ECONOMY AND ECOLOGY 16.02.2023 | Claudia Detsch

Waking the sleeping beauty of European industrial policy

Startled by the Inflation Reduction Act, Europe wants to ignite the industrial policy turbo. But will the new measures be enough to keep up?

They didn't mean any harm. They weren't even thinking of us. Which is not exactly flattering, given that we thought we were enjoying a renaissance in transatlantic relations. But in Washington, the introduction of the Inflation Reduction Act (IRA) was, in fact, primarily about domestic politics. It didn't occur to the Americans that their allies in Europe (and Asia) might feel indignant about this multi-billion dollar boost to industry, or that they might even raise the ugly accusation of protectionism. But it probably wouldn't have changed anything anyway.

It seems, the Democratic administration under Joe Biden was more concerned with its place in history and with winning back disaffected voters. And in all probability (and with some clever politicking), we'll have good reason to thank them for it. Admittedly, this will certainly not be true for the 'buy American' part of the bill. This stipulates that some of the subsidies will only apply to products that are predominantly made in the US, or the components of which are sourced from North America. Indeed, it is to be hoped that further concessions will be made to European partners.

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The spectre of de-industrialisation is currently haunting Europe. But who knows, in retrospect, this may prove to have been the moment when the sleeping beauty of European industrial policy was awakened from her slumbers by a kiss. The fear of existing companies and entire branches of industry relocating and - even more importantly - the fear of not getting a slice of the beautiful green cake of future climate-neutral technologies are enabling an entirely new pace of reform in Europe.

This has already been kick-started by Russia's invasion of Ukraine and the resultant energy and price crisis. The pace is now being further accelerated by what our competitors are doing. The economic heavyweights have led the way. China has announced investments of more than 280 bn US dollars in clean technologies. The US, through the IRA, is mobilising more than 360 bn dollars for similar projects. Japan, India, the UK, Canada and South Korea have also announced similar programmes.

Europeans need their own solution

The European response was accordingly eagerly awaited, and hotly debated in advance. The Commission's Green Deal Industrial Plan, presented last week, is now set to be implemented through a series of concrete legislative proposals. These involve state aid, faster approvals, trade agreements and support for targeted career training and qualifications. Many of the instruments are already familiar, the eternally contentious question of financing has been postponed for now, and some important aspects could certainly do with receiving more attention. But overall, the direction of travel is the right one.

The signal is overdue and the timing is now right: industrial and structural policy are making a comeback in Europe. The financial, euro and Corona crises have already changed the perception of the role of the state. The market does not sort everything out, and especially not in times of crisis. What really counts is clever reflexive interaction between the state and the private sector. To delay now would be to miss this opportunity. Again. But we cannot afford that. Especially since the EU's internal coordination processes means that it is never one of the early birds anyway. And there is a great deal at stake. Jobs, for example. And sovereignty.

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A simple copy-and-paste of the IRA is, of course, not the solution. The Europeans have to find their own answers to this epochal challenge. What is needed is support for the introduction of new technologies, for research and development and for ramping up production. Unlike how it was in the past, now the entire supply chain has to be considered. It is fortunate therefore that we want to shift more of this back to Europe and neighbouring regions anyway. Europe is still a good location for ground-breaking innovation, but it needs

clearer regulations oriented towards shared goals and better harmonisation, as well as more cross-border industrial alliances. This is by no means uncharted territory either. From the EU Innovation Fund to the European Battery Alliance, there are a number of successful models to build on.

But some things certainly can be copied from Uncle Sam. Business figures like to point out that everything happens faster in the US and that the focus is on opportunities rather than problems. All too often, in Europe, the big picture gets lost in the detail. And that costs time. This can be seen right now in the case of hydrogen. While the Europeans fiercely debate the pure science, the Americans, who showed very little interest to begin with, simply and calmly forge ahead - and, if we don't pay attention, leave us in their wake. Faced with what is sometimes perceived as a cacophony of regulations and proposals, as well as multi-layered and overlapping competencies, business lacks the clarity it needs. And a lack of planning certainty is toxic for investments that are supposed to pay off over ten or fifteen years.

The member states must work together

To demonstrate that it has learned its lesson, the EU Commission is now planning to present a Net Zero Industry Act as early as mid-March as part of the first instalment of its Green Deal Industrial Plan to drive up European green technology production. The new law will focus on key technologies. Specifically, it identifies batteries, wind turbines, heat pumps, solar panels, electrolysers and carbon capture as well as storage technologies (the Commission has been criticised for taking a rather vague stance on the decarbonisation of heavy industry). This is all about killing two birds with one stone. For one, we don't want to be left behind, with the markets of the future out of our reach. At the same time, a massive expansion of renewables and hydrogen is needed to enable us just to get back within striking distance. Because at the moment, with regard to energy costs, Europe is far behind the US, in particular. That is a double burden.

The Net Zero Industry Act is also aimed at speeding up the issuing of permits, creating incentives for cross-border projects and reducing red tape. All this is sorely needed. In terms of ecological industrial policy, Europe not only has to switch on the turbo, but above all it has to do so jointly. This is something that Berlin can and must focus on much more strongly and which it must take out of the manuscript and put into practice. At present, everyone is still too often looking after number one.

And no one in Europe is regarded with more suspicion than the Germans. Sometimes that is just a cheap jibe, but sometimes it is not entirely without justification. But it definitely won't help us achieve the leadership role we aspire to.

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In addition, doing things in parallel and duplicated rather than together wastes scarce resources, creates internal rivalries and even has a reciprocally detrimental effect. This fragmentation weakens Europe's international competitiveness. And if we want to hold our own in competition with big players, we have to exploit synergies and build up joint production lines. Here, size really does matter. But in this respect, the Chinese and the Americans have a natural advantage. So, it's time the Europeans stopped debating their differences and got down to working together. This calls for common goals and the appropriate allocation of tasks - enhanced coordination. Otherwise, there is a risk of even greater fragmentation of the internal market.

Advantages and future challenges

Another aspect of the IRA is also leading an undeservedly shadowy existence in the European debate: its importance for workers and jobs. As already outlined, the IRA is, in part, a response to the accusation that the former core constituency is no longer represented. This is where the Biden administration wants to pull the plug on the populists. For a long time, the threat of possible job losses was at the forefront of public debate around ecological restructuring. But now the talk is of new and good jobs in the industries of the future. For example, through the IRA the US government wants to provide tax credits to companies that pay decent wages and take on apprentices. It also wants to tax share buybacks so that companies invest instead of making their boards rich. And it will grant additional tax credits for clean energy projects in communities formerly dependent on extractive industries. Europe should also take a leaf out of this book. It is the only way to achieve a just transition.

Thanks to the European Pillar of Social Rights, which was launched in 2017, the EU is actually starting from a much higher level than the US. In October last year, for example, the EU directive on an adequate minimum wage was adopted, which calls for collective bargaining and strengthens the trade unions. The Green Industrial Plan devotes an

entire chapter to skills development, but is silent on the quality of jobs and how this could be enhanced - for example through legislation on state aid or through public procurement. This is a mistake. Businesses have no call to whine about this either. Without a qualified and contented workforce, companies cannot compete successfully. And in times when skilled workers are in short supply, companies will have to raise their game anyway to make themselves attractive to potential new employees.

In the long term, the Commission is counting on European remedies.

Heated debates over the financing of the ecological industrial plan still lie ahead. For the time being, the funds for EU industrial policy are to be provided primarily by the member states. This is why the Commission wants to temporarily relax the rules on state aid, which normally curtail national subsidies. Such subsidies should now be applicable to more new technologies, be higher than before and be granted for longer time periods. But in the long term, the Commission is counting on European remedies. This is because the capacity of EU countries to grant state aid varies greatly (Germany and France have much greater capacity than smaller member states) and this puts pressure on the internal market.

In addition, there is a risk of scarce resources being wasted through the establishment of parallel structures. This makes it easier to fail to achieve a profit margin. Once again, our competitors would be the ones laughing all the way to the bank. So, it is important to exploit jointly the synergies and economies of scale in the newly emerging supply chains for green technologies. To finance this, the Commission is proposing a European ‘sovereignty fund’, through which shared European funds can be made available for key technologies and cross-border projects. This fund will be unveiled in more detail in the summer, when the revision of the EU's multi-annual budget is also due.

Even with this Green Deal Industrial Plan, we are still a long way from the accusations of state interventionism and the communitisation of debt. Without start-up finance and without safeguarding against the risks, it just can’t be done. Of course, companies and industries do not become competitive primarily through the injection of continuous financial support from the public sector. But without start-up finance, competitiveness soon becomes impossible before it even comes within reach.



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