibility of limiting the use of this instrument to EU producers. The need to consolidate public finances due to high deficits and inflation may also have an impact on the increase in military spending by some Member States. Finally, there is a reluctance on the part of Member States to give the Commission new powers to manage joint procurement, similar to the Covid crisis when the Commission took over the ordering and procurement of vaccines and the implementation of a major recovery plan. Discussions between EU governments in the coming weeks will show whether European leaders can respond efficiently to the new economic and geopolitical realities by fostering an autonomous and competitive European Defence Technological and Industrial Base.

Graph 1: Cumulative Delays to Initial Operational Capability for Major US Defence Programs (Data as of 2023)



Source: Our own elaboration based on GAO's data.

2) The Clean Industrial Deal and the first Omnibus package

On 26 February, the European Commission presented the Clean Industrial Deal (CID) and the first Omnibus package, two initiatives aimed at boosting Europe's industrial competitiveness while supporting decarbonisation efforts. The Clean Industrial Deal focuses on energy-intensive industries and the clean-tech sector. It proposes actions in six key areas: affordable energy, clean technology leadership, financing, circularity and materials access, global markets, and skills development.

To secure affordable energy, the Clean Industrial Deal proposes investment in renewable energy, improved grid infrastructure, long-term power purchase agreements, and accelerated hydrogen deployment for energy-intensive sectors, alongside measures to simplify energy-related taxes and regulations. Another key element is the creation of lead markets for clean technologies, including green public procurement, carbon contracts for difference, and adjustments to the European Union's emissions trading system. The deal also proposes "made-in-European Union" quotas and voluntary carbon product labels to encourage European green industries.

Next, to increase investment in the environmental transition of European industry, the Clean Industrial Deal proposes, first, to strengthen EU-level funding by providing additional options to scale up support for the Innovation Fund's selected projects and to establish an Industrial Decarbonisation Bank. Second, the CID proposes to amend the InvestEU Regulation to increase its risk bearing capacity and work with the EIB Group on new initiatives to be supported by InvestEU. Finally, the CID proposes a new Clean State aid framework with simplified and flexible rules to provide informal guidance to companies on the compatibility of cooperation projects and to recommend to Member States tax policies supporting EU objectives.

The CID also focuses on circularity and access to critical raw materials, building on the Critical Raw Materials Act to reduce import reliance, promote recycling, and strengthen supply chains for materials such as lithium, rare earths, and green steel. A European Union critical raw materials centre will facilitate joint purchasing. On the global stage, the Clean Industrial Deal seeks to strengthen Europe's industrial competitiveness through stronger trade defence instruments, international partnerships, and improved market access, alongside measures to expand the Carbon Border Adjustment Mechanism. Finally, one of the priorities of the Clean Industrial Deal is developing workers' skills and supporting them in the ecological transition.

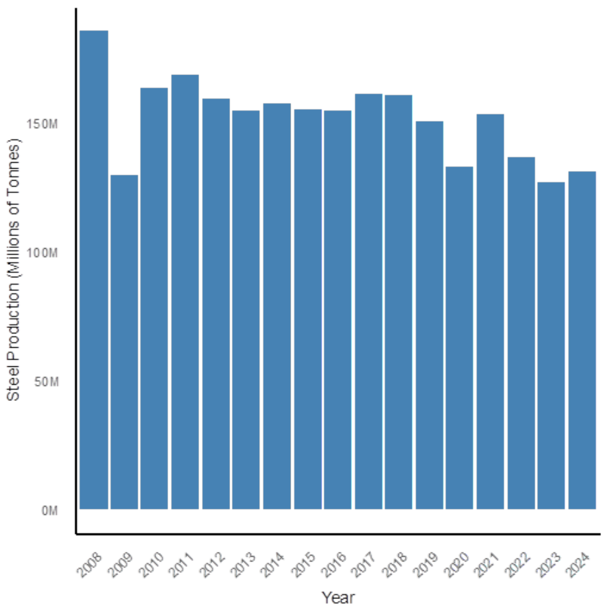
The Clean Industrial Deal is intended to serve as a framework for a series of sectoral packages/plans/strategies, drawn up following 'strategic dialogues' with representatives of the industries concerned. 5 sectoral packages/plans/strategies are currently scheduled by the Commission for adoption this year: An Industrial Plan for the Automotive Sector, a Steel and Metals Action Plan, a Chemicals Industry Package, Sustainable Transport Investment Plan and a Bioeconomy Strategy.

The Omnibus package, alongside the Clean Industrial Deal, consolidates changes in areas like sustainable finance reporting, due diligence, the EU Taxonomy, Carbon Border Adjustment Mechanism, and investment programmes. It simplifies regulations, especially for small and medium-sized enterprises, while ensuring compliance for larger companies. The package also helps businesses access sustainable finance for their transition to cleaner production methods.

LUHNIP's take

The European Commission's Clean Industrial Deal and the Omnibus package, introduced as part of the Competitiveness Compass, aim to address deindustrialisation and the decline of the European industry's competitiveness. They focus on supporting clean technology and energy-intensive sectors in their green transition, alongside global competition, particularly following the United States' Inflation Reduction Act and China's active industrial policies. While European firms play a dominant role in net-zero sectors like wind energy, hydrogen, and heat pump industries, they face challenges, including supply chain dependencies, a shortage of skilled workers and regulatory barriers. Energy-intensive industries, for their part, face significant pressures, such as high energy and raw materials costs and unfair foreign industrial policies and trade practices. These factors have had a major impact on strategic sectors for the EU's industrial sovereignty and environmental transition, such as the steel industry, where production has failed in recent years to reach the pre-COVID-19 crisis levels (**see Graph 2**). The Clean Industrial Deal seeks to respond to these problems with targeted support and simplified regulations, while trying to maintain the 2040 target of reduction of 90% net greenhouse emissions in the EU.

Graph 2: Annual Steel Production in the EU (2008-2024)



Source: Based on Eurofer's data.

Building on the 2023 Net-Zero Industry Act (See our Monthly Brief for February 2024), the Clean Industrial Deal intends, first, to accelerate the deployment of clean energy and net-zero manufacturing by removing the obstacles associated with permits for industrial and energy decarbonisation projects and by proposing mechanisms to boost demand for EU-made products. At the same time, it introduces clearer funding mechanisms than the Net-Zero Industry Act. Notably, the proposal for a Clean State Aid Framework with simplified rules aims to speed up state aid approvals for clean technology and industrial decarbonisation. The Industrial Decarbonisation Bank, for its part, aims to mobilise over €100 billion, leveraging funds from existing European Union mechanisms, such as the Innovation Fund and InvestEU.

Also, with Clean Industrial Deal, the Commission tries to take account of the changing global environment by proposing to strengthen the EU's trade policy toolbox. The establishment of "Clean Trade and Investment Partnerships" (CTIPs), based on the partnerships in raw materials negotiated by the Commission since 2021, will enable the EU to quickly diversify its supply of critical raw materials and ensure strategic autonomy. The beginning of discussions on future trade defence tools to address global industrial overcapacities and improvements in the Foreign Subsidies Regulation, for its part, may allow the Commission to be better equipped in the face of Trump's protectionist policy and China's unfair trading practices. Finally, it is worth mentioning that the Clean Industrial Deal takes considerable account of the issue of a just transition and the need to strengthen workers' skills, which European trade unions have been demanding for years.

The proposals of the Clean Industrial Deal and the Omnibus package confirm the current shift in EU industrial policy towards deregulation and the use of more interventionist tools in the face of the threat of de-industrialisation in Europe. After several months of pressure from industry and the Member States to change course after a mandate focused on the implementation of the Green Deal, the Commission wishes to show with its proposals its strong determination to put the issue of strengthening the EU's competitiveness and strategic industrial autonomy at the centre of its action. This was illustrated by the presentation of the Clean Industrial Deal and the Omnibus package by Ursula Von der Leyen at the European Industry Summit in Antwerp, shortly after their presentation to the Commission by the Commissioners concerned.

The proposals for more interventionist industrial policy measures, such as European preference for public procurement, show, for their part, a shift in attitudes within the EU. Faced with the threat of de-industrialisation of the EU economy, the worldwide increase of protectionist practices and the growing importance of security issues, there is now a consensus within the EU to consider adopting the necessary measures to protect and strengthen the EU industry. The growing convergence between French and German's positions on the principles of a more interventionist EU industrial policy is an important sign of this development. They both agree on the need for looser EU state aid rules and for sectoral plans for strategic sectors. This is the culmination of a process of convergence between the positions of the two countries on EU competition and industrial policies initiated since the economic and financial crisis of 2008-2010.

The main discussion in the EU institutions will now focus on the legal feasibility of these measures, particularly regarding WTO law, and their compatibility with the principles of free competition within the single market. In particular, the latter discussion risks accentuating the division between the large Member States with important fiscal capacity and smaller Member States. Another discussion will emerge concerning the degree of ambition of the trade policy proposed by the Commission in the new geo-economic environment. EU Member States with a large trade deficit, such as France, will push for the adoption of a more offensive EU trade policy, while countries with a more open economy, such as the Netherlands, will push to maintain the EU's sufficient openness to foreign investment and imports.

The European Clean Industrial Deal, despite its ambitions, nevertheless presents several shortcomings. It lacks immediate solutions to urgent challenges such as high energy costs, global industrial overcapacity and imports pressure. For example, it does not provide any timeline to complete and reform the EU trade defence instruments toolbox. In terms of funding, the absence of proposals for new EU fiscal resources and the strategy for boosting State aid in 'clean' sectors risks fragmenting the Single market even further. The Omnibus package, for its part, by drastically reducing the Corporate Sustainability Due Diligence Directive's reporting scope and delaying its implementation, draw concerns about its environmental and social impact. At the same time, it penalizes companies that have adapted their strategies to these new regulations and risks weakening the "Brussels effect".

*** Guest Contribution of the Month ***

Franco Mosconi, *Jean Monnet Chair, University of Parma*

The European Champions: The Path Forward

Once upon a time there were the National Champions, the big players perceived as the 'Crown Jewels' of Nation-states' economies (though these jewels were not all that precious). These champions were often inefficient entities protected by state aid and regulatory barriers, operating in markets closed to foreign competitors. Then came the years of globalization when, in Thomas L. Friedman's words, *The World Is Flat*. Supply chains extended across continents, trade barriers fell, and competition intensified. But many exogenous shocks followed: the COVID-19 pandemic with its restrictions on movement of goods and people; Russia's invasion of Ukraine; the conflict between Hamas and Israel; and rising geopolitical tensions around the world.

Today, from a European perspective, we feel fragile amid new dynamics of a global economy scarred by profound changes. The IMF refers to this as 'geoeconomic fragmentation' (GEF) – a policy-driven reversal of integration, often guided by strategic considerations. We see this in transforming global value chains, in the reshoring of critical industries, and in policy measures like President Trump's tariffs.

The end of hyper-globalization raises a question: Does this authorize EU Member States to return to 'National Champions'? Absolutely not – this would be a major error for the EU and its Member States. Such a retreat would fragment the Single Market, reduce efficiency, and weaken Europe's collective strength in global competition.

Since the 1950s, the European Single Market – the so-called *level playing field* – has been a great achievement of integration. Although incomplete, it created conditions for two fundamental mechanisms: market size and scale effects; factor market integration and growth effects. These mechanisms have been crucial for Europe's prosperity and remain essential for its future competitiveness.

In this context, European Champions (ECs) should play a crucial role. This is not a new subject – it topped the policy agenda in 2006 through interventions by then German Chancellor Angela Merkel, who called for a more pragmatic approach to competition policy that would allow for the creation of European industrial champions capable of competing globally. But what do we mean by 'ECs'? I propose returning to a taxonomy presented in my previous works.

'Type I' or Airbus-model Champions are large European firms stemming from multilateral governmental cooperation and public funding in strategic industries. These industries require strong European presence due to high R&D expenditure and/or their ability to advance the technological frontier. Airbus is the textbook example whose decades-long competition with Boeing demonstrates that European cooperation can create world-class enterprises. STMicroelectronics represents another good example of Type I, born from Franco-Italian cooperation in the semiconductor industry.

Is Airbus truly a model? Despite its success, Paul Seabright noted it has been "a rather special case" with limited applicability to other sectors due to the aerospace industry's technological characteristics. The extension of Type I deserves further exploration in both academic and institutional worlds.

'Type II' Champions are driven and supported by market forces. At least two M&A waves have occurred in the past two decades (2004-2008, 2014-2019), with many cross-border deals leading to the emergence of these ECs in both manufacturing and services. The EU's eastward enlargement widened the Single Market, creating a bigger market size and new opportunities for consolidation.

Europe's largest firms in these M&A waves concentrated on their core business, using external growth for horizontal integration strategies (the well-known argument for 'synergies') without forgetting the importance of vertical deals (e.g., Luxottica-Essilor). This strategy deserves praise: cross-border M&As in strategic industries aimed at strengthening Type II ECs' core businesses.

A current test case is UniCredit-Commerzbank, emerging during the current positive trend in European M&A deals. Andrea Orcel, UniCredit's CEO, wrote in the Financial Times (December 20, 2024): "We have already the pillars of a banking union, which could be completed quickly (...) I believe in the convergence of our banking system, and with it stronger banks for Europe."

This taxonomy is tentative – boundaries between types aren't rigid, others may be added, and overlaps might emerge. But it provides a useful framework for thinking about how to foster European industrial big players.

European Champions, far from being a magic wand, are part of a whole: the European Single Market and EU competitiveness. Both completing the Single Market and strengthening competitiveness require urgent reforms and huge investments – reforms and investments advocated by Enrico Letta and Mario Draghi in their 2024 Reports.