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Europe’s Evolving Industrial Policy

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Traditionally, the EU is a reluctant industrial policy player

National industrial policy in a single market is tricky:

- Risk of market fragmentation
- Strong relocation externalities
- Political tensions from unfair competition

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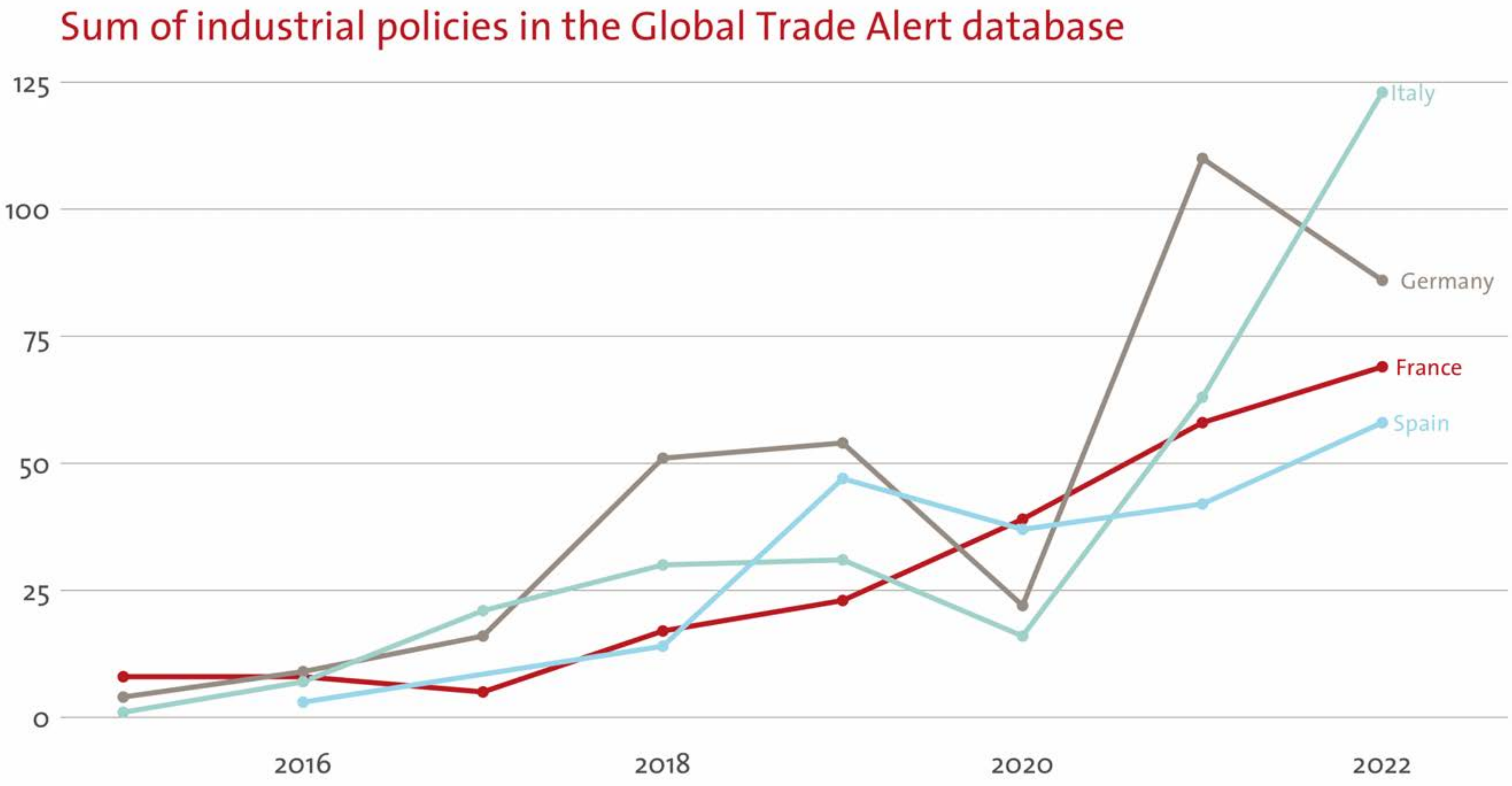
But member states are becoming more active



Own analysis based on data from Juhász et al. (2023)

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Traditionally, the EU is a reluctant industrial policy player

National industrial policy in a single market is tricky:

- Risk of market fragmentation
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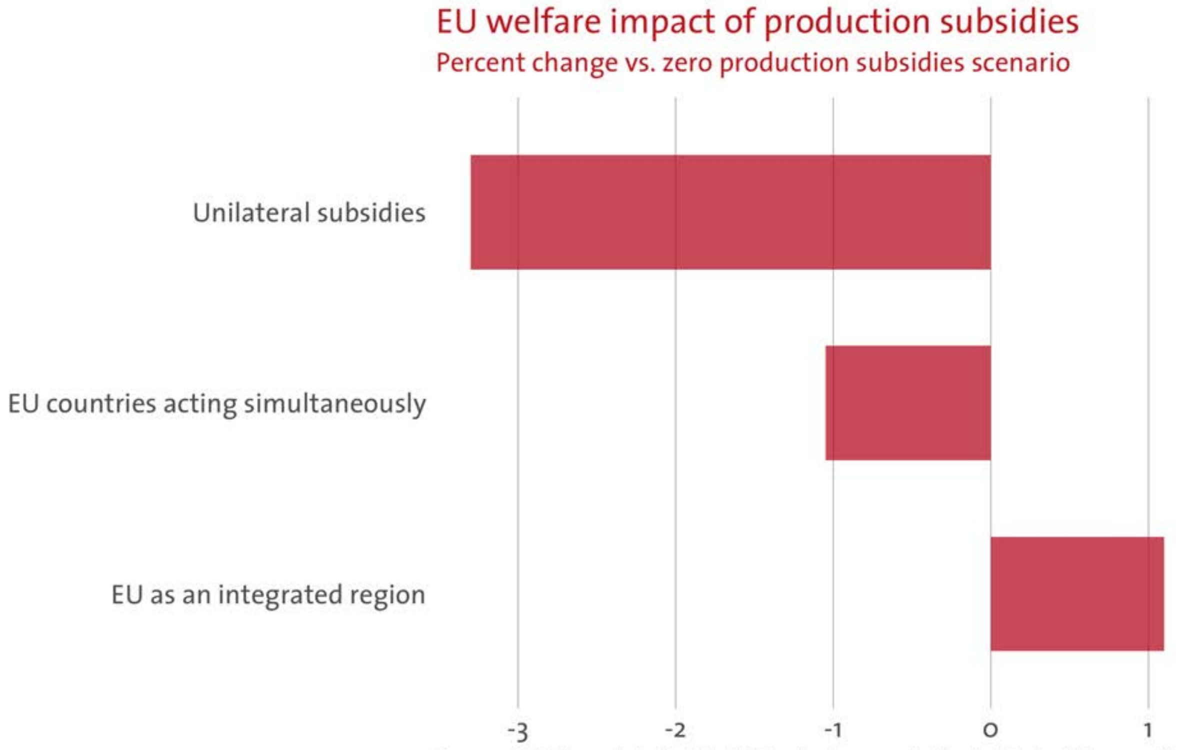
Question is how to get a common EU-wide strategy. Requires:

- Common strategic focus
- Coordinated implementation
- Joint financing



Source: IMF (2024): Industrial Policy in Europe: A Single Market Perspective

1. EU needs to sharpen focus of industrial strategy

faster permitting & possibility for streamlined access to funding

relaxed state aid rules

Net-Zero-Industry Act

Net-Zero-Industry-Act (NZIA) accelerates **permitting** and allows/requires member states to use **resilience criteria in public procurement**.
NZIA covers the below technologies:

- Energy storage technologies, incl. ... **batteries***
- Solar technologies: Solar Thermal, Solar Thermal Electric, PV modules, ... PV panels
- Onshore wind and offshore renewable technologies, incl. ... wind turbines
- Geothermal energy technologies, incl. ... heat pumps
- **Hydrogen technologies***, incl ... electrolyser
- CO_2 transport and utilisation ... CCUS
- CCS technologies
- Sustainable biogas and biomethane technologies
- Electricity grid technologies
- Nuclear fission energy technologies
- Sustainable alternative fuels technologies
- Hydropower technologies
- Other renewable energy technologies
- Energy system-related energy efficiency technologies
- Renewable fuels of non-biological origin
- Biotech climate and energy solutions
- Transformative industrial technologies for decarbonisation
- Wind and electric propulsion technologies for transport
- Other nuclear technologies

TCTF

The TCTF (Temporary Crisis and Transition Framework) substantially **loosens state aid rules** explicitly for the below tech-nologies and their respective input goods:

EU Chips Act

The Chips Act aims to boost the EU chip ecosystem, including by determining that sizeable member state subsidies can be compatible with state aid rules.

Semiconductors /
Microelectronics*

CRMA aims to secure required raw materials

CRMA

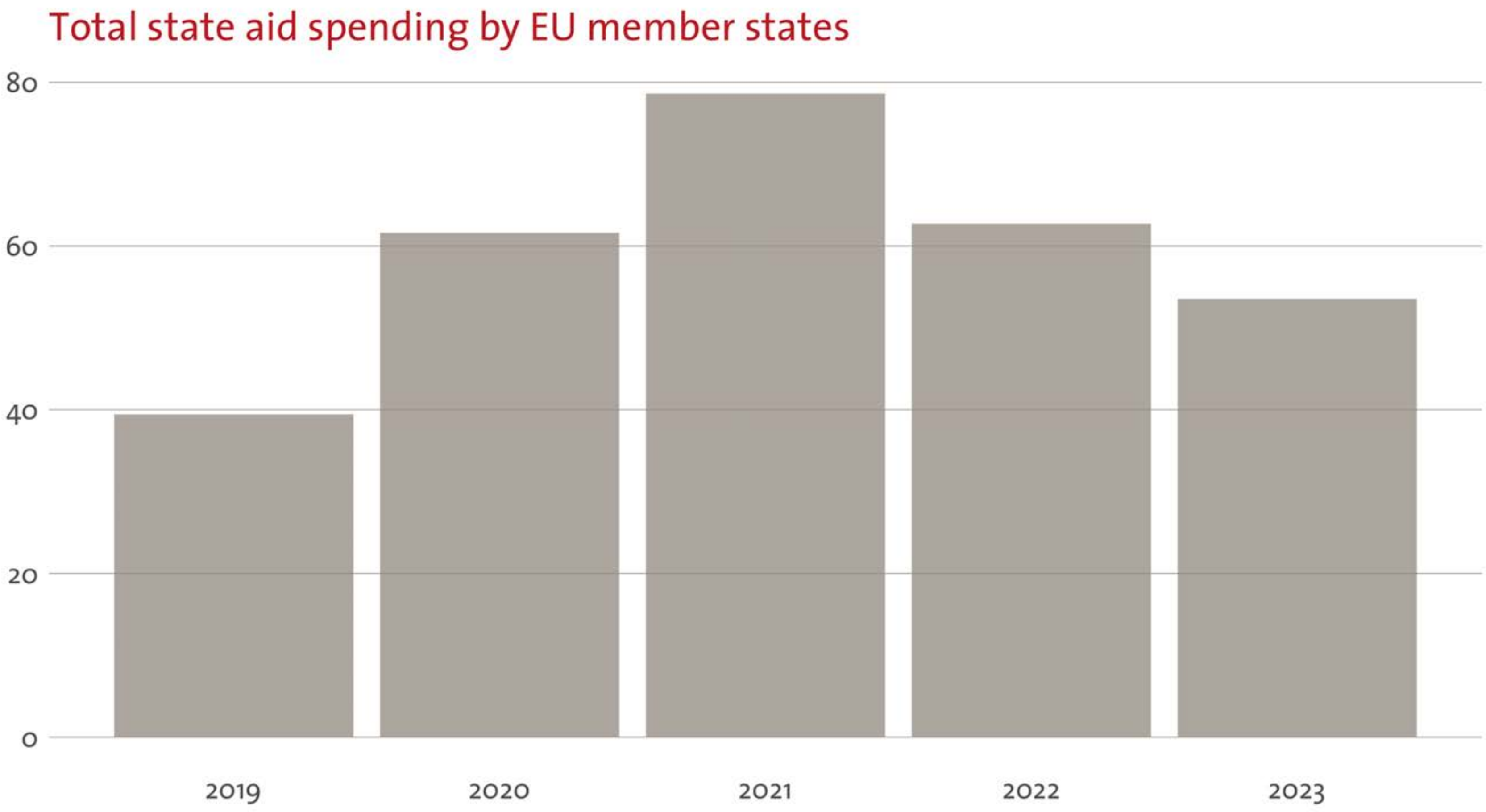
The Critical Raw Materials Act (CRMA) identifies **strategic and critical raw materials**, necessary for the EU's green and digital transition and its aerospace and defence sectors (such as cobalt or lithium, for instance).

Strategic Technologies for Europe Platform (STEP)

STEP covers almost all **clean-tech**, **bio-tech**, and **deep-tech**, and is aimed at streamlining funds from 11 EU funding programmes.
The indicative and non-exhaustive list of technologies in the Guidance Note encompasses more than 130 technologies.

*corresponding IPCEI

2. EU needs to coordinate implementation



Source: Own analysis based on State Aid Tansparency Register Data. Redeker & Jäger (forthcoming)

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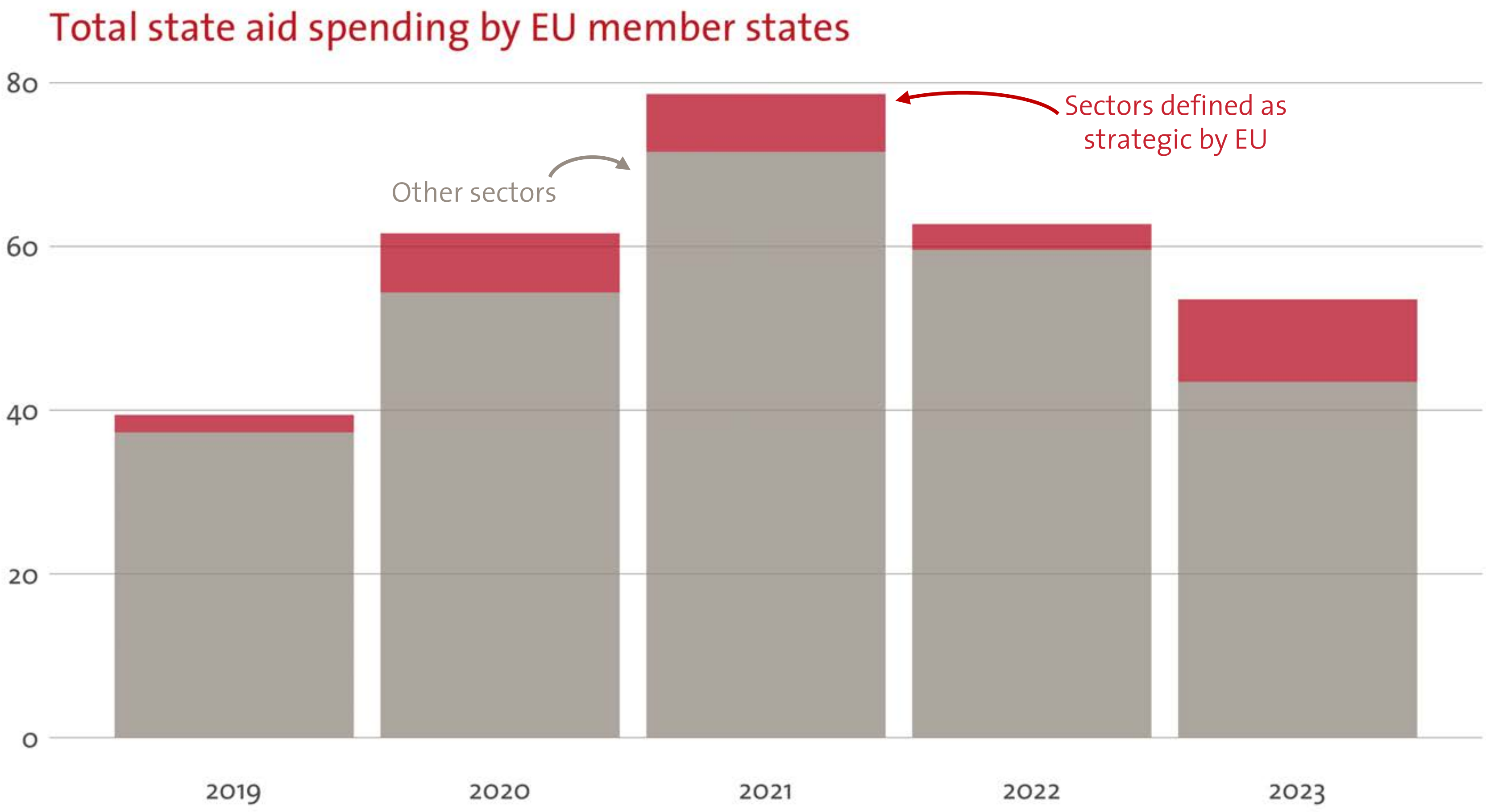

Source: Own analysis based on State Aid Tansparency Register Data. Redeker & Jäger (forthcoming).
Note: Strategic sectors include clean tech, microelectronics, biotech and pharma

3. EU needs new financing sources for industrial policy

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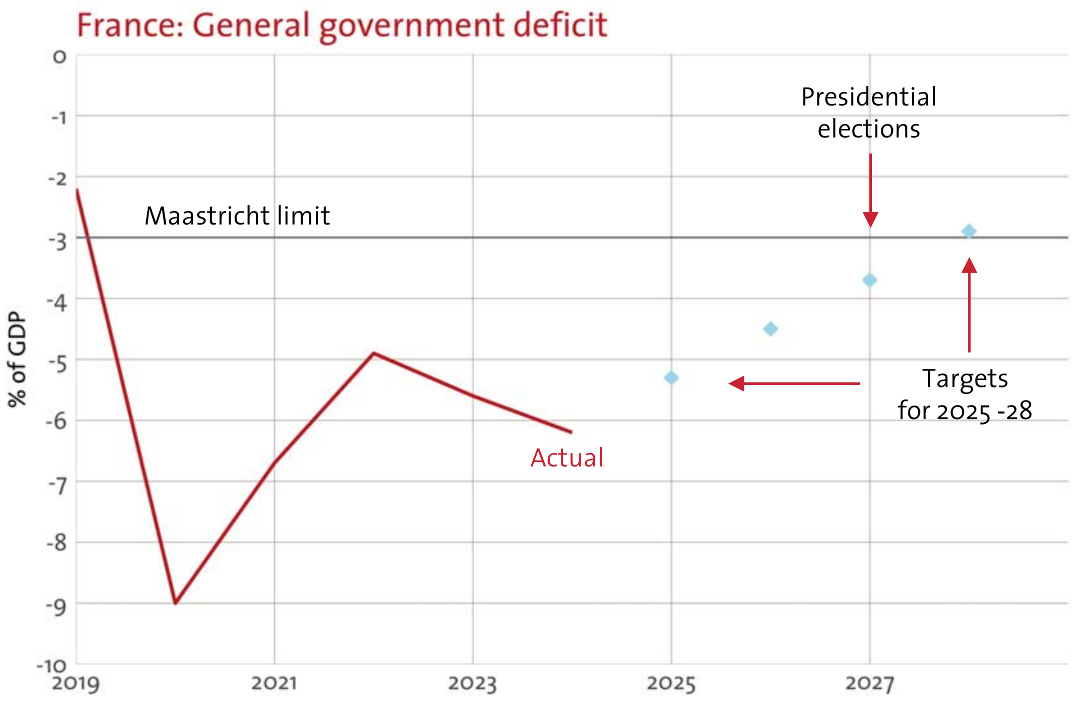
- National fiscal space remains in many member states heavy strain from the pandemic and energy crisis.
- The EU budget remains limited (~1% of EU GDP) and lacks flexibility.
- Short-term: Redirecting EU place-based funds and support from European Investment Bank
- Medium-term: Reform of EU budget post-2028



Outlook