

THE NEW EU INDUSTRIAL POLICY

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CONTENTS

- There is a revival of sectoral industrial policy initiatives in the European Union
- I want to provide an overview of these initiatives,
- their origins, rationales, and common characteristics,
- and discuss some pitfalls of these initiatives.

WHAT IS INDUSTRIAL POLICY?

- Industrial policy includes “**interventions intended to improve structurally the performance of the business sector**”
- Horizontal and targeted (or “vertical”) industrial policies
 - **Horizontal policies** are support measures available to all firms, irrespective of their activity, technology or location
 - On the contrary, **targeted or vertical policies** are restricted to a subset of eligible firms based on their activity (e.g. the automotive sector), technology (e.g. microchips) or location (e.g. remote areas).

Source: Criscuolo et al. (2022)

BACKGROUND

- (Vertical) industrial policy was a **no-go** in the EU since the late 1990s
 - Focus on horizontal policies like the Single Market, SME policies, or the Framework Programmes
 - Exceptions in Article 107 of the Treaty on the Functioning of the European Union
- In the last years we see a **renewed interest** for industrial policy across the OECD
 - there is a much higher willingness to give money to firms to promote specific sectors or technologies
 - EU: Rescue and Resilience Facility, IPCEI, EU Chips Act, Sovereignty Fund
 - US: CHIPS Act, US Inflation Reduction Act

COVID-19 AS THE TURNING POINT

- Covid-19 was a turning point for sectoral industrial policy in the European Union
 - Covid-19 revealed the vulnerability of global supply chains and Europe's dependency on manufacturing in Asia.
- “Strategic open autonomy” and technological sovereignty” as new goals of policy
- New willingness at national and EU level to throw large sums of money on problems
 - Austrian Covid-19 relieve package: 49.6 bn EUR
 - EU Resilience and Recovery Facility

OTHER INFLUENCES OF THE NEW IP

- Transformative or third-generation innovation policy (Haddad et al, 2022)
 - Innovation should address important societal goals
 - Weber and Rohracher, (2012): “Transformative change, on the contrary, is intimately linked to the question of direction and requires the setting of collective priorities” - ‘Directionality failure’
- Techno-nationalism (Luo, 2022)
 - Combines geopolitical, technology, national security, and ideological considerations
 - Sees the world as zero-sum game where a country’s gains are another one’s losses
 - Retreat of the United States in international organizations – WTO

OLD AND NEW NARRATIVES OF EU POLICY

Narratives are important drivers of economic actors (Shiller 2019)

- Old narratives
 - Global challenges can only be solved in global co-operation
 - Trade with authoritarian regimes will induce political change (“Wandel durch Handel”)
- New narratives
 - The hope that China would become democratic with increasing wealth and embeddedness in the global economy was actually false.
 - Countries have technology needs
 - Europe must regain sovereignty in essential technologies, secure essential raw materials
 - Europe must react to the industrial policy challenge by the United States and China

INDUSTRIAL POLICY IN THE UNITED STATES

- The US government is pushing a very active industrial policy
 - remarkable consistency between Obama – Trump – Biden administrations
 - aimed at China, with very little consideration of WTO rules
- US CHIPS and Science Act: 39 bn USD for chips manufacturing incentives, and another 13.2 bn USD for R&D and workforce development
- Export restrictions on chips, goods related to chips manufacturing, and cut support for Chinese chips companies by US firms or individuals
- Inflation Reduction Act: 391 bn USD for energy and climate change, including 270 bn USD in tax incentives

THE RECOVERY AND RESILIENCE FACILITY (RRF)

- The main instrument of the EC to support the recovery from the Covid-19 pandemic
- The RRF provides €338 billion in grants, and €390 billion in loans for 2021 to 2026
- What is new in the RRF?
 - Funding for large-scale investments outside the exceptions listed in Art. 107 TFEU
 - Old technologies: the R&D and innovation content of the RRFs is quite low
 - RRFs have to include investments AND reforms, payments are bound to reforms
 - Green and digital components have to reach at least 37% and 20% respectively.
 - European Union bonds (119 bn EUR according to COM(2023) 99 final)

IMPORTANT PROJECTS OF COMMON EUROPEAN INTEREST (IPCEIs)

- Instrument to **allow** state aid by the Member States for large-scale industrial projects
- EU Members give state aid; has to be approved by the EC
- IPCEIs require among other criteria:
 - application by at least four Member States
 - considerable co-financing by the companies
 - novelty beyond the global state-of-the-art and important contribution to EU objectives (currently 2 x batteries, microchips, 2 x hydrogen)
 - Down to first industrial deployment stage, but no support for mass application
- So far, 18 bn EUR of public support for IPCEIs, expected to unlock additional 36 bn EUR of private investments (COM 23/2023)

THE EU CHIPS ACT

- Being cut off from Asian chips producers would put Europe into a very difficult situation
 - Moreover, large subsidies for chips around the world (US CHIPS Act, IRA)
- Goal: to increase Europe's share on global microchips production to 20%.
- Structure:
 - R&D and innovation (11 bn EUR)
 - New production facilities: the EC approves state aid for “first-of-a-kind” facilities
 - Monitoring of the chips market to anticipate supply shortages.
 - Total volume: 43bn EUR
- Got some beating for its governance, financial structure, size, strategic orientation

EU GREEN DEAL INDUSTRIAL PLAN

- The latest iteration of EU industrial policy, presented on Feb 1, 2023
 - Support for manufacturers of net-zero industrial equipment and investments in these goods
 - Proposes easier regulations,
 - relaxing state aid rules for net-zero industries and investments in these technologies, including tax benefits
 - proposes reshuffling of unused loans from the RRF
- Clearly in reaction to US and Chinese initiatives: „Some of our partner’s initiatives have undesired collateral effects on our own net-zero industries“
- Medium term: EU Sovereignty Fund to „preserve a European edge on critical and emerging technologies“ – microelectronics, quantum computing, AI, biotechnology

EXPENDITURE ON INDUSTRIAL POLICY

ANNUAL AVERAGE EXPENDITURE AT EU AND EU MEMBER STATES LEVEL, 2014-17

Industrial policy field	EU industrial	State aid by	EU industrial	State aid by	EU industrial	State aid by
	policy	member states	policy	member states	policy	member states
	Absolute amounts		% in GDP		% of total industrial policy	
	(in EUR bn)				spending/state aid	
Ecological transformation	0.29	51.90	0.00	0.35	0.01	0.52
Employment, education training	0.44	3.13	0.00	0.02	0.01	0.03
Infrastructure	1.44	0.00	0.01	0.00	0.03	0.00
RDI and technology	7.47	9.07	0.05	0.06	0.14	0.09
Regional policy	40.96	11.13	0.28	0.08	0.79	0.11
SME support	0.09	4.68	0.00	0.03	0.00	0.05
Sectoral industrial policy	1.32	7.02	0.01	0.05	0.03	0.07
Other	0.00	12.33	0.00	0.08	0.00	0.12
TOTAL	52.01	99.25	0.35	0.67	1.00	1.00

R&D tax credits not included: around 0.1% of GDP according to OECD (2022)

Source: Landesmann and Stöllinger 2020

VOLUME OF NEW INITIATIVES

Title	Country	Volume	Duration
Digital transition pillar in the RRF	EU	141 bn EUR	2021-26
Green transition pillar in the RRF	EU	249 bn EUR	2021-26
EU Chips Act	EU	43 bn EUR	From 2023
IPCEI Microelectronics I	EU MS	1.89 bn EUR	2018-24
IPCEI Hy2Tech and IPCEI H2Use	EU MS	10.6 bn EUR	from 2022
US Inflation Reduction Act, Climate part	USA	391 bn EUR	2023
National Covid-19 relief package	Austria	49.6 bn EUR	2020-21
Horizon Europe	EU	95.9 bn EUR	2021-27
Apollo programme	USA	25.4 bn USD	1961-72
		(169 bn today)	

Source: Pitlik and Schranzenstaller (2022), European Commission, Wikipedia

WILL THE NEW INDUSTRIAL POLICY SUCCEED?

- The EC has high ambitions, but no money
 - Approving state aid of member states has emerged as the main instrument
 - Discussion on new funds at EU level
- Sectoral industrial policy was not very successful in the past (Simons 1997, Lipsey and Carlaw 2017, Criscuolo et al. 2022)
- Constraints of the political system, conditions and cultural context in which policy is to be implemented (Haddad et al. 2022).
- Case-by-case extensions to state aid rules are vulnerable to lobbyism

WILL THE NEW IP SUCCEED?

- Big projects that deliver as promised are rare. Psychology, power struggles, and complexity often lead to unintended consequences (Flyvbjerg and Gardner 2023)
- The new Industrial Policy will create some trade-offs between policy goals
 - New state aid may fragment the Single Market, lead to unhealthy competition between member states for investments of EU firms
 - New industrial policy puts Europe into competition with the US and China; global co-operation will become more difficult
- European Union is just reacting
 - Bruegel: EU should not just protect its competitiveness relative to the US, but pursue broader aims, including competitiveness in general, decarbonisation

MULTINATIONAL FIRMS AND NATION-STATES

- Much will depend how large multinational firms react to the new industrial policy
 - Competition between countries for investments by some firms
 - In turn, governments also expect hard choices from firms
- Bring nation-states back into IB research as actors, not just locational factors
- ‘Strategic’ perspective on MNE-government interactions (Rugman and Verbeke, 2005):
 - Conflicts arise from inconsistencies between MNE goals and policy goals
 - Throughout the 1990s and 2000s, both had common goals: jobs and growth

POTENTIAL TRADE-OFFS

US chipmakers receiving federal funds barred from expanding in China for 10 years

Commerce department imposes new rules on beneficiaries of \$39bn programme



SUMMARY

- The European Union is currently mobilizing large funds to support European firms
 - Focus on green and digital transformation
 - Geopolitical competition as a driver of the New Industrial Policy
 - State aid for investments and technology diffusion **in addition** to R&D subsidies
- Success of the new industrial policy cannot be taken for granted
 - Similar policies often failed in the past
- New conflicts arise from inconsistencies between corporate goals and policy goals
 - Outcome will also depend on how firms and governments deal with these tensions
 - From a research perspective, the trade-offs between policy and firms open a new interesting field of research

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