

EU Industrial Policy

KEY FINDINGS

EU industrial policy (or rather EU set of policies targeting industry), shows a fuzzy picture, permanently striving for balance between its main approaches:

- **regulatory:**
 - to manage framework conditions through regulation necessary to push industrial manufacturing towards certain areas considered of importance
 - **balancing** the game between industrial actors
 - **foster** envisaged developments
- **financial:** limited direct (subsidy type) financial support, investments (private or public) in industry according to predefined targets
- **distributed policy** between the EU and the Member States

Certain areas need particular attention in shaping policy, i.e. the **EU innovation deficit** and **reshoring of industry and innovation**.

1. Background

Largely acknowledged as the basis of the EU industrial policy, the legal base for EU actions in this domain is represented by paragraph 1 of Article 173 of the Treaty on the Functioning of the European Union (TFEU). It should be observed, however, that the approach of the TFEU is to insure the (international) competitiveness of the industry within the EU by certain basic approaches which entail structural change, support for Small and Medium size Enterprises (SMEs), fostering collaboration of undertakings within the EU, as well as exploiting the potential in innovation and research and technological development (R&D).

Paragraph 2 of this article is key in understanding the limits of EU action, as *the task assigned to the EU is that of coordination of EU Member States industrial policies* through certain instruments (establishing guidelines and indicators, exchange of best practices, periodic monitoring and evaluation). Further on, while paragraph 3 of the article stipulates the development of policies and activities under other provisions of the Treaty in order to achieve the objectives set out in paragraph 1, *limits EU intervention to support actions taken by Member States and excludes harmonisation of laws and regulations of the Member States*¹.

2. Framework approaches towards industrial policy

Across the history industrial policy had many facets, however always linked to a national approach. Traditional industrial policies were favouring selected national champion suppliers, a feature common to all EU Member States², but particularly for state planned economies. In this approach industrial policy rested on an institutional framework that provided many

instruments for national governments. One key pillar is public ownership of producers. A second is that governments held most formal powers over mergers and acquisitions, providing influence over market structure. Third, governments enjoy discretion and powers to support selected suppliers, be these state owned or privately owned – most legal powers lay in the hands of nation states who could make rules about the extent and form of competition and applied them. Finally, governments engaged in planning, often creating specific organisations and frameworks that set targets and determined investment.

The most important cross-national contrast concerns the US, which had-has 'regulation'. Policies often take the form of formal rules and there is a higher level of judicialisation compared with European countries. Regulation is based on institutions that differ somewhat from those in other capitalist countries. Public ownership is low, with private ownership of almost all firms, including in telecommunications and finance. Regulatory powers are held by independent 'commissions', with their own members appointed for fixed terms of office, such as the FCC (Federal Communications Commission) or SEC (Securities and Exchange Commission). Nevertheless, the US is seen as an exception. Still, regulation did not prevent the US from having its own forms of industrial policy, notably the promotion of large firms, barriers to overseas entry and a powerful 'military industrial complex'.

However, from the 1980s onwards, the institutions traditionally underpinning industrial policies in Europe were abolished or reformed: state-owned enterprises were privatised; governments lost many legal powers over monopolies and mergers both to the European Commission and to national 'independent regulatory authorities' (IRAs), thus getting closer to the US practice.

Therefore, industrial policy has a mixed approach, oscillating between direct support to certain sectors (or industries) and regulation. The EU lacks by its nature large means (funding) to offer direct support, while the TFEU provides a number of possibilities for implementation of supranational regulatory actions, nevertheless limited in certain aspects. Still, the development in time of the approach toward industrial policy at the EU level represented a move towards competition-based regulation of markets¹, in line with the main goal of the TFEU.

3. Views on an EU industrial policy

The rather fuzzy nature and approach towards industrial policy, in the context of a relatively particular framework to define such a policy within the EU, ignites different views, on what such a policy may include. Certain analysts introduce the term of "*new EU-wide industrial policy*"³, thus acknowledging that previous achievements did not have a comprehensive effect (and even stating of non-existence of an EU industrial policy). The reasons raised are rooted in:

- the need for a substantial increase in demand (which in fact might come from an Europe-wide public investment plan, and the European Fund for Strategic Investment (EFSI) might fulfil this desiderate),
- a necessary structural change of existing industrial landscape, particularly downsizing the inflated financial sector and increase the rate of manufacturing (a goal introduced in the strategic objective to increase the rate of manufacturing to 20% by 2020),
- rebalancing the rate of private/state owned enterprises by reversing past massive privatisation, addressing imbalances within the EU and individual countries,
- addressing ecological transformation of Europe for making Europe more sustainable.

According to others⁴ the industrial policy and competition policy (which has important developments at the EU level) have different logics. The first privileges the intervention of the state into the economy by public procurement and protectionist measures (both difficult to

implement at EU level). The second addresses the regulatory aspect, as long as economic agents are free to act on markets according to pre-established rules. Therefore, in fact it might be considered that the bulk of industrial policy in the EU is de facto managed by EU Member States, while the EU is left to handle aspect of competition on the internal market.

Nevertheless, some state that across the EU many inconsistencies arise and in the best case the EU industrial policy is still far from being a fully-fledged and integrated strategy⁵, according to others, the EU industrial policy is often criticised for lack of clear results⁴, while certain claim directly that the EU misses an industrial policy³. The peculiar image the set of policies developed under the EU umbrella provide is perhaps best exemplified by the opinion, that there is not always a clear-cut and explicit idea of what purpose an EU industrial policy would serve, in that there are general references to objectives such as competitiveness, growth and jobs, but sometimes without explicit mention of possible tensions or overlaps between such objectives and how exactly an industrial policy can help achieve these objectives⁶.

4. European Commission's current approach on an EU industrial policy







The EU Commission published recently⁷ a review of its vision of EU industry and associated EU policies. In this it is reiterated that the context of EU initiatives is that of boosting industrial competitiveness. Industrial competitiveness is aimed to be integrated across all initiatives. The Commission aims to provide appropriate framework conditions, balancing the need for regulatory clarity and consistency with space for innovation.

The Commission states that the EU is global leader in many sectors which supply high-value jobs today, including the automotive, aeronautics, engineering, chemicals and pharmaceutical industries. European companies also play a leading role in markets for future technologies, which include advanced manufacturing, nanotechnology, biotechnology, micro- and macro-electronics, photonics and advanced materials. But rapid advances in technology and the need to foster a sustainable, circular and low-carbon economy provide challenges as well as opportunities. Europe must continually innovate to remain competitive in a global market place.

The Commission identifies a number of challenges and associates to these the measures put recently forward (see Figure 1.). These are embedded in the framework of changing nature of industry. First it establishes, that industry (i.e. manufacturing) is a very important part of the EU economy, while it generates 24% of the GDP and employs 20% of the workforce. However, one can observe a depletion of industrial structure towards hi-tech industries, employing new technologies, which also generate new markets and need new business models. Key elements of this new framework are digitisation, innovation, as well skills training. Generally, speaking the Commission aims to address these challenges employing regulatory instruments.

The first main challenge identified by the Commission is *access to finance*. Currently it considers to have addressed this by the *investment plan for Europe* (as a direct support) in which the first pillar is EFSI. The second pillar comprises the European Investment Advisory HUB and the European Investment Project Portal. These would help to create a stable pipeline of bankable projects and attract investors worldwide. These are considered to be complemented by the funds allocated through Horizon 2020 to support industrial leadership and the European Structural and Investment (ESI) funds. *Capital Markets Union* (CMU) would also improve access to finance as it aims to create an investment-friendly environment by building more profound and better integrated capital markets. It would also facilitate investment for companies across the board through improved access to alternative financing sources. It also supports the creation of a number of EU level venture capital funds.

Figure 1

	CHALLENGES	MEASURES	EXAMPLES
	ACCESS TO FINANCE	INVESTMENT PLAN CAPITAL MARKETS UNION	EUR 30 billion from the Investment Fund allocated to projects generated EUR 168 billion of additional investments – EUR 16 billion invested in 9000 research and innovation projects (Horizon 2020) – 200 initiatives to simplify regulation and improve investment climate; 33 actions for an integrated capital market by 2019;
	RESOURCE EFFICIENCY	ENERGY UNION CIRCULAR ECONOMY	Clear energy targets set for 2030: 40% cut in greenhouse gas emissions 27% market share for renewables 27% energy efficiency improvement; Legislation to improve waste prevention and reuse could save 8% on annual business turnover in industry;
	ACCESS TO DIGITISATION	DIGITAL SINGLE MARKET	European Platform to connect national initiatives on digitisation; Commitment to invest EUR 500 million in digital innovation hubs by 2020 and facilitate free data flow;
	ACCESS TO GLOBAL VALUE CHAINS	SINGLE MARKET STRATEGY TRADE POLICY	Service package: with the European services e-card, service providers can expand their business to other Member States more easily; Guidance on application of existing rules to the collaborative economy;
	SKILLS DEVELOPMENT	SKILLS AGENDA	Sectoral partnerships for better skills, supported by EUR 30 million in six areas: automotive, maritime technology, space, defence, textiles and tourism;
	SUPPORTIVE REGULATION	BETTER REGULATION AGENDA	Regulatory initiatives to help businesses restructure and grow more easily.

Source: European Commission (2017) Industry in Europe, Facts & Figures on Competitiveness & innovation

The second main challenge is linked to *resource efficiency*, in which the first pillar is the *Energy Union Framework Strategy* that aims to ensure that affordable, secure and sustainable energy is available for Europe and its citizens. The areas covered are energy security, internal market, energy efficiency, decarbonisation and research innovation and competitiveness. The second pillar is considered to be the *Circular Economy Action Plan*. This includes regulatory and non-regulatory measures covering the whole product cycle from production, employing resource efficient technologies, and consumption to waste management and the market for secondary raw materials.

The third challenge considered to be digitisation particularly that of industrial manufacturing, is addressed by the *Digital Single Market Strategy (DSM)*. The Strategy aims to create a seamless area where people and businesses can trade digitally, innovate and interact legally, safely, securely, and at an affordable cost. While DSM did not have from the very beginning a vision on digitalisation of manufacturing, this was added recently through the Digitising European Industry⁸ initiative aimed to foster the transformations in the design, manufacture, operation and service of manufacturing systems and products.

The fourth challenge, access to global value chains (GVC), is associated primarily with the *Single Market Strategy*⁹. As defined by the OECD, a value chain is “the full range of activities that firms engage in to bring a product to the market, from conception to final use. Such activities range from design, production, marketing, logistics and distribution to support to the final consumer”¹⁰. This summarizes the fact, that a product is no longer totally created by a single firm in one location and contributes to the fragmentation of manufacturing activities, thus offering a completely new vision of what a particular industry is, and to what extent this industry is located within an EU Member State, within the EU, or it is dependent on global suppliers. The Europeanization of value chains⁵, i.e. re-shoring multiple elements of production create the possibility for a new approach in supporting EU industrial policy. However, a well-functioning and harmonized single market seems to be a prerequisite. Beyond this, the smooth development of European value-chains would also to be supported by the *Standardisation Package*¹¹, aimed to help modernise, prioritise and accelerate the delivery of standards which facilitate intra-EU and global trade.

Further actions aimed to improve access to GVCs are the Start-Up and Scale-Up Initiative¹² which would create better framework to allow start-ups to grow and do business across the EU, the Service Package which should provide new momentum for the internal market on services, as well as the unitary patent.

*Skills development*¹³, as the fifth challenge, represents a breakthrough in the approach towards industrial policy. Although the development of human capital in order to appropriately fulfil the requirements of the society at large was usually present in planned economies, a new dimension is given. This is rooted in the recognition that future jobs will need new skills, probably significantly different of those today, as well as that the workforce will need to adapt to the increasingly rapid changes in technology, with a specific emphasis on acquiring digital skills.

Because the above regulatory instruments do target specific areas, common to all industrial actors, these are not aimed to rule operations between these actors, as is the case in a traditional regulation based “industrial policy”. Similarly, trade policy and internationalisation of European businesses is a form of overall support and is considered to contribute to industrial policy by providing a favourable environment for global market access of goods manufactured within the EU, but also by insuring access to raw materials and energy.

However, as a sixth challenge and in line with its role as a supranational regulator, the Commission also addresses regulatory instruments aimed to govern competition on the internal market. This is considered to be the third pillar of EFSI.

Interestingly enough, the Commission also includes direct support for certain areas of strategic nature and highly relevant for industry. These are *space, defence and steel production*.

More recently¹⁴ the Commission added some new features to the previously described set of policies (largely in tune with a previous position expressed by the European Parliament¹⁵). It establishes that the EU competitors *invest* heavily in order to upgrade their industry while the investment rate within the EU is still below its historical average and reiterates the ever green EU innovation gap with some countries (nevertheless, only South Korea and Japan are specifically mentioned), as *investment in innovation and other intangible assets remains lower*

than by many competitors. Similarly, emphasizes the need to *raise the game in turning research into breakthrough innovation creating new markets*.

Better Regulation is reiterated with the aim to assess systematically its economic, social and environmental impacts, while mainstreaming competitiveness, innovation, digitisation, investment, SMEs, social and consumer protection and the environment into the EU's policy making and to manage unnecessary red-tape.

The Commission also indicates *public procurement* as a driver for smart, sustainable and innovative technology, and plans to propose measures to boost strategic procurement and to assist Member States with procurement aspects of large infrastructures. While this concerns public investment at Member State level, the Commission goes even further by proposing to create its own investments, it is true not in a kind of a "champion" company, but rather in *privileged sectors*, like clean energy innovation and strategic technologies for the industry of the future (key enabling technologies). It also wishes to give *global dimension to public procurement* by its International Procurement Instrument aimed to promote open and reciprocal access to public procurement markets around the world.

In respect to skills development beyond the strengthening of the result orientation of the European Social Fund to support the resilience and competitiveness for labour markets, emphasizes the perceived role of the Erasmus+ programme in developing new skills through learning abroad.

One can also observe a new aspect of industrial policy making in the *recognition of the role of regions* in industrial development as they are targeted in the Horizon 2020 Policy Support Facility and the Smart Specialisation Platform. The Commission wishes to appoint "investment envoys" in the member States that serve as a contact point to national and regional authorities, project promoters, investors and civil society on related investment matters. It will also launch a Pilot action to provide tailor-made and joined up support to address the specific challenges of regions going through an acute crisis or falling into decline.

5. Concluding remarks

The nature of approach of recent EU policy documents dealing with industry reflect a multilayer structure which rests in effect on three main pillars. First, the EU's main level playing field remain that of *regulation* based clearly on the stipulations of the TFEU. In this respect, the method the EU employs is to manage framework conditions through regulation necessary to push industrial manufacturing towards certain areas considered of importance. Nevertheless, this also happens within an obvious permanent repositioning of industrial development within the EU in respect to the main competitors on global scale. A number of indicators/areas are identified in this respect, both by the Commission and the European Parliament¹⁵. However, it turns out that the "regulatory" approach is much less oriented towards balancing the game between industrial actors (as in a traditional "regulatory" approach). Not neglecting this aspect, the role assumed is rather to *foster envisaged developments*.

A second level playing field assumed by the EU is that of *direct support offered to certain industries*, i.e. industrial sectors, nevertheless within the limits of a fair competition (and those of limited direct subsidies). In this respect large traditional industrial areas are apparently not supported, because only some areas of strategic importance (space, steel, defence) are directly targeted. Here, too, not having the necessary financial means, the EU action is limited in most of the cases to employ regulatory tools, which ultimately contribute towards a *secondary channelling of resources* towards these fields (which include also those considered as perspective to achieve the goals of increased manufacturing in the EU and competitiveness in global markets). Interestingly, while advocating a decrease and limitation of public intervention through subsidies (nevertheless, for established industries), a *new*

direct public support is fostered, that of public procurement (particularly for innovative ones). Altogether, beside a limited direct (subsidy type) financial support, the EU strives for investments (private or public) in industry according to somehow predefined targets.

One can find a third level playing field within the *dichotomy of an industrial policy distributed between the EU and the Member States* (or even more, going down to regions, cities) as harmonization of laws and regulations of the Member States is excluded.

There are, nevertheless, certain aspects which might need closer attention. Already in 1994¹⁶ the Commission identified *financial investment* particularly in research and technological development as a weakness of the EU industrial base, as "The Community invests proportionally less than its competitors in research and technological development". At the same time "the comparative *limited capacity to convert scientific breakthroughs and technological achievements into industrial and commercial successes*" was nominated as another weakness. *Both are still (or in a permanent manner) present.*

At that time an answer was looked for these weaknesses in the 1995 Green Paper on Innovation. Without entering into details, it appears that a number of solutions offered are either reiterated in a new form (investment), or where not efficient in closing the gap (e.g. while the innovation capacity within the EU increased, the innovation capacity of competitors increased, too, and in more rapid pace, and also the number of competitors increased). Thus it might be appropriate to provide a more in depth analysis of the persistence of these problems as the EU struggles with a *permanent innovation deficit (i.e. it is not able to close the innovation gap which becomes even larger).*

It is welcome that deindustrialisation and reindustrialisation is addressed also at the regional level. However, a thorough analysis of medium to long term deployment of manufacturing industry in certain regions on a comparative base, needs more attention, particularly because this falls within the realm of the Member States.

More attention needs to be given to delocalisation of industry, and its possible reshoring. This is sparsely present in current EU industry related policies (although Europeanization of value-chains might be considered as such). Delocalisation occurred initially in labour and energy intensive areas, and within a boom in globalisation. However, recently one can see delocalisation of high-tech industries and as well as that of innovation, without this being really counterweighted.

Finally, it is arguable whether the EU has an industrial policy, or rather has a set of policies targeting EU industry and manufacturing, as the governance of these policies does not seem coherent enough.

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