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LUHNIP Monthly Brief on EU Industrial Policy

April 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.

- **5 March**: The European Commission launches the Union of Skills initiative to enhance the EU's competitiveness by improving skills across all stages of life, from basic education to adult reskilling.
- **5 March**: The European Commission unveils an action plan to enhance the global competitiveness of the European automotive industry, focusing on innovation, the transition to clean mobility, and supply chain resilience (**See Deep Dive 1**).
- **6 March**: EU leaders gather for a special European Council to discuss strengthening Europe's defense capabilities, improving military readiness, and reducing strategic dependencies in response to global security challenges (**See Deep Dive 2**).
- **10-11 March**: EU Ministers for Research and Innovation meet in Warsaw to discuss the future of the strategy for startups and scaleups, and the future of the EU Framework Programme for Research and Innovation.
- **11 March**: The European Commission proposes a Critical Medicines Act to improve the supply of essential medicines in the EU by boosting local manufacturing, diversifying supply chains, and reducing dependencies on limited suppliers.
- **12 March**: EU ministers for the Internal Market and Industry meet to discuss the Clean Industrial Deal, strengthen the single market, simplify regulations, and strengthen EU trade policies to boost the EU's competitiveness.
- **12 March**: Defense ministers from France, Germany, Italy, Poland, and the UK meet in Paris alongside the Defense Commissioner to discuss strengthening Europe's defense capabilities and enhancing cooperation of defence industries **(see Deep Dive 2)**.
- **19 March:** The European Commission launches the Savings and Investments Union strategy, adopts the Steel and Metals Action Plan and the White Paper for European Defence Readiness 2030 (**See Deep Dive 2**).
- **20 March - 21 March:** EU leaders gather for a European Council meeting to discuss the measures to be adopted to strengthen the EU's competitiveness, Europe's defence readiness and the next Multiannual Financial Framework (MFF).
- **25 March:** The European Commission adopts a list of 47 Strategic Projects to boost domestic strategic raw material capacities.

LUHNIP's Deep Dives

1) The EU's Automotive Action Plan

On 5 March, the European Commission presented an Action Plan aimed at strengthening the global competitiveness of the European automotive industry. This initiative builds on the Strategic Dialogue on the Future of the European Automotive Industry launched in January by President Ursula von der Leyen to address challenges such as rapid technological shifts, increasing global competition, and the transition to clean mobility.

A key component of the plan is securing a robust and sustainable supply chain. To reduce strategic dependencies on imports of battery raw materials, the European Commission will make available €1.8 billion over the next two years to support the domestic manufacturing of batteries and their components. This measure is designed to establish a cost-competitive European battery cell production capability to enhance economic sovereignty and reduce vulnerability to supply shocks. At the same time, the Commission will propose conditions for inbound foreign investments in the automotive sector to ensure they provide greater added value and contribute more substantially to the EU's long-term industrial competitiveness and resilience.

The Action Plan also seeks to accelerate innovation, particularly in AI-driven, connected, and autonomous vehicles. A new European Connected and Autonomous Vehicle Alliance will be established to unite industry stakeholders, advance shared software and digital hardware development, and facilitate large-scale testbeds and regulatory sandboxes. Public-private investments of approximately €1 billion, backed by the Horizon Europe Programme, will be directed toward these efforts from 2025 to 2027.

On emissions regulations, The Commission will propose an amendment to the CO_2 Standards Regulation, allowing manufacturers to average emissions performance over a three-year period (2025-2027), helping them manage shortfalls while maintaining overall targets. Furthermore, regulatory simplification efforts will be pursued to reduce administrative burdens on European automakers.

Also, the Commission will work on boosting demand for European zero-emission vehicles by introducing coordinated consumer incentives and improving battery standards. This includes making battery health information accessible and enhancing repairability to promote sustainability.

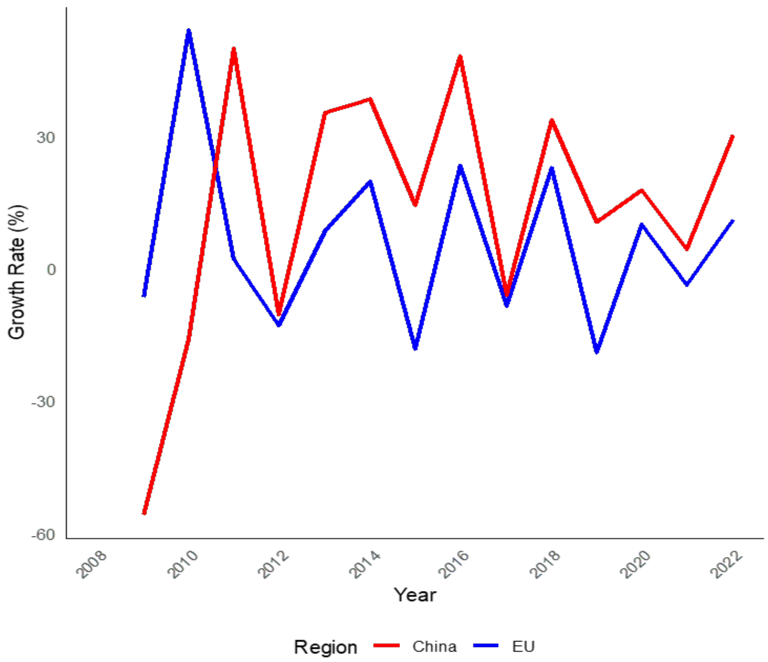
Finally, to enhance supply chain resilience and support workers in the automotive sector, the Commission will expand financing under the Innovation Fund for EU-based battery production. It will also explore direct production support and introduce resilience criteria for key components. Additionally, workforce transition support will be strengthened through an expanded European Globalisation Adjustment Fund and increased funding from the European Social Fund Plus (ESF+), helping workers reskill for new job opportunities in the evolving industry.

LUHNIP's take

The European Commission's Automotive Action Plan intends to address a critical trilemma facing the sector: balancing decarbonization, global competitiveness, and strategic autonomy in a period of significant structural change. The industry faces multiple challenges: EV demand has dropped by 44%, leading to factory closures and job losses, while the supply chain struggles after Northvolt's bankruptcy. The Action Plan's focus on workforce reskilling through the expanded European Social Fund Plus is timely, but accelerating layoffs and supply chain disruptions make rapid implementation essential.

China dominates the global EV value chain, producing over 60% of EVs and controlling 81% of battery manufacturing. Innovations like BYD's five-minute charging underline China's technological lead, while European automakers lag behind. This gap is evident in scientific research, where China's share of top-cited automotive engineering publications has grown at a much faster rate than Europe's over the past decade **(see Graph 1).**

Graph 1: Comparison of Automotive Engineering Research: Growth in 10 % Top Cited Publications (China vs. European Union, 2008-2022)



Source: Our own elaboration based on OECD data.

Despite tariffs imposed by the European Commission (see our Monthly Brief for October 2024), Chinese EVs remain price-competitive. Concerns over US scrutiny of Chinese technology in Mexico may make the EU an even more attractive market for Chinese manufacturers, especially as Tesla experiences a 45% revenue drop in Europe. External pressures have intensified with Trump's 25% tariffs on imported cars threatening EU suppliers like Valeo and Forvia, who warn of potential profit declines and job risks, while BYD may capture more market share globally.

In this context, the European Commission's Action Plan, which includes the proposal for a new framework for inbound foreign investments in the automotive sector—with conditions designed to maximize EU added value through joint venture requirements, management localization, and technology licensing agreements—represents a crucial step toward enhanced EU economic security. Meanwhile, the European Commission is investigating potential unfair subsidies for BYD's Hungarian plant, signalling increased regulatory scrutiny of Chinese investments. However, a significant gap remains in the policy approach: while duties are imposed on Chinese EVs, no action has been taken on batteries, which could encourage Chinese carmakers to establish EV assembly plants in the EU while continuing to import batteries from China.

High energy costs further undermine the EU's competitiveness. Industrial electricity prices are currently around three times higher than in the US, and natural gas six times higher, hampering energy-intensive sectors like battery production. These cost disparities have delayed gigafactory projects and underscore the need to treat energy pricing as a strategic issue. Despite this challenge, no new measures to reduce the price of energy are included in the Automotive Action Plan. The recent EU's Affordable Energy Action Plan released last February tries to address those challenges but prioritizes long-term solutions like PPAs and tax cuts, failing to provide immediate relief for automakers facing urgent energy cost pressures.

The Commission has partially deregulated CO_2 rules for cars, allowing manufacturers to average emissions over 2025-2027 instead of meeting strict yearly targets, acknowledging industry concerns regarding compliance with CO_2 standards. While easing pressure on automakers amid fierce competition and high costs, critics warn this regulatory flexibility could slow the transition to electric vehicles, though the Commission maintains the 2035 combustion engine ban.

European small and medium-sized enterprises (SMEs), which form the backbone of the EU automotive supply chain, also face mounting difficulties. SMEs in less-developed regions often lack access to foreign direct investment (FDI) benefits and struggle with digitalization, compliance, and financing. While the Action Plan emphasizes resilience, it lacks specific provisions tailored to SME needs, leaving a critical gap in the industry support structure.

Looking ahead, Europe's automotive future depends on effectively balancing climate goals with industrial resilience. The Action Plan offers a foundation for addressing these challenges through workforce reskilling, economic security measures, and trade defence mechanisms, but its success ultimately depends on increased resources, targeted SME support, better EU coordination, and urgently addressing energy costs to ensure Europe remains competitive in the global transition to sustainable mobility. Without decisive action across all these fronts, the EU risks losing ground in an industry that has historically been central to its economic strength and technological leadership.

2) The March European Council meetings and the White Paper for European Defence - Readiness 2030

On 6 March 2025, the European Council held a special meeting to strengthen the EU's defense strategy in response to the ongoing war in Ukraine. Key proposals included the creation of a €150 billion instrument to mobilize public investment in the defense sector, along with increased flexibility within the Stability and Growth Pact to allow for higher defense spending without compromising fiscal stability. The Council also emphasized joint procurement, standardization, and the simplification of defense efforts to improve efficiency and competitiveness. In addition, the Council reaffirmed its strong support for Ukraine, including the provision of air defense systems, ammunition, missiles, training, equipment for Ukrainian brigades, and collaboration to develop Ukraine's defense industry alongside the EU defense sector.

On 12 March, defense ministers from France, Germany, Italy and the UK met in Paris with EU, NATO, and Ukrainian representatives to address European security issues. The ministers outlined a dual strategy: increasing support for Ukraine through defense industrial cooperation and capability coalitions, while simultaneously strengthening European defense capabilities by accelerating procurement processes, harmonizing requirements, and advocating for increased defense spending. Also, they emphasized the importance of maintaining the transatlantic bond while increasing Europe's contribution to collective security,

On 19 March, the European Commission and the High Representative for Foreign Affairs and Security Policy presented the "Joint White Paper for European Defence - Readiness 2030", calling for urgent strengthening of the EU's defence industrial base and defense readiness in the face of growing security threats. The White Paper includes the proposals of the ReArm Europe plan, urging swift cooperation among Member States to replenish military stocks, address capability gaps, and create a unified European defense market to enhance industrial collaboration and competitiveness. Immediate actions include the coordinated activation of the National Escape Clause of the Stability and Growth Pact and fast-tracking regulatory changes to facilitate defense investments.

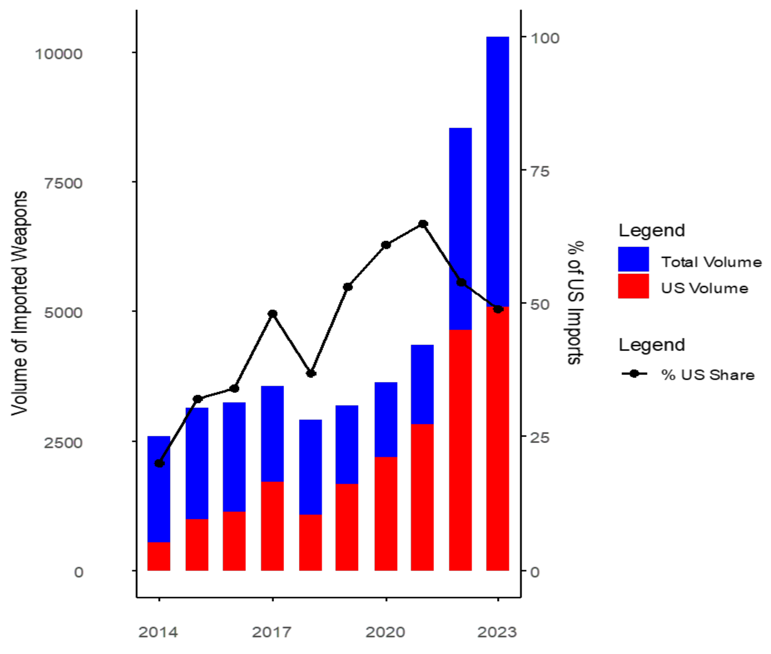
The following day, EU leaders convened for an European Council meeting to discuss the actions to adopt to enhance the EU's competitiveness, Ukraine developments and European defence policy. They emphasized again that investments in defense and to strengthen the EU's competitiveness are closely interlinked. Their priorities included reducing administrative burdens, lowering energy prices, and mobilizing private investment to support industrial innovation and decarbonization. On defense policy, the European Council called for accelerated work across all areas to decisively strengthen Europe's defense readiness within the next five years. EU leaders highlighted the importance of developing key technologies like AI and quantum computing while supporting traditional industries in transition. They requested that the Commission propose flexibility in CO_2 emissions standards for vehicles and advance the Union of Skills initiative to improve skill acquisition and retention across the EU. Finally, EU leaders started preliminary discussions on the next Multiannual Financial Framework and new own resources.

LUHNIP's take

The EU's March defense meetings and White Paper on Defense highlight Europe's urgent need to strengthen its military capabilities amid deteriorating transatlantic relations. Trust in the US has eroded as Washington restricted intelligence sharing and satellite imagery for Ukraine, while seeking expanded access to Ukrainian resources. Trump has questioned the US's security commitments with its Asian allies and its dedication to NATO while administration officials have harshly criticized European partners. Without consulting Europe, the US has moved closer to Russia, securing partial ceasefires covering energy infrastructure and the Black Sea, while proposing easing Russia's access to global markets and SWIFT (requiring EU approval). New US tariffs on the EU have further strained relations, prompting Europe to reconsider reliance on US defence systems like the F-35 fighter jet and SpaceX satellites, though finding alternatives remain challenging.

The EU's "Readiness 2030" strategy aims to prepare for potential security threats without US support, targeting strategic autonomy in defence by 2030. However, full independence remains unlikely, as US arms imports still form a significant part of Europe's defense procurement, peaking in 2021 (see **Graph 2** below). Despite rhetoric favoring European strategic autonomy, many governments continue purchasing American military equipment, constrained both by existing contractual obligations that are legally difficult to break and by established procurement preferences. Meanwhile, the strengthening of EU-US defence cooperation remains central for some governments, such as Italy's (see our LUHNIP Monthly Brief on Italian Political Economy for April 2025).

Graph 2: Volume and Share of U.S. Arms in European Defense Imports (2014-2023)



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

The White Paper proposes €150 billion for joint procurement among EU members and select allies, excluding the US, the UK, and Turkey. Turkey's exclusion from the program stems from its democratic backsliding, tensions with Greece and Cyprus, and ties with Russia. The UK's participation would likely require concessions on fishing rights, youth mobility or Gibraltar. France, a long-standing advocate of "buy-European" policies, is shaping these exclusions. Nonetheless, the UK's participation remains crucial to Europe's security, as recognized by Enrico Letta, who called for the creation of a common defense market integrating non-EU members, including the UK.

The White Paper seeks to increase autonomy by sourcing at least 65% of defense components from European manufacturers while restricting foreign firms from classified EU defense projects. This "entity eligibility" rule requires EU Member States to buy from contractors based in the EU, Ukraine or an EEA country, with the contractor holding authority over product design without third-country restrictions. Ukraine is positioned as a key partner, with proposals for joint projects and access to the EU's space program. As outlined in the March 2025 defense ministers' meeting, European nations committed to "make rapid progress on defence industrial cooperation ventures with Ukraine." Additionally, the European Commission unveiled its Steel and Metals Action Plan to strengthen industries crucial for military production, underscoring the current dual focus on competitiveness and defense readiness by 2030.

However, the proposed €800 billion defense spending has faced criticism as a symbolic effort to match US annual defense spending, rather than an immediate solution. Concerns include the lack of coordination, which risks fragmenting investments, the €650 billion allocated through budgetary restrictions easing, and the exclusion of non-EU suppliers, drawing criticism from the Netherlands and NATO chief Mark Rutte, who warned that such exclusions could create barriers between allies.

The loan-based funding model faces resistance from Southern European countries advocating for grants funded through common EU borrowing, potentially signalling another "Hamiltonian moment" for EU fiscal integration. However, the role of the European Commission as a central procurement agency remains contentious, with some Member States fearing excessive influence over national defense policies while others push for stronger coordination. There are also concerns that increased national military spending without adequate coordination could exacerbate industrial fragmentation without strengthening Europe's overall military capabilities. The forthcoming negotiations of the Commission's proposals with the Council will reveal whether Europe is moving toward strengthening the Commission's powers in industrial defense policy, or whether the status quo will prevail despite the new political context, leaving the structural problems of Europe's defense industry integration unresolved.

*** Guest Contribution of the Month ***

Mobilizing European savings is a matter of economic and industrial sovereignty

Aurore Lalucq, Member of the European Parliament, President of the Economic and Monetary Affairs Committee of the European Parliament

Europe is faced with two existential threats. The first one, well-documented in several reports such as those by Enrico Letta and Mario Draghi, is the risk of economic and industrial decline, leading to a gradual disappearance of the European Union from the global economic and geopolitical stage.

The second one, brutally brought to light by the invasion of Ukraine by Russia, the return of war on the European continent and the strategic realignment of the United States, is the capacity for the European Union to ensure its own strategic autonomy and defense. It is nothing short of the ability for Europe to protect itself from increasingly imminent threats on its territory.

This dual crisis is nothing less than an unprecedented test of its ability to collectively invest in its future. This is why the European Union must now explore ways to regain budgetary manoeuvring room and mobilize private capital to invest not only at national level but also, and perhaps most importantly, at the European level. It is urgent for the European Union to take action and move toward a true industrial policy, with a clear strategy and resources that match its ambitions.

Without coordination, however, budgetary disparities between member states risk exacerbating inequalities and leading to an unsustainable situation. This is why the response must be at the EU level. There is no alternative. Only a truly European industrial strategy and concerted action can ensure balanced development and strengthen industrial sovereignty across the Union.

The recent Draghi report has identified a minimum annual additional investment requirement of EUR 750 to 800 billion to restore the EU's productivity and meet its environmental and social goals. However, the current investment landscape in the EU is fragmented, with significant disparities in the access to private finance, particularly for innovative and high-growth companies. One of the reasons that the European Union is lagging behind its American and Chinese competitors lies in the difficulty for its businesses to secure financing, particularly for small and medium-sized enterprises seeking to scale up and expand.

The good news is that Europe has many strengths, as it remains one of the most attractive economic zones for investment, with innovative companies and a highly skilled workforce. However, Europe is currently living below its full potential, as it has so far failed to equip itself with the necessary tools and mechanisms to grow in line with its ambitions. Therefore, it is key for the EU to tap into its full potential by mobilising all the resources at its disposal.

Today, European countries hold one of the world's largest reserves of private savings. However, each year, around 300 billion euros are invested outside the continent—mainly in the United States—due in part to the fragmentation of European financial markets. This cannot go on: Europe can no longer be the financial colony of the United States, as Enrico Letta rightly pointed out.

This is why we must establish the Savings and Investment Union: to finally mobilize and leverage Europeans' savings in support of the European economy. The task will be complex, but it is crucial if we are to secure the financing of our industrial sovereignty. The mobilization of European citizens' savings is now a political, economic, and strategic sovereignty issue and will be crucial to bridge the industrial gap with other major economies.

However, the mobilization of private financing alone will not be enough to address the challenges outlined above. Public investment will also be necessary, particularly in high-risk sectors such as defense and decarbonization. The EU can rely on certain existing tools, such as the European Stability Mechanism, for instance, which can rapidly mobilize several hundred billion euros.

Finally, if we want a strong EU with its own resources and budget, we must break a long-standing taboo: the need for fair taxation at the European level, ensuring that the wealthiest individuals and large corporations contribute their fair share to the common effort.

We will need to be pragmatic and defend our interests, notably by establishing a European economic intelligence unit to strengthen the EU's strategic autonomy in economic and financial matters. The instability caused by Trump could present an opportunity for Europe, if it manages to attract economic players in search of stability and reliability.

Europe can no longer ignore the need to invest in its strategic independence and its industry. Its future on the international stage and its ability to carry weight as a major economic player are at stake. This will not only require a clear and strong industrial strategy but also concrete means to finance it, as outlined in the proposals we put forward here.