Examining the Role of Fiscal Capacity and Political Tradition in Member-States' Position on EU Industrial Policy

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Abstract

This thesis explores how fiscal capacity and political tradition influence the industrial policy preferences of EU member states. In the context of recent geopolitical shifts and the relaxation of EU state aid rules, concerns have risen regarding market fragmentation and unequal benefits among member states. By analysing the positions of Germany, France, the Netherlands, and Italy, the study demonstrates that fiscal capacity significantly shapes national stances, often in alignment with material interests. However, it also reveals that political tradition can modulate policy preferences in significant ways, leading to different outcomes for similar material circumstances. Germany and France, with higher fiscal capacities, show policy preferences that reflect their financial strengths, nuanced by their political traditions. Conversely, Italy and the Netherlands, with lower fiscal capacities, exhibit policy preferences driven by fiscal constraints modulated by ideological orientations. The research underscores the interplay between economic realities and political cultures, suggesting that future EU policy debates will be influenced by both fiscal capacity and deeply ingrained political traditions. This nuanced understanding provides insights into the complexity of the dynamics that drive EU industrial policy formulation.

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Introduction

Over the past two decades, the European Union (EU) developed a free-trade area shaped by post-Cold War global peace and democratization, minimizing industrial policy to leverage comparative advantages. However, recent geopolitical shifts, like the Russian invasion of Ukraine, have prompted the EU to reassess its approach. Rising global protectionism has led to the resurgence of industrial policy, as great powers seek to provide their industries with competitive advantages over rivals. In response to such hostile economic actions, the EU has relaxed state aid rules through initiatives like the "Green Deal Industrial Plan" and the "Temporary Crisis and Transition Framework," raising concerns about market fragmentation (European Commission 2022, 2023).

The relaxation of state aid rules within the EU has raised concerns about market fragmentation among EU bureaucrats and member states (Allenbach-Ammann, 2023). Diplomats warn of a potential "subsidies free for all" scenario, threatening the single market's level playing field (Stolton et al., 2023). There are fears that wealthier member states are benefiting disproportionately from these relaxations (Bacyznska, 2023; Blenkinsop, 2023; Tamma & Stolton, 2023). Dutch technological industry representatives pointed out that between March 2020 and January 2022, 77 percent of state aid approved by the European Commission went to German and French companies, while less than two percent went to Dutch companies, despite Germany and France accounting for 45.3 percent of the EU's GDP in 2021, compared to the Netherlands' 7 percent (Henrar & Feij, 2024). To address such inequities, the European Commission has proposed the ambitious "European Sovereignty Fund" to finance EU-level industrial policy through common debt (European Commission, 2022b). However, frustrations arise as the Dutch government, among others, rejects these plans, even though this is seen as undermining their own industry (Henrar, Feij, 2024). Conversely, countries like France, perceived to benefit from the current system, advocate for further integration and common debt (Tamma & Stolton, 2023). The perception that member states are acting against their own interest raises the question:

“Can variations in fiscal capacity and political tradition explain EU member state positions on industrial policy integration?”

The crux of the matter lies in understanding why states with similar capabilities to subsidize industry hold differing preferences. Take, for instance, Germany and France, both beneficiaries of the current system: while Germany advocates for common debt, France opposes it. Conversely, both the Netherlands and Italy, which do not reap significant benefits from the status quo, hold differing views; Italy supports common debt, whereas the Netherlands does not. The aforementioned states will be compared to examine what explains the diverging positions of states with otherwise similar fiscal capacity to provide subsidies.

This question isn't seeking a clear-cut answer based solely on fiscal capacity or political tradition. Instead, it examines whether material distributional factors or ideational factors primarily drive these preferences. This issue is highly redistributive and subject to ideological debates on economic policy institutionalization. An expert interview confirmed that it's not a black-and-white issue, noting that either political tradition or material gain can weigh heavier in decision-making, indicating an "ideological contradiction" (Interview 1).

The question will be answered qualitatively through political discourse analysis, examining policy documents like non-papers, national debates, and media statements on the European Sovereignty Fund and competition policy. This study also includes two expert interviews.

This study will contribute to the literature on what drives preferences in EU intergovernmental bargaining. The study will also add to the emerging literature on an EU paradigm shift in response to global systemic changes (Schneider, 2022; Di Carlo & Schmitz, 2023; De Ville, 2023; Danzman & Meunier, 2024). Given that industrial policy can be highly redistributive, this study can provide critical evaluations of which sectors in society ruling governments prioritize.

Literature review

The influence of ideology on preference formation

Although political tradition will be examined, the bulk of the literature speaks of the role of “ideology” in preference formations. The reason why this thesis opts for “political tradition” instead of “ideology” as the guiding concept will be explained in the conceptualization. In this section, previous studies attempting to explain state behaviour in the EU will be discussed.

The effect of the left-right spectrum on preference formation.

Empirical studies investigating the role of ideology in preference formation suggest ideologies’ significance stems from distinct partisan stances. Left-wing parties typically endorse integration, whereas right-wing parties tend to oppose it (Hooghe et al., 2002). Other studies like that of Aspinwall (2002) argue that centrist parties advocate integration, while those positioned farther from the centre exhibit opposition (Aspinwall, 2002; Ray, 1999; Marks & Wilson, 2000). Aspinwall (2006, p. 7) posits that this correlation is a result of centrist parties adhering to orthodox economic policies promoting openness and stability, while the opposition to integration from the left is based on socialist objections to such market principles, implied to be introduced by neoliberal supranationalists. As for the right wing, Aspinwall (2006, p. 7) explains rejections of integration through their desire to preserve national identity and/or economic sovereignty. Economic integration at the time of Aspinwall’s (2006) study was indeed characterized by liberalization, and state aid was strictly regulated to provide for a level-playing field (Baldwin & Wyplosz, 2003).

While the left-right spectrum can be useful for broad statistical analyses like Aspinwall's (2006) study, a nuanced description of a state’s ideology would benefit this case study because of its issue-specific nature and would contribute to contextual relevance. Aspinwall (2006) acknowledges several limitations of his methodology, such as not considering the effects of inter-state bargaining or strategic interaction on government preferences: “The flow of causality is from the domestic arena upwards. This has enabled a robust statistical analysis to be performed, but also limits the significance of the findings to domestic factors alone” (Aspinwall, 2006, p. 24).

Similarly, Bailer et al. (2014) critique the ideological hypothesis, suggesting that left-right indicators lack explanatory power due to potential aggregation bias. They argue that decision-making varies across policies, which makes it difficult to accurately measure outcomes in the Council (Bailer et al., 2014, p. 4). Moreover, the “culture of consensus” within the EU might influence voting behaviour, reducing the data's reliability. Often, debates do not reach the voting stage if it is known beforehand that the criteria will not be met, as is the case in this study. Thus, my study can contribute to the literature by avoiding the “culture of consensus” trap, as well as taking a more nuanced description of ideational influences, which will be addressed in the conceptualization section of this paper.

The effects of specific political traditions on preference formation.

Within the EU, there is a notable divergence between states inclined towards fiscal prudence and those more willing to spend and run higher deficits and debt-to-GDP ratios (Peychev, 2021). In an op-ed for EURACTIV, Anna Peychev (2021) discusses proposed plans by Italy, France, and Spain to reform EU fiscal rules to allow for more fiscal leeway, essentially by relaxing the Stability and Growth Pact (SGP). However, Peychev (2021) doubts the likelihood of success for such reforms, citing the "frugal north's" strict adherence to fiscal prudence. This fiscal conservatism, often attributed to "Northern" states, has been criticized by various scholars. For instance, Michael Pettis and Matthew Klein (2020) argue that Germany's commitment to fiscal rectitude has caused lasting harm to ordinary Germans, a stance enshrined in the *Schuldenbremze*, or "debt break." Following the euro crisis in 2012, the euro area countries signed the Treaty on Stability, Coordination and Governance in the Monetary Union, which, according to Pettis and Klein (2020), exported the German model of fiscal rectitude to the rest of Europe, supported by other creditor "northern" countries. The pro-austerity stance is epitomized by the "frugal four" or the "New Hanseatic League" (Verdun, 2021). Not only are preferences for debt ideological in an economic theory sense, it also signifies political tradition in preferring certain sectors of the economy, where austerity often prioritizes investor confidence, while Keynesian measures prioritize the general population (Blyth, 2013).

The influence of economic interest on preference formation

Another strand of literature challenges the ideological interpretation of intergovernmental decision-making, focusing instead on economic interests within member states (Bailer et al., 2014). As previously mentioned, critiques of the left-right interpretation mainly concern methodological and measurement limitations. For instance, Bailer et al. (2014) note that "distributional coalitions" (Olson, 1982) of interest groups are particularly influential in policy areas involving EU financial contributions or regulations, such as industrial policy. They argue that richer Member States, the expected losers of integration, are more interested in deregulating markets than in redistributive gains through EU legislation.

Bailer et al. (2014) found that redistributive effects significantly influence government decision-making in EU integration. Unlike Aspinwall's (2006) study, Bailer et al. (2014, p. 17) found no systemic influence of partisanship on decision-making. However, they do not dismiss partisanship as a potential explanation for Council deliberations.

Preference formation as a balancing act – both political tradition and money matter?

Moravcsik (2018) suggests that preference formation results from continuous bargaining between economic interest groups and "externalities", which includes ideological factors, while simultaneously facing intergovernmental bargaining pressures. He argues that a state's bargaining power is based on 'asymmetrical interdependence,' where the relative power depends on the distribution of gains from an agreement versus the benefits of independent actions or alternative agreements. States that benefit less from an agreement compared to unilateral or collective alternatives, or that face substantial adjustment costs, can use non-cooperation threats to extract concessions (Moravcsik, 2018).

This perspective supports the view that states with higher fiscal capacity have less incentive to support state aid restrictions and lower incentives to pursue integration. For example, in economic matters, asymmetrical interdependence often favours countries with large domestic markets, economic competitiveness, or attractiveness to mobile factors like capital or labour, providing them with credible outside options (Moravcsik, 2018). This dynamic enables countries like Germany to wield significant, potentially 'hegemonic,' influence in Europe (Moravcsik, 2018).

Conclusions

Given that the discussion on industrial policy in the EU is highly distributional and influenced by economic ideology and interstate bargaining, this case study can significantly contribute to the literature by comparing political traditions to issue-specific policy positions. By analysing the debate around industrial policy rather than voting outcomes, this study aims to avoid the "culture of consensus" trap. Additionally, examining a fundamental change in the EU's competition policy can reveal differences in the political traditions of member states that were previously obscured. The literature also suggests that the left-right cleavage may be unreliable and prone to over-aggregation. Thus, this study aims to provide a more issue-specific measure of ideational influence on policy positions.

Conceptualization

Position on industrial policy

When examining a member state's position on industrial policy, two key stances should be considered: the stance on state aid relaxation and the stance on common debt. A state could theoretically support state aid relaxation while opposing common debt, support or reject both, or reject state aid relaxation until common debt is established to avoid being outspent in a subsidy race.

Both stances on common debt and state aid are crucial due to the perceived inequity of the current system, which lacks broader EU funding. For instance, a state with high fiscal capacity benefits from the status quo, where industrial policy is funded nationally rather than supranationally. From a materialist perspective, such a state would not support common funding. Conversely, states disadvantaged by national funding would likely favour common debt.

Fiscal capacity

In the literature, fiscal capacity, as coined by Charles Tilly (Tilly, Ardant, 1975), is often understood as the development of a state's fiscal system, specifically its ability to tax and spend. Rogers and Wallers (2013, p. 2) argue that "the choice of state capacity measures depends on the theoretical construct being measured, and the ability of a measure to capture this construct empirically." In the context of my research, the theoretical construct being measured is the perceived inequity between states with "deep pockets" (Bacyznska, 2023; Blenkinsop, 2023; Tamma & Stolton, 2023) and those without. Thus, examining what constitutes "deep pockets" is necessary. The disparity between states with substantial fiscal capacity and those without implies that fiscal capacity should be examined comparatively. For example, while the Netherlands might be wealthier per capita than Germany, Germany's larger population gives it a significantly larger economy. The importance of comparative measurement is supported by empirical observations that investment is being lured away from states unable to provide subsidies comparable to their wealthier counterparts (Stasiukaitis, 2023; Henrar & Feij, 2024; Reuters, 2024; Kasteleijn, 2024). In light of this and the literature supporting economic interest as a primary motivator for preference formation:

H1 = States with comparatively high fiscal capacity support state aid and will oppose common debt.

To ascertain why certain states, allocate more subsidies than others, we must consider their fiscal capacity, which hinges on two primary factors. Firstly, evaluating absolute government revenue, exclusive of grants and social contributions, provides insight into a state's ability to afford subsidies. This measure is preferred over GDP as it directly reflects the government's tax collection efficacy and accounts for problematic debt. Secondly, fiscal feasibility requires a favourable margin between current public debt levels and thresholds implied by borrowing costs to safeguard future economic stability. This concept, termed "fiscal space" by IMF economists (Ostry et al., 2010), denotes the leeway for sustainable fiscal expansion without risking economic prospects. Ostry et al. (2010) elucidates that unchecked debt accumulation can lead to uncontrollable debt dynamics, prompting governments to face the choice between drastic fiscal measures and default. High fiscal capacity entails robust government revenue alongside economic indicators signalling a safe distance from the "critical debt level" (Ostry et al., 2010; Zeman & Hajnovic, 2012).

Political tradition

In this study, political tradition will be analysed through an economic lens, conceptualizing it as deeply ingrained ideologies shaping economic organization and management, institutionalized within the economy, and normalized in national political discourse. As noted by Schmidt (2012), political tradition encompasses not only politicians' beliefs but also citizens' expectations from the state, influencing preference formation. The decision not to focus on the left-right cleavage stems from previously acknowledged limitations in existing literature. To address these limitations and categorize ideological preferences, the study adopts a distinction between "market-oriented" and "interventionist" orientations, reflecting the tension between market and state involvement in domestic and supranational affairs. This framework offers a more issue-specific measure beyond traditional ideological divisions. The framework was supported by an expert interview (Interview 1)[1]: “You also see that countries often have a tradition of supporting or, let's say, supporting state intervention with state aid. Rather, than really focusing on economic power and the free

[1] Frank Bekkers, director of the security programme at the Hague Centre for Strategic Studies

market principle." The other expert[2] that was interviewed agreed: "Ideology is a bit of a loaded term, but I would say. [It's rather] a sort of school of thought anyway." (Interview 2)

Two indicators overlap to define interventionism and market orientation. Firstly, the Varieties of Capitalism (VOC) framework distinguishes between Coordinated Market Economies (CME) and State-Influenced Market Economies (SME), reflecting different perceptions of the state's role in economic organization. This differentiation predicts the likelihood of state intervention and public acceptance of such action (Schmidt, 2012). Secondly, fiscal policy preferences are informed by Keynesian or Austerity traditions, as outlined by Blyth (2013). These ideologies influence budget management and, consequently, attitudes towards common debt.

H2 = States with market-oriented political traditions will have a more negative stance towards state aid relaxation and oppose common debt.

Research design

Methodology

To thoroughly understand what motivates member states to adopt certain positions in the industrial policy debate, a comparative analysis between states with similar variables but different outcomes is necessary. This analysis will explain differences according to two variables: political tradition and fiscal capacity. To do so, at least four states with differing qualities must be analyzed, using both a most similar systems design and a most different systems design framework. I will utilize a 2 x 2 table design (see table 1), comparing the policy stances of two states with similar political traditions but different fiscal capacities to the policy stances of two other states with dissimilar traditions but the same fiscal capacities.

The method I will use is political discourse analysis (PDA) based on Van Dijk's (1997) framework. This approach takes an interactional point of view, considering various recipients in political communicative events, including the public, interest groups, and other EU member states (Van Dijk, 1997, p. 13). I will analyse communications about industrial policy positions in the form of non-papers, specialist media reporting on negotiations, press statements, and relevant speeches. The data will be contextualized relative to communicative events, as text and context mutually define each other (Van Dijk, 1997, p. 14). For example,

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[2] Tobias Gehrke, Senior Policy Fellow at European Council on Foreign Relations

the tone of a statement in a non-paper likely differs substantially from something said in a negotiation or parliamentary assembly. Statements are made to signal preferences to both negotiating partners and constituents.

This approach is relevant because it allows examination of the underlying reasons for states' positions. By contextualizing statements, there is potential to examine what is said to different audiences and configurations, which could unveil motivations. The data will be analysed to determine whether states are more motivated by their fiscal capacity or lack thereof, or whether their political tradition influences their positions.

Table 1.

Case selection & Research design

Variables	Market-oriented	Interventionist
High fiscal capacity	Germany	France
Low Fiscal Capacity	The Netherlands	Italy
	Against European Sovereignty Fund (common funding)	**In favour of European Sovereignty Fund (common funding)**

Case selection & operationalization of variables

The case selection is based on the factors mentioned in the operationalization below, as well as member state stances on common debt as proposed in the European Sovereignty Fund. The study will examine the Netherlands, Germany, France, and Italy.

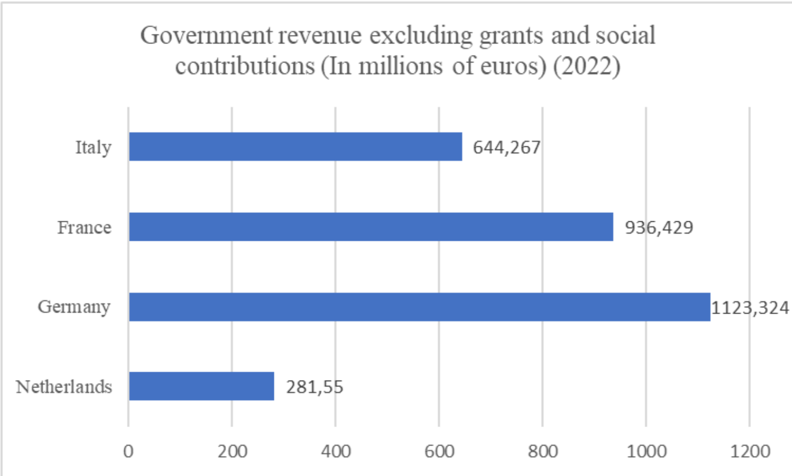
Fiscal capacity.

For the case selection on fiscal capacity, absolute government revenue will be used to satisfy the first condition. Interest payments as a percentage of government expenses, bond spreads, and credit ratings will be used to satisfy the second condition. According to IMF (2022) data, Germany has the highest government revenue, followed by France, Italy, and the Netherlands in that order (Figure 1).

This study measures fiscal space by examining interest payments as a percentage of GDP (Figure 2) and European bond yields and spreads against the German benchmark as of April 29, 2024 (Table 2, MTS markets, 2024). The Netherlands and Germany perform best regarding interest payments as a percentage of GDP in 2022, followed by France and Italy. Bond yields, which indicate the current cost of borrowing, support these findings for 2024. Despite the Netherlands' lower absolute revenue (expected due to its population size), its interest payments are significantly lower than Italy's. This disparity has worsened due to ECB rate hikes from 1.5% at the end of 2022 to 4% currently (Reuters, 2024b). Therefore, the Netherlands and Italy are categorized as low fiscal capacity states, while France and Germany are high fiscal capacity states.

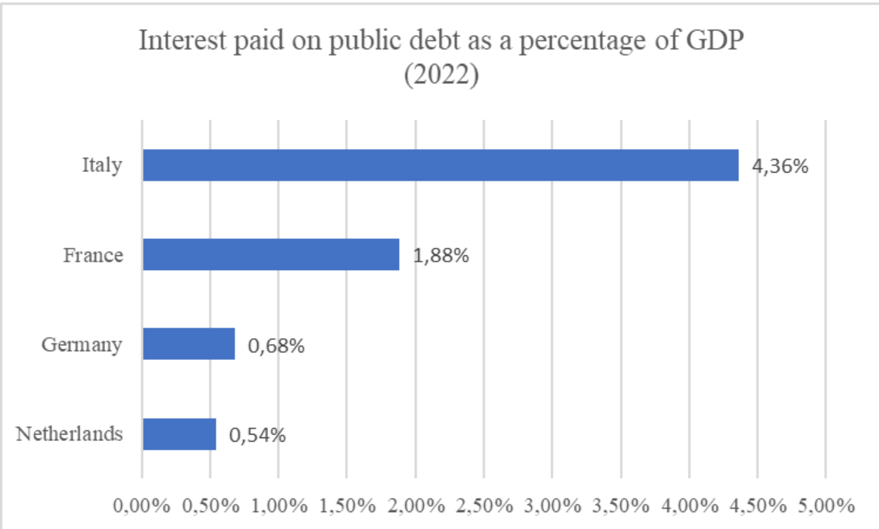
Although total state aid given is not a selection criterion due to potential influences of political tradition on subsidies (interventionist economies would be expected to provide more subsidies), 2022 figures per member state are included in Figure 3 for comparison.

Figure 1.



Source: International Monetary Fund (2022)

Figure 2.

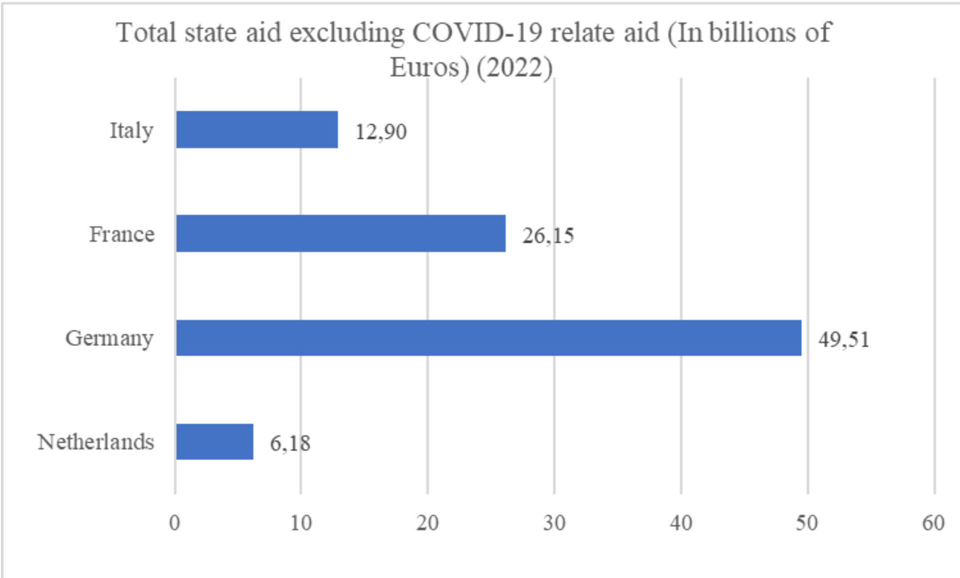


Source: International Monetary Fund (2022)

Table 2.

Government	Bond yields and spread[3] to German benchmark as of 29th of April 2024
Germany	2.52 (x)
The Netherlands	2.81 (+29)
France	3.00 (+48)
Italy	3.81 (+129)

Figure 3.



Source: European Commission (2022)

[3] Day Close Yield Value (at 16:00 CEST on the 29th of April)

Political tradition.

To determine whether a state is market-oriented or interventionist, this study uses categorizations of economic institutionalization determined by previous studies. Schmidt (2012) called Germany the ideal-type CME and France the ideal-type SME, while also categorizing Italy as an SME with similarities with France (Schmidt, 2012, p. 157). Leiden University economic historian Jeroen Touwen (2014) has determined the Netherlands as a CME, having strong similarities to the German model of capitalism.

The two states that have been identified as paragons of austerity have been Germany with its “ideological and constitutional commitment to fiscal rectitude” as institutionalized in the *Schuldenbremze* (Klein, Pettis, 2020; Interview 2) as well as ingrained in political debates (Bonefeld, 2012) and the Netherlands with its ongoing neoliberalization since the 1980’s (which enjoyed support among all major mainstream parties) in which cuts to government spending enjoyed a central role (Cornellisen, 2019). On the other hand, Italy and France traditionally prefer a more Keynesian approach to budget management, as evidenced by their (historic) domestic fiscsal policies (Du Tertre & De Largentaye, 2017; Maes, 2008).

Additional support for the case selection came from expert interviews: “Northern countries [have a tradition of] free market, southern countries [are traditionally] a bit more of a state-led economy. With France certainly also belonging to a state-led economy.” (Interview 1). This was confirmed by the other interviewed expert, who noted that there was a distinction between interventionist and market-oriented regime; specifically noting that the German ordoliberal tradition “has had outsized political influence over the last 20 years,” and that “within market economies there are these different school thoughts, and the French are traditionally more dirigiste, which is interventionist.” (Interview 2).

Analysis

Germany

The German industrial model at least partly based on cheap Russian gas is going through difficult times with increased energy prices after the Russian invasion of Ukraine, which seems to be a big motivating factor behind subsidizing industrial production: “To prevent manufacturers from leaving the country, German Economy Minister Robert Habeck has proposed to subsidise energy consumption for key industrial sectors that are heavy consumers of electricity.” (Packroff, 2023) The language that has come from German Economic Minister Robert Habeck sounds like an excuse for taking a U-turn on its previous commitments to a European free market that was underpinned by cheap energy, simply because it does not align with their interests anymore: “Competition law has been designed purely with a European perspective in mind. But the competitive situation is no longer France against Italy, but Germany against the USA and Germany against China” (Packroff, 2023). An indicator of self-interest here is that Habeck is not talking about “Europe against the USA and China” but “Germany against the USA and China”.

Wolfgang Schmidt, special minister in charge of Chancellor Olaf Scholz’s cabinet has said however, that smaller EU member states have been “influencing the Competition Commissioner to ensure that she is not allowed to approve this [subsidy] under any circumstances” (Packroff, 2023). These statements indicate that fiscal capacity matter a great deal to higher fiscal capacity and lower capacity states alike. The material motivation of Germany is especially indicated by the German reluctance to establish a European Sovereignty Fund and use common debt to finance industrial policy.

German Finance Minister Christian Lindner has warned against taking on new common European debt in response to the U.S. Inflation Reduction Act. To such sentiments German Finance Minister Christian Lindner was notably frugal: “If 'sovereignty fund' means new common European debt, then I think this would not be an improvement of our competitiveness or stability. It would be a threat for competitiveness and stability,” (Reuters, 2023) likely referring to perceived wastefulness and excess in the German stance towards common debt.

In general, it seems like Germany is quite tight-lipped about their reasons for their position. When questioned about why they support state aid without common debt, German officials simply point to competitiveness issues in relation to China and the US which there is a broad consensus on within Europe, on other occasions the conversation is shut down without much explanation with Finance Minister Christian Lindner saying “I suggest to avoid these debates because there is no good end to expect” (Stolton et al., 2023). An interview with a German expert revealed motivating factors: “The main problem for Germany in the European context is the socialization of the risks that that German taxpayers might come in and have to rescue Italian lenders. That's a huge one. Hence, that's very hard to overcome. You see a lot of the focus on national investments and national industrial policy, particularly driven from [within] Germany [...] Germany has always wanted to have all these carve outs where it says I want to spend nationally on my projects, but I want to then get the money back from the EU.” (Interview 2).

The Netherlands

A non-paper by several member states, including the Netherlands, expressed concerns that “state aid for mass production and commercial activities can lead to significant negative effects, including fragmentation of the internal market, harmful subsidy races, and weakening of regional development” (Stolton et al., 2023). Further evidence from letters by Dutch government officials (2022; 2024) highlights the Dutch priority to maintain a market-oriented EU, advocating for using the EU's “market power” to enforce a global level playing field rather than relying on excessive state aid to ensure “competition that encourages efficiency and innovation” while also noting fiscal capacity disparities (2022). The caretaker Government reiterated this position in 2024, opposing the extension of the TCTF and further loosening of state aid rules, arguing it “damaged” the internal market's level playing field.

These statements suggest that the Netherlands opposes state aid relaxation due to fiscal capacity concerns and common funding due to political tradition. This conclusion is supported by non-papers (2023) expressing concerns about internal market fragmentation, confirming the Netherlands' objections to both state aid relaxation and common funding, thereby reinforcing the hypotheses that both political tradition and fiscal capacity are influential.

Letters from the minister of foreign affairs and the minister of trade (2022) emphasized a preference for using the EU's market power to enforce a global level playing field, a stance reiterated by the Minister of Economy (2022). The Netherlands opposed further relaxation of competition and state aid rules to prevent unequal state support among member states and avoid a subsidy race. The Netherlands also expressed scepticism about extending the Temporary Crisis and Transition Framework (TCTF), questioning its legal basis, fitness for purpose, and potential harm to the internal market's level playing field (2022, 2023, 2024). These letters consistently reflect concerns about excessive delegation of competition policy to member states and ideological opposition to measures distorting competition within the internal market.

Additionally, the Minister of Economy's 2022 letter explained the position on common debt. The cabinet supports common debt for short-term crisis instruments that cannot be financed through national contributions, as seen during the COVID-19 crisis, but finds it inappropriate for addressing structural challenges. This indicates the Netherlands' reluctance to support structural industry funding through common debt, reflecting a frugal perspective.

France

According to an unnamed EU diplomat, the draft conclusions for the European Sovereignty Fund were allegedly crafted in Paris, with another suggesting it might be a tactic to relax subsidy rules further (Stolton et al., 2023). The aforementioned expert (Interview 1) contends that France exploits the EU to advance its own agenda, stating, "Around the idea of '[France] doing something European,' there is a very clear national agenda." He suggests that Macron presents French interests as European, adeptly masking them behind eloquent rhetoric. Such sentiments were confirmed in another expert interview (Interview 2).

The French government, as reported by Tamma and Solton (2023), urged the EU to ease state aid regulations and establish an emergency sovereignty fund, advocating for a "Made in Europe" approach. Macron, since his inauguration, has consistently promoted industrial policy and common funding as crucial to achieving European sovereignty. At Sorbonne in 2017 (Elysée) he was the earliest advocate for a renewed interventionist push at the EU.

During his 2024 "Europe speech" at Sorbonne – which was meant to be symbolically similar and continuous with his 2017 speech - Macron emphasized his commitment to European values, with "Europe" and "European" mentioned 627 times, compared to 59 and 25 times for "France" and "French" respectively. Macron appeared to be doing a victory lap, as when he first talked about industrial policy it was considered "a dirty word" he said. His discourse on strategic autonomy was seamlessly integrated with an interventionist narrative.

> The third decisive step of these last years was us beginning to lay the groundwork for greater technological and industrial sovereignty. […] Yes, this strategic autonomy that we talked of at that time, asserting the concept as Europeans, was the choice to end our strategic dependencies in key sectors […] In the last seven years, Europe has started growing out of that technological and industrial naivety. […] So, yes, to do so we must successfully build a European preference, successfully build European industrial programmes […] such as the idea of European debt that was put forward by Prime Minister Kaja Kallas.

Furthermore, Macron criticized the outdated ordoliberal model and called for a more interventionist approach, citing the changing nature of global trade and the need for economic security. He argued that current EU rules are inadequate for meeting objectives related to growth, prosperity, and the protection of European interests. Macron highlighted the unfairness of the previous competition policy, which he believed exacerbated demographic imbalances among member states.

While acknowledging the need to scrutinize Macron's rhetoric, it is evident that France is committed to reshaping the EU towards interventionism. Despite benefiting from and advocating for state aid relaxation, France's support for common debt and a (seemingly) cosmopolitan stance reflects an ideological rather than purely material motivation. This ideological commitment is reinforced by France's strategic culture, characterized by a long-term vision and a coherent self-image in policymaking, which is almost the complete opposite of the Netherlands (Interview, 1).

Italy

In a non-paper (Correspondence 1) addressed to the Council of Ministers, the Italian representation to the EU immediately dismissed further relaxation of the Temporary Crisis and Transition Framework (TCTF) on the first page. They referred to the TCTF as "temporary," implying doubt about its intended short-term nature. This sentiment was confirmed by Danish Industry Minister Morten Bødskov, who indicated that rollouts of the framework were expected until 2027 (Packroff, 2024). The Italians clarified their motivation: "More than 77% of the State aid approved under the current scheme is concentrated in two Member States, and this imbalance could further increase should we give free rein to national Governments, since not all Member States have the same fiscal space for providing State aid." They warned that further relaxation would jeopardize European unity, emphasizing that:

> ...streamlining the EU rules on state aid shall not turn into a "free pass" for all which would give a competitive advantage to Member States with greater fiscal leeway or more opportunities to underwrite debt on advantageous terms. This would only trigger a subsidy race within the EU and lead to a fragmentation of the Single Market.

The Italians argued that before relaxing the TCTF, the impact of the Inflation Reduction Act on European industry should be assessed, considering both state aid frameworks and the use of national and European funds. They advocated for the creation of European funds, calling it "the real game changer" and proposing the establishment of a European Sovereignty Fund as "a step in the right direction." They also called for "a horizontal initiative" to address the short-term level playing field issue, highlighting successful EU common funding mechanisms during the pandemic, such as Next Generation EU and SURE.

A key statement was:

> We are aware of the reluctance of some partners towards instruments involving a certain degree of common funding. Yet, the alternative is decidedly worse given the limits, contradictions, and dangers of a strategy based on granting state aid on a purely national basis. Only through a purely European mechanism can public support to economic competitiveness be reconciled with the integrity of the common market. The creation of innovative financing instruments will be of fundamental importance in the coming months: we should face the debate with a constructive spirit, and without ideological prejudices.

The Italians stressed the importance of sequencing policy suggestions, arguing against relaxing state aid rules without common funding. Prime Minister Meloni stated that common funding is necessary to ensure "a level of competitiveness that is equal for all" (Von der Burchard, 2023). These considerations suggest that fiscal capacity strongly motivates the Italian stance on industrial policy integration. Although the letter had an ideologically supportive tone towards industrial policy, it primarily focused on the narrative of providing fair opportunities for all member states.

Inter-EU debates and comparisons

At the start of the debate about competition policy in Europe, Germany, France, Italy, and Poland started pushing for further relaxation in competition policy (Oliver, Van Dorpe, Leali, 2020). The argument was that in order to compete against Chinese and American rivals, the EU would need to allow "European champions" to form. However, their proposed amendments had been argued by critics to reduce competition within Europe (Oliver et al., 2020). Especially, it was noted by POLITICO (Oliver et al., 2020) that "more economically liberal EU nations in Northern and Eastern Europe fear that France and Germany want to transform the EU into a vehicle for pampering their corporate kingpins to the detriment of smaller enterprises and open markets." It was implied with this statement that economically liberal states think that Germany and France simply want to benefit themselves, as well as the implication that "liberal" states would have liked to see a market free of intervention. An expert interview confirmed such ideas: "clearly, I tell you that this scale argument is very controversial among almost the entire EU, except for the big ones (big states). No one likes it. [...] and you know most smaller or mid sized economies I think are very skeptical about this." (Interview 2). Key to this story is that Germany has been perceived to be departing from previous "liberal instincts", instincts that a liberal group led by Sweden and joined by the Netherlands has sought to reawaken (Vela, 2020) in their German counterpart, indicating that the Netherlands values market-oriented tradition in this particular debate, but that Germany has been perceived to depart from its (ordo)liberal tradition. Such observations have been shared by Schneider (2022, p. 3), who argues that Germany shifted towards "French-style" industrial policy. This information leads us to ask whether Germany has fundamentally changed ideologically, or that it is more concerned about its material interests and wants to shape the EU the way it gains the most benefits. Although he did not specifically refer to Germany, an expert claims (Interview 1): "You do see that the with some governments either the one or the other [political tradition or material gain] has more weight [in decision-making]. You can see ideological contradiction there." Confirming evidence that Germany is moving towards the French position came from German Minister of Europe, Anna Lührmann: "Convergences are also being built. Germany has moved closer to French positions on questions of European sovereignty and industrial policy" (Auswärtiges Amt., 2023).

At a joint meeting in the German chancellery between Olaf Scholz and Georgia Meloni the disagreement was fleshed out further, with the Italians being concerned that "EU countries with less financial leeway like Italy might not be able to offer their companies such lavish subsidies or tax cuts as Germany or France could", with Meloni saying it would "jeopardize the Unity of Europe" (2023, Von der Buchard). It became clear that Meloni was hesitant to relax state aid without a "sovereign fund" financed "by new communal debt" which was rejected by the German government (2023, Von der Buchard). However, despite the Italian criticism, Scholz still attempted to rally support for more state aid relaxation (2023, Von der Buchard).

When the Italians said in their non-paper (Correspondence 1) that “we should face the debate with a constructive spirit, and without ideological prejudices,” they are likely referring to the frugal attitude of Germany and the Netherlands. Dutch ambassador to the EU Robert De Groot, called plans for common funding “Marx on steroids” according to three diplomats (Vela, 2023). The Dutch Ambassador, together with Germany “dismissed draft conclusions prepared by European Council President Michel which would implement a fund financed by joint EU loans, that would allow countries to subsidize industry on equal terms.” (Vela, 2023). The words “equal terms” suggest that the draft conclusion was aimed to provide a fairer solution for states with lower fiscal capacity, which indicates that member states are fully aware of the unfair nature of the status quo

The Netherlands and Germany have been noted to express a “frugal” attitude towards common funding (Stolton et al., 2023) as well as pointing to “unused loans from the recovery funds that governments have not claimed because they preferred grants.” (Strupczewski, 2023). German Finance Minister Christian Lindner once again said he was “not in favor of more subsidies and excessive state aid [and] I’m not convinced that we need any kind of further funding instrument.” These statements ignore the glaringly obvious state aid numbers that favour Germany, which one might call excessive and contradictory to these statements, such contradictions repeated itself a few days later, when Germany welcomed further state aid relaxation proposals by the Commission (Blenkinsop, 2023). These confirm the sentiment of “ideological contradictions” that the interviewed expert (Interview 1) referred to.

Lastly, something that intersects with the CME and SME distinction is the difference between France and the Netherlands specifically in its political tradition of decision making. An expert (Interview 1) had the following to say about this:

> France has a long-term tradition of looking at how France develops, they certainly have a strategic culture. You could compare it to the Chinese way of looking at the world. The French have to be protected by the long-term vision. They have a much more coherent self-image, whether it is right or not, of where they develop policy from. The Netherlands is really a merchant nation. You see a chance and you just go for it.

When asked whether the Dutch made policy in a more ad-hoc manner than the French, the expert (Interview 1) stated:

> Yes. In a certain sense, I would say that ad hoc pragmatic jumping into opportunities, if that has brought you prosperity for centuries, then there is little to complain about. A strategy of adaptation, of flexibility. That is also a characteristic that you can often see in the Dutch economy. There is a lot of flexibility in it.

Results

To summarize, those who benefit from the status quo of national funding for state aid are France and Germany, while the Netherlands and Italy do not, in an economic sense. Those who seem to be supportive of state aid relaxations are Italy, France, and Germany; with Italy mostly being hesitant towards further relaxations until common debt is achieved. France is in favour of both state aid relaxation and common funding. The Netherlands is the least positive towards state aid, and also does not want common funding and thereby takes a position that seems to go against its own interests. Germany is in favour of the further relaxation of state aid but is not in favour of common debt.

The numerous Dutch statements on this issue lend credibility to H2, as the market-oriented state approach was present within the data, with oppositions against interventionist sentiments and ideas. However, the data suggest rejection of H1 because the Netherlands also objects to common debt despite the potential benefits. Their stance on common debt and state aid seems influenced by both their political tradition and fiscal capacity. Overall, it seems that the hypotheses of this paper may be overly simplistic, and that the combination of a state's fiscal capacity and political tradition might lead to unique outcomes as evidenced by the case of the Netherlands.

The German case lends credibility to parts of both H1 and H2. The confusing part of the German case is that their statements on state aid are contradictory, on the one hand it is said that they are not in favour of excessive aid, but on the other hand they push for further state aid relaxation, while opposing common debt. The case of Germany again shows the limitations of the hypotheses of this paper, as it once again is likely a combination of both variables influencing the stance of the state. At the same time, it seems that Germany is moving away from their traditional largely market oriented tradition.

The French case lends support to H2 and discredits H1, as it would theoretically be in their immediate material interest to not support common debt because it could outspend other member states. The statements made by France as well as the expert opinion indicate that French political tradition of state intervention combined with a strategic political tradition explain their pro-common debt stance.

The Italian case is the only case that conforms with the hypotheses, as they do not want state aid relaxation until common debt is achieved. Their statements are in line with both the hypothesis that states with lower fiscal capacity are in favour of common debt, as well as the hypothesis that interventionist states are more likely to support common debt (and state aid relaxation once that is achieved).

In retrospect, it would have been more appropriate to split each hypothesis into two totalling four hypotheses, separately considering state aid and common debt. This approach would have been warranted because my initial assumption—that political tradition and fiscal capacity uniformly predict a state's position (e.g., a market-oriented state will always adopt a specific stance)—was flawed. Instead, the variation in these variables leads to unique outcomes, in which material interest is modulated by what is thought to be right within a certain political tradition. To exemplify the uniqueness of the outcomes the case of the Netherlands and Italy should be compared.

The Netherlands is opposed both to state aid relaxation and common debt based on ideological grounds, but also because it is concerned about the level playing field and its lower fiscal capacity. On the other hand, Italy does not necessarily dislike industrial policy but dislikes the status quo of state aid relaxation without common funding. Italy and the Netherlands both expressed concerns about competitiveness and a "level playing field" (Correspondence 1; Von der Buchard, 2023; The Netherlands, 2022, 2023, 2024), but differ in how to solve it: the Netherlands wants less state aid and no common debt, Italy only wants further state aid once common debt is issued. This shows that the outcome position is rather an interaction between political traditions and fiscal capacity, in which both factors combine to shape a certain outcome. The Dutch solution is to limit state aid as much as possible, while advocating for enforcement of a global level playing field with the EU's "market power" in order to make this solution sustainable. On the other hand, the Italian solution would be to not give a "free-pass for all" in terms of state aid until common debt is achieved.

There are strong indications that material factors influence the German government to take their current position on the debate on industrial policy. On the other hand, there are also indications that Germany is moving away from its political tradition (Interview 2; Vela, 2020). France's position was more consistent with its rhetoric, while it was also consistent with their fiscal capacity, their position on common debt likely has to do with their strategic culture and the French idea that their interests are best channelled through a broader EU strategy, based on the literature analysed as well as expert opinion (Interview 1). Overall, material interest based on fiscal capacity was the most consistent indicator in this study (Interview 2).

Conclusion

This thesis has explored the intricate dynamics of how political tradition and fiscal capacity influence the stances of EU member states on industrial policy. Through a comparative analysis of Germany, France, the Netherlands, and Italy, it has been demonstrated that fiscal capacity plays a significant role in shaping national positions, in ways that reflect material interests; with the outcome being modulated by political tradition.

Germany and France, with higher fiscal capacities, exhibit stances that align with their financial abilities, albeit nuanced by their political traditions. Germany's complex position on state aid reflects a blend of material benefit and political tradition, suggesting that its historical so called "liberal instincts" may be secondary to current economic advantages. France, consistent with its interventionist tradition, supports common debt as part of a broader strategic culture, emphasizing a collective EU approach.

Conversely, Italy and the Netherlands, characterized by lower fiscal capacities, illustrate how fiscal constraints can drive policy preferences. Italy's advocacy for common debt and cautious approach to state aid relaxation underscores its need for financial support and interventionist tradition. The Netherlands, however, prioritizes a global level playing field and minimal state aid, reflecting its market-oriented ideology and concern for fiscal prudence and equality within the internal market.

The findings underline that while fiscal capacity is a predominant factor, political tradition heavily modulates policy outcomes. States do not operate in binary ideological frameworks; instead, they navigate a spectrum where material interests are interpreted through the lens of political tradition. This nuanced interplay suggests that future EU industrial policy debates will continue to be shaped by both economic realities and deeply ingrained political cultures.

While the measurement of fiscal capacity in this study appears reliable and transferable, it does have limitations. Specifically, it overlooks the debt-to-GDP ratio, which could influence preferences for shared debt. Nevertheless, excluding this metric aligns with the literature's assertion that attitudes toward debt and deficit spending are shaped by economic traditions and ideology, potentially confounding the measurement of other variables. Identifying a perfect indicator is challenging, given the multitude of economic and institutional factors that influence a government's ability to tax and spend. Despite these complexities, this indicator remains sufficiently reliable to facilitate a robust comparison based on relative fiscal capacity.

Another limitation lies in the challenge of consistently measuring ideational factors like "political tradition," which was conceived as problematic in critiques of previous studies such as Aspinwall (2006), where the left-right spectrum was questioned as a predictive variable for government preferences. The conceptualization of this study suffers from the opposite problem of Aspinwall's (2006) left-right indicator, which was utilized in the context of a large-N statistical analysis and thus subject to over-aggregation (Aspinwall, 2006; Bailer et al., 2015). The specificity of the concept measured here offers a more issue-specific measure compared to broader ideological frameworks, but it risks overlooking other ideational influences like preferences for national sovereignty and supranationalism, potentially reducing the framework's content validity. Like in Aspinwall (2006), the causality in the case selection flows "from the domestic arena upwards." This limitation provides an avenue for future research for scholars who are interested in other traditions and/or ideologies to examine preferences on EU industrial- and competition policy from novel perspectives. Such areas could include foreign policy preferences, geoeconomic security preferences and cosmopolitan v.s. nationalist political philosophies. By researching the predictive value of other ideational factors, it would strengthen the value of this thesis as well and would contribute to a more holistic literature of what drives ideational preferences in the EU.

This limitation is somewhat mitigated by the inclusion of the fiscal capacity variable, in which action contrary to material interest can indicate broader supranational visions rather than purely intergovernmental distributional conflicts. Despite its limitations, this measurement approach also presents strengths, providing a reliable measure for issue-specific topics like industrial policy. This framework was chosen for its consistency in application across cases within the EU, given the limited pool of 27 states, making specificity essential for consistent case selection.

In conclusion, as regards the question **"can variations in fiscal capacity and political tradition explain EU member state positions on industrial policy integration?"** the thesis finds that fiscal capacity and political tradition jointly determine national positions on industrial policy. The evidence highlights the complexity of these influences, suggesting that any attempts to predict or influence EU policy must consider both economic and ideological dimensions. This dual approach provides a more comprehensive understanding of the motivations behind member states' stances, offering valuable insights for policymakers and scholars alike.

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Appendix

Legenda

Colour	Meaning
Yellow	Fiscal capacity is a consideration
Pink	Ideology – Interventionist sentiment
Red	Ideology – Market-oriented sentiment
Green	Strategic autonomy as motivating factor[4]
Turqoise	Unspecified important text

Analysed data

N.B.: As for the analysed data, I have excluded any text that was simply used by journalists or other authors for structure, background information or filler information.

[4] I ended up not including this in my research, seeing as it would have become too complicated to also include this in the analysis.

Interview 1 - Frank Bekkers

N.B.: (Translated voice-to-text with Open-AI's Whisper API, I adjusted translations that were too literal but left the translation in-tact as much as possible)

Elias: And for the recording, I have permission to record, right Frank?

Frank: Yes. Yes.

Elias: Are you familiar with the subject around the internal debate about the industrial policy for simplification?

Frank: In the term you mean internal Netherlands or internal Europe?

Elias: In Europe. So let's say the intra-European debate. Because I have written a short context here.

Frank: Yes. I already know something about it, but I can't say I'm fully aware of it.

Elias: I will give you a short context in that case. To be able to deal with the increased competition pressure from China and the US, and even as the rising energy prices as a result of the Ukraine war, European rules for industrial policy have been softened. While it was a fair game at first, of course. Very strict competition policy. However, everyone agrees that something is needed in the interest of strategic autonomy to bring more production to Europe. Only different countries have their own opinions on what form of state support they want to offer. There are countries like the Netherlands and Italy, but many others, who complain that the economic game field within the EU is now unequal. Whereby France and Germany disproportionately benefit from the simplified rules for the state fund. So those are really the big countries with a lot of budgetary power. So, they can also provide more subsidies in comparison with, for example, the Netherlands. A solution to tackle this inequality is to finance state-owned enterprises with joint debts through a European Sovereignty Fund. You may be familiar with that. This proposal was really devised before it could really be voted on. The only question that comes to mind is why some countries vote for it, or are some countries for it, because there has been no vote, and why others are against it. Because sometimes it is a bit contradictory, given that France is for public debt, while it actually benefits from the status quo. And the Netherlands is against public debt, but does not benefit from the status quo, because they are a small country. Italy and Germany have a slightly more logical position compared to their financial capacities. The question to you is: which factor do you think is more important? The budgetary capacity of countries or the political ideology?

Frank: Well, I don't know if that's the two possibilities. What countries are important are national interest. What you see is that there is of course tension between the pure national interest, where you really only reason from the position of your own country, versus national interest that you can achieve by specifying community interest, so the European solution. You do see that the with some governments either the one or the other [ideology or material gain] has more weight [in decision-making]. You can see ideological contradiction there. You also see that countries often have a tradition of supporting or, let's say, supporting state intervention with state aid. Rather, than really focusing on economic power and the free market principle. A bit like the Northern countries, free market, southern countries, a bit more state-led economy. With France certainly also belonging to a state-led economy. In France it is also part of a state-led economy.

Elias: I really like that you say that, because that is the category I chose for my research. It fits pretty well, so that's a good start.

Frank: So there is also some historical, cultural feelings.

Elias: A bit of baggage actually, a kind of...

Frank: Besides indeed, you could say, an ideological thought. Where it is strange that... You see a bit of a reversal of all values. You see that the left was always, let's say, for state support. Right for the free market. The question is whether that is still going on completely. Because there are of course also many right-wing parties in the Netherlands, well that was the maritime manufacturing industry, where we wrote a report for. That is where three VVD ministers, [traditionally] VVD the fighters for the free market, set that [industrial policy] in motion.

Elias: You see that in France too with Macron.

Frank: Yes. Let's say left and right doesn't go together anymore because you have social-economical social left and right, economic left and right cultural left and right

Elias: I think it's very nice that you say that because that's one of the analyses I've come to in my studies. It's great that I have additional evidence for that. Because previous studies had put a link between left and right in terms of integration. So that right was traditionally a little more against integration, especially in areas of national sovereignty. Do you see that in this debate, while they are for industrial policy, but not for common debt?

Frank: Then I come back to how do you think sovereignty is best suited? Is that retreating behind the dikes and trying to do everything nationally? Where you certainly know that you can't fight the economic weight in the world against China and America. Or do you think that sovereignty is best suited for common industrial policy. Where you play the European card. Because you can form a power factor as a European country and a counterweight to the other great powers, economic great powers, where you cannot do that nationally. It depends a bit on how you are in that competition. Do you encourage European industrial policy? Or do you say, no, that only distracts from our national industrial policy?

Elias: But would you say that the national interest is usually the most important for countries? Or maybe always? If you could elaborate on that a bit?

Frank: National interests are superior, only how do you achieve those national interests? You can see different ways.

Elias: So you're saying that there's a difficult intersection between the two, that it's actually your own interest, but also a bit of ideology? Or would you say that it's still...

Frank: Look, from left to right, national parties stand for national interest. Only how that national interest is best suited, how that best comes to be, how you can get maximum of your own interests, there opinions differ. And then you actually don't have that much, that is also a bit left-right, but you have internationally oriented people, let's say the Volts, the D66, to some extent the VVD, let's say the traditional parties in general, and the often-populist parties, which have a very strong national character. That makes, that is among other things, one of the ideological divisions that shows a difference in approach to European industrial policy. France is a special case because it guides European cooperation with its mouth. But it is always a European model under French leadership.

Elias: Yes? Okay, that was interesting. I wanted to ask, because Macron is always, I had also analysed a speech by Macron for this study, and I counted 627 times the word Europe and European and 57 times the word French. But you actually say his rhetoric does not always match the spirit of the message?

Frank: Well, you can see that in the account. So, around the idea of "[France] doing something European", there is a very clear national agenda.

Elias: And why is that?

Frank: Well, Macron has great national challenges. If he's unlucky, he will be voted away by Le Pen in the European elections. So, he is also under pressure, and he is also for the French national interest. He also sees that France is not a great power in the world. France can't compete with the US and China. So, he tries to tunnel the national interest through the European interest. Of course, that's what he does more. But he knows how to word it in a very eloquent way. So that it seems that he thinks very much in a European way, while Europe just uses the French agenda.

Elias: As a kind of instrument actually. Yes, I find it very interesting that one of the problems with my study was, I have a kind of framework where I analyze political tradition. I say ideology, but it is actually easier to grasp that tradition together. So also for example that the Netherlands and Germany are a little more frugal, more focused on saving than on Keynesian stimulation of the economy. But one of the things that my studies do not include is for example supranational and intergovernmental cosmopolitical philosophical ideas that rather focus on something that is bigger than your own country. So that's interesting to hear that it's more towards a liberal intergovernmentalist policy, where countries use Europe as an instrument.

Frank: Yes, it differs per country how much it (using Europe as an instrument) is done though. We're focusing on France now, but all European member states do that. Hungary does it in its own way, in a completely different way. But also, the Netherlands does that. All countries are members of the European Union because it also brings the country forward. Because it has national importance. Yes, yes, co-existence is strong, but then... If they feel that it is not the case, where the British had that, especially on one issue, which is the asylum, the asylum issue, the migration issue. They thought that the EU membership in the EU, we don't benefit anymore, we are against that. Then you get Brexit.

All other countries, and in the end the UK and now also in important terms, the majority now sees that Brexit was not such a smart idea, they see the benefit of the European Union.

Elias: Yes, but I actually had a follow-up question, and that was actually my last question, but we happen to be here now. But how do you see the future of this European history policy? For example, Italy says we don't really think this is fair in this way. Germany and France can give much more state support. 77% of the state support is given to France and Germany, while they represent around 50% of the GDP, although I don't know the precise number, and

Italy is underrepresented. Do you think that this can harm the unity of Europe if this policy continues?

Elias: Then we will find a solution. There are many aspects to industrial policy. One is, for example, you need large, powerful international operators. You need companies that can offer a counterweight from the Googles, the Baidus, the big industrial conglomerates in China. So you need European champions to grow. And they can arise from national champions. So in the past, how do you compete on the international market? By making powerful companies. Philips in the Netherlands, how did you compete on the international market? By making powerful companies. Philips in the Netherlands, for example, they could build internationally. Because they had strong bases in the Netherlands, they could also build internationally. So you had the champions, who often let innovation and start-ups happen and then lock it up. And that's how you develop business economic power. Those kinds of companies will now also become European champions. They can be created from the national champions. And how do you do that? Among other things, because you make the supply chain of those companies, you make them very international. So you don't have to be the system house and the end producer. What we call OEM, you know that concept.

Elias: Yes, I know that.

Frank: The Dutch, we have a very large car industry without a car brand. We have a lot of suppliers to the German car industry. So we are quite powerful in that regard, but we do not have a Dutch car brand. But we are in the supply chain and we benefiting from the German automotive industry.

Elias: So you're saying that Germany or France gives subsidies to a company, that the Netherlands can also benefit from it?

Frank: Certainly. And one of the measures that the European Union can take is precisely in the supply chain, that openness and breaking through national borders and the European level playing field. Especially in the supply chains. Another option is, and you see that with Airbus, that a number of parties from different countries come together in one big comforter. So that's German, French, Italian Airbus. Something like that. I don't know if the UK does that. That's really a European champion. Spain also had a Casablanca. But anyway, that's another model where you indeed create a conglomerate, which also distributes its production facilities in the different countries. Yes. There is a certain level of rationalization, the same things come together. The end of the assemblage is the while the wings, for example, in Fokker in the

Netherlands. And the hull in Germany. Or the motor in Germany. And in that way you create a program that is European.

Elias: Okay, that is really interesting. So, you would say that because the internal market is already so integrated, it is not very much that the subsidy happens at a national level?

Frank: Yes. You can indeed with good meta regulation, including the level of leverage within the supply chains, you can ensure that it is also in the European context.

Elias: Okay, interesting. I really have a lot to say about this. You said you weren't really an expert on this, but I think that's not true. I had another question. Some countries talk a lot about strategic autonomy and are very much like, we have to stay competitive against the US and China. I believe it was Robert Habeck or Christian Linder, one of the two, who said we should compete, against the US, as Germany we should compete against the US and China. He doesn't say as Europe. And Macron does that. Do you think the Germans are more focused on their own interests than, for example, the French? Or do you think that may have more to do with frugality, with the common debt?

Frank: That depends on how you approach it. In the French newspaper, you often see that French agendas are presented under a European flag. Also, when it comes to mining, for example, that Europe will mine lithium again. For a while, what industry do you look at? You see that the German car industry is top of mind. We often hear about Germany, the German export. Germany is the export master of Europe. So when it comes to export, we often talk about Germany, not in European terms. It will also have to do with the structure of the economy. Germany has a lot of family businesses that are relatively small and have German signature. But they export a lot. Yes, it's a mixture of that. The political culture, the political language that we are used to using. The economic structure, the way you look at it, what your perspective is at that moment. But it is clear that Macron used Europe to promote the French agenda. And in Germany, perhaps a little more directly on talk about German interests without talking about European interests.

Elias: So there's a question coming up when you say that. Do you think that the approach of how much subsidies it can give and ideology and political culture is very helpful? Or do you think it can explain in a way which position countries take? You said at the beginning of this interview that it's more of a scale. Which countries play more important role in this?

Frank: I think that's very difficult.

Elias: You don't have to answer that question.

Frank: I think that's very difficult. I wouldn't be good at that. Okay, yes. I can look at the Dutch situation. We maritime industry in the Netherlands. Because it is a manufacturing industry, and it fits our maritime tradition. It is very much in line with our national economic model. At the same time, we realize that we cannot compete with the international market without expanding that outside in the Netherlands is still promoting, they have invested money in it, to let parties cooperate to promote innovation, government money, as you said, because of public interest. At the same time, it is from the realization that we do that in the international European game field. Where we have to cooperate a lot with, especially the northern countries, Germany, Scandinavian countries, where it can also be possible that a ship for the Dutch state-owned company is built in Norway and vice versa. Yes, yes. Where there is a certain, perhaps also a task specialization or something like that. So it is possible to promote national interest. There is also a lot of consideration given to the fact that this is not different from in cooperation with other countries.

Elias: So also with countries like Germany you could say that this is a good case?

Frank: Yes, and that certainly begins at the forefront of the chain, where knowledge and innovation is almost by definition international. Because universities, but also knowledge institutions, in the case of the marketing industry, such so it's very useful to take that into account. That you overlap those interests. Then it's interesting indeed.

Elias: Let's see what other questions I had. One of the things I wanted to do is to look at the rhetoric based on strategic autonomy. How strong do they stand in this? And compare that with how much they actually do. For example, with China, with how many countries do they trade? France and Germany have both recently been to Xi Jinping. Xi Jinping has recently come to France. Do you think they talk more than they actually do?

Frank: You have to get an explanation from my terminology. Strategic autonomy, that is already known. What does autonomy mean? It means that you can do everything yourself. It's not completely autarky, you are completely excluded from the world. It's a bit like North Korea. That's not it. But you can make independent decisions about a lot of things. That is already nuanced to open strategic autonomy. To emphasize that it does not mean that you are the base everywhere and that you exclude other parties. At this point, the governing decree is rather de-risking. And the difference between strategic autonomy and de-risking is that you do de that we can do that in our own home, that we can do the manufacturing industry there.

Yes, yes. That's one. Two is also the supply chain, because the fact that you have, for example, a self-sufficient a manufacturing industry, it does not mean that you also make the steel for the ships yourself. Or even the hulls. The rope is self-made because that often happens in Romania or Poland. Because there are better weldaves and because they are cheaper. Nevertheless, the product can be Dutch because it is built here, and a lot of the added value is created in the Netherlands. Then I am still talking about an important Dutch product that has a lot of value in the Dutch economy, despite the fact that not all components are produced in the Netherlands.

Elias: Makes sense. That's interesting because I also saw that with the Italian non-paper that they had written. And there is a lot of, “oh yes, but it doesn't benefit Italy.” Then it is also reticent that Italy says, all those national subsidies, they don't benefit us enough, that's why we want common debt. Does this also have to do with the high debts they have themselves?

Frank: I find it difficult to help the inclination position. Perhaps it also has to do with the economic structure of Italy, where Italy itself has priced itself relatively out of the market. You also see that the EU is also a bit dependent on the model where the Northern countries, Germany above all, have a lot of industrial capacity at home, and with which they export, just like we do. And a lot of the time, you see, a net deficit is being spent towards Italy. A net financial flow towards Italy, where Europe, Germany, and the Netherlands are paying a bit for the Italian debt and the Italian efficiency.

Elias: So that they can actually buy our products.

Frank: So that they can actually buy our products. Yes, exactly. Exactly. So we both profit from it. The fact, so the example that money flows to Italy from northern countries, from the Netherlands, right? But you pay, you pay net to the EU. Italy is, I don't know for sure, but I think it is a net payment. Italy is a net receiver. We also benefit from that as a country. So you have to see that argument a little more broadly. Yes, I think if they say we are profiting insufficiently from German investments in the industry. I think that is partly because they have priced themselves out of the market.

Elias: Yes, that is an interesting discussion. I think that is too far for my own project, but it is very interesting. I think certain things, such as legislation on working conditions, have an influence on the competitiveness of those countries.

Frank: Yes, although Italy is a country with relatively low wages. Yes. People of your age in Italy have less than 1000 euros per month. That's why they all come here to study. Yes, exactly. Well, very interesting. I think I have enough of this. At least if you don't have to forget anything yourself. No, because I don't have a very good view of what you're writing.

Elias: I am mainly writing about the motivations of countries behind it. And I try to unravel which motivation is the strongest. Because at the beginning of the research I thought it wouldn't be a black and white answer. It's just personal interest or it's or ideology, that's not possible. But I was trying to figure out if France really is the ideological superpower that she says she is, with Macron's speeches, and if the Netherlands really votes against their own interests. That was something Theo Henrar, I don't know if you know him, from the technology industry in the Netherlands. I don't know the exact name of the organization, but he was at ESB. I don't know if you know that. (Nods yes)

Elias: He gave a lecture there. And then he said that the Netherlands actually votes against its own interests. So that was actually the reason I was looking for this.

Frank: What you also want to say is that France has a long-term tradition of looking at how France develops, certainly has a strategic culture. You could compare it to the Chinese looking at the world. the French have to be protected by the long-term vision. They have a much more coherent self-image, whether it is right or not, of where they develop policy from. And the Netherlands is really a merchant nation. You see a chance and you speak up. where they develop policies. And the Netherlands is really a merchant nation. You see a chance and you just go for it.

Elias: So you would say that the Dutch are more ad-hoc? That is a bit more ad hoc. I already thought that, but I couldn't confirm that with the literature. So that's interesting.

Frank: Yes. In a certain sense, I would say that ad hoc pragmatic jumping into opportunities, if that has brought you prosperity for centuries, then there is little to complain about. a strategy of adaptation, of flexibility. That is also a characteristic that you can often see in the Dutch economy. There is a lot of flexibility in it. By the way, that is also an important reason to bring the manufacturing industry back. An important part of the flexibility is also in the manufacturing industry, in the powerful manufacturing industry. Take the example of the mouth caps during the corona crisis, where we suddenly depend on both medicine and mouth caps from India and China. While companies like Van der Leegten or Aalbers in the Netherlands, those big industrial manufacturers, are able to quickly switch production from producing bikes to producing mouth caps, you have a good fabric making industry. That's possible. That's possible within a few months. Then you have a production line, then you have the logistics process, then you have the entire company management of making things. And the distribution of it, the marketing of it and all that kind of things. If you have that, then it doesn't matter. Then one item can be easily replaced for the other item. If you don't have that basic infrastructure, basic manufacturing industry, then it can't be. So that's actually a kind of strategic importance. It's not about building up a factory that makes face masks in a piece of furniture, than a bike factory that I build up in a factory that makes face masks a bike factory that makes masks into a bike factory.

Elias: That's an interesting comparison. My last question, because this is what I found while reviewing the literature. Would you say that the categorization, broadly speaking, market-oriented versus interventionist, that it is the split between the Netherlands, Germany on one side and France and Italy on the other?

France: Yes, but you can see that those worlds are growing together. The unbiased market thinking, the pure neoliberal thought, that is going back everywhere. In countries like the Netherlands, which has maintained that for a long time. Industry policy does not exist. Industry policy is back in the day. Yes. The state intervention to ensure national interests is again a bomb. And that is actually a consequence of the changing world order? Yes. Okay, wow. Well, it is a bit of a wave, I could say. The wave, the sling, it goes back and forth. Yes, the pendulum. So all the time we have neoliberals, this goes, well, after a long time it goes back automatically. Just a surplus actually. So that is partly the case and partly it is indeed the compulsion of the geopolitical situation.

Elias: Okay, I think that's a nice point to end the interview. Thank you very much, Frank. It was really fun. It really helped me with the research I'm doing.

Interview 2 – Tobias Gehkre

N.B.: Transcripted with Microsoft Teams – Transcription errors were adjusted

0:0:-2.-930 --> 0:0:2.200
Rutten, E.B.G. (Elias)
Is it OK if I record this meeting or OK I'll start recording then?

0:0:3.190 --> 0:0:5.40
Rutten, E.B.G. (Elias)
Uh, so thank you very much for speaking with me.

0:0:5.750 --> 0:0:13.480
Rutten, E.B.G. (Elias)
Like I cited you before in other papers for an internship that I did and I really enjoyed your work.

0:0:13.490 --> 0:0:14.710
Rutten, E.B.G. (Elias)
So that's why I invited you.

0:0:15.710 --> 0:0:18.280
Rutten, E.B.G. (Elias)

You're of course a geoeconomics expert.
So it has something to do with my thesis.

(Introducing my thesis)

0:0:26.220 --> 0:0:34.710
Rutten, E.B.G. (Elias)
So basically like the relaxation of industrial policy in the EU and the consequences for the debate between Member States.

0:0:38.380 --> 0:0:38.760
Tobias Gehrke
Very good.

0:0:47.770 --> 0:0:56.780
Rutten, E.B.G. (Elias)
So I was wondering whether you're bit familiar with the debates in the U around industrial policy and like the debate between Member States.

0:0:57.350 --> 0:0:58.530
Tobias Gehrke
Yeah, yeah, yeah, I am.

0:1:0.70 --> 0:1:0.410
Rutten, E.B.G. (Elias)
OK.

0:0:59.710 --> 0:1:4.250
Tobias Gehrke
I mean, for the most part, but yeah, good enough I guess.

0:1:5.400 --> 0:1:8.510
Rutten, E.B.G. (Elias)
I'll just give you a quick rundown of what my research is about.

0:1:10.240 --> 0:1:13.630
Rutten, E.B.G. (Elias)
So of course, you know this is this is the basics.
There's a lot of pressure from China and the US. Competitively, which is why state aid rules have been relaxed. Among other things, such as the Ukraine War, et cetera, et cetera.
Basically everyone, that's my perception at least, agrees that something has to be done [about the competitiveness issue], but they don't agree on how the EU should implement industrial policy. So whether they should use common debt to fund it or it should be done nationally and countries like the Netherlands and Italy, they are complaining that the current rules are not fair and that State aid is being relaxed too much and for example, Italians want common debt.

0:1:54.530 --> 0:1:56.910
Rutten, E.B.G. (Elias)
That to solve this issue, but the Netherlands doesn't [want common debt]

0:1:58.780 --> 0:2:8.910
Rutten, E.B.G. (Elias)
So the question that arises for me is do states not support common debt because of their fiscal capacity to provide subsidies? Or is it because of their political tradition?

So let's say the Dutch are more in favor of austerity. Frugal spending well, the Italians are more interventionist, for example.

0:2:32.480 --> 0:2:33.260
Tobias Gehrke
Yeah. OK.

0:2:35.910 --> 0:2:37.340
Rutten, E.B.G. (Elias)
What do you personally think? Do you think that material interest or ideology is more important Member States?

0:2:44.160 --> 0:2:52.230
Tobias Gehrke
Ideology. Because material interest, the fiscal space that used to say I don't, I don't see.
Umm. The whole idea would be that would be common borrowing, right?
So there will be a huge leverage from the entire market and. And so the fiscal space would be one for the entire Europe, not for a single Member State, which would increase fiscal space quite significantly.

0:3:26.270 --> 0:3:27.780
Tobias Gehrke
Ideology definitely plays a role.

0:3:27.790 --> 0:3:28.360
Tobias Gehrke
OK, I wouldn't.

0:3:28.370 --> 0:3:28.840
Tobias Gehrke
I wouldn't be.

0:3:28.850 --> 0:3:32.180
Tobias Gehrke
So maybe not so straight forward, but ideology definitely plays a role.

0:3:32.890 --> 0:3:37.220

Tobias Gehrke

I'm German and I can tell you the German debate is similar to the Dutch one.

0:3:38.110 --> 0:3:39.210

Tobias Gehrke

It's very ideology driven.

0:3:40.300 --> 0:4:10.240

Tobias Gehrke

Umm, the sort of ordoliberalist ideas that that is that you cannot sustainably grow with taking on debt, that there is such a thing as a sustainable debt level and that some of these measures we have set 20 years ago in the Stability and Growth Pact where certain debt levels were set, that these are somehow assigned semis, scientific ways to manage our national economy.

0:4:10.710 --> 0:4:16.610

Tobias Gehrke

That feeling is very strong in Germany as well, and that school of thought has had Outsized political influence over the last 20 years, and interestingly enough, in the German debate, the economists have by and large shifted over the last 3-4 years there.
View on on matter, even the most hawkish economists who have for the entire career argued that, uh, sort of a 60% debt level and all of that is uh necessary for sustainable growth.
All of them have almost all of them, except for one in particular have shifted their view and I have yes.

0:4:59.480 --> 0:5:2.60

Tobias Gehrke

So arguing for a more.

0:5:7.710 --> 0:5:10.570

Rutten, E.B.G. (Elias)

Expansionist? Are they more arguing for more expansionist regimes?
So, so more debt instead of less or?

0:5:13.700 --> 0:5:22.230

Tobias Gehrke

Exactly more specific cases where taking on debt is good because you want to take on debt

for particular industrial policy goals.
That, or Political goals that have a long, you know, positive influence on your society, particularly around climate change, there's a lot of alliance happening on that front.

0:5:39.610 --> 0:5:40.10
Rutten, E.B.G. (Elias)
Hmm.

0:5:33.560 --> 0:5:42.490
Tobias Gehrke
So but the interesting element is that the experts have largely shifted, but the politics has not yet. The way the politics is now behind on the sort of economic economist consensus. And so Germany in particular is an important case because we have enshrined the debt break into our Constitution, as you know.

0:5:59.830 --> 0:6:1.810
Rutten, E.B.G. (Elias)
Yeah, the Schuldenbremze right.

0:6:0.140 --> 0:6:3.20
Tobias Gehrke
And so, exactly, yes.

0:6:3.110 --> 0:6:28.790
Tobias Gehrke
And so, even though the Politicals whims of the day might shift towards a more liberal or left or liberal, but towards more of a positive stance towards taking on more debt to carry out major investment. The schuldenbremze is, yeah, quite a significant legal hurdle as we have seen last year with the constitutional enshrinement.

0:6:30.310 --> 0:6:34.710
Tobias Gehrke
So it's ideology had a huge part in it.
Ideology is a bit of a loaded term, but I would say.
Umm, a sort of school of thought anyway.

0:6:42.710 --> 0:6:45.160

Rutten, E.B.G. (Elias)

Yes, that's how I categorized it myself as well.

0:6:45.230 --> 0:6:50.660

Rutten, E.B.G. (Elias)

I categorized it, at first I started out with my research and I said ideology, but it felt a bit too.

0:6:52.490 --> 0:6:57.740

Rutten, E.B.G. (Elias)

I I needed Political tradition eventually cause it's more of a school of thought, in my opinion as well.

0:6:58.950 --> 0:7:11.440

Rutten, E.B.G. (Elias)

So would you say broadly that that's the correct categorization and that's for example the Netherlands and Germany are more market oriented and then you have for example France and Italy, which are my cases are more interventionists.

0:7:14.200 --> 0:7:16.80

Tobias Gehrke

Yes, but there's a particular distinction.

0:7:16.90 --> 0:7:24.0

Tobias Gehrke

I don't know whether you have some connection and Netherlands, but in Germany we have in particular school which we call ordoliberals.

0:7:34.10 --> 0:7:34.620

Rutten, E.B.G. (Elias)

Hmm.

0:7:24.10 --> 0:7:39.750

Tobias Gehrke

So Liberalists, who Ordo meaning having quite stringent rules on the state, do not overstep its mandate, and so the order Liberals wanted, they are the ones who asked for the debtdreak.

0:7:39.760 --> 0:7:53.80

Tobias Gehrke

And all of that to make sure you kind of have a a strong regulatory framework that, that, that protects the economy from too much Political ups and downs.

0:7:53.520 --> 0:7:53.720

Rutten, E.B.G. (Elias)

Mm-hmm.

0:7:53.770 --> 0:7:57.90

Tobias Gehrke

And so that's a particular school of thought now.

0:7:57.100 --> 0:7:58.810

Tobias Gehrke

And in a way, everyone is a market.

Everyone is a market based.

Umm that one is market based.

Even the French are market based, but within market market economies there are these different school thoughts and the French are, you know, traditionally more dirigiste, which is sort of the that sort of interventionist.

I I don't know if that sort of thought still really holds today.

It's still used in the popular, popular media and so on, but there is a is more from the 1960s and 50s.

But whatever you wanna call it.

So yeah, that's weakening.

And for different reasons, as you mentioned, climate change [debate] is particularly strong in Germany. I would say that that sort of one of the lines of attack that people want to change that are using also because the Green Party is running the economy ministry and so.

They are highlighting all the major investment needs for the green transition that are necessary and cannot be met.

If you have who strict borrowing levels enshrined

So umm, , whereas for the French, I think it's a bit of a different argument.

It's more about, yeah, national industries.

And but I'm not sure so much about the climate.

I'm not entirely sure but.

0:9:22.590 --> 0:9:23.190

Rutten, E.B.G. (Elias)

OK.

0:9:23.230 --> 0:9:32.630

Rutten, E.B.G. (Elias)

Because I had another interview and the person who I interviewed said that the French are also more strategically oriented, at least compared to the Netherlands.

Like Germany, I'm not so sure about personally, but that there are more of a long-term vision so that they. The That's also one of the reasons that they want common debt on that and European approach. They the other interviewee, said that it's the French also used the EU as an instrument and their stance kind of like their own political agenda and that they want to present it as a European cosmopolitan stance. But that's really also national interest. What do you think about that?

Do you think and let me ask it more generally, do you think? Fiscal capacity plays a big role? For example, like for Italy, to want common debt and Germany not to want common debt. While France and Germany want state aid relaxation, and the Netherlands and Italy don’t?

0:10:22.110 --> 0:10:23.910

Tobias Gehrke

OK, so a couple will couple issues.

0:10:31.200 --> 0:10:34.190

Tobias Gehrke

OK, that first last one on the comment that so.

0:10:37.970 --> 0:10:52.240

Tobias Gehrke

The main problem for Germany in the European context is the socialization of the risks that that German taxpayers might come in and have to rescue Italian lenders.

0:10:52.330 --> 0:10:57.180

Tobias Gehrke

And so that's a a huge one and hence. And that's very hard to overcome. You see a lot of the focus on national investments and national industrial policy, particularly driven from Germany.

0:11:11.750 --> 0:11:12.190
Tobias Gehrke
Because.

0:11:13.160 --> 0:11:16.970
Tobias Gehrke
Umm yeah, because of that issue, all common risks.

0:11:21.550 --> 0:11:22.530
Tobias Gehrke
Yeah. So.

0:11:25.220 --> 0:11:27.590
Tobias Gehrke
And on sorry, what was your opponent of French?

0:11:28.790 --> 0:11:30.320
Rutten, E.B.G. (Elias)
So like for because the.

Tobias Gehrke
Sorry, I'm just lost my train of thought but.

0:11:45.400 --> 0:11:46.200
Rutten, E.B.G. (Elias)
No, that's fine.
OK.
I'll just quickly recap.

0:11:48.50 --> 0:12:0.0
Rutten, E.B.G. (Elias)
So the positions of the countries are such, so the Netherlands doesn't support further state aid relaxation and also doesn't support common debt Germany supports further state aid relaxation but no common debts.
France supports both, and Italy doesn't support relaxation until common debt is achieved.

0:12:7.90 --> 0:12:19.80

Rutten, E.B.G. (Elias)

So I was asking because that to me sounds like they're all like motivated by the material interests, mostly because they are all acting according to what's good for them in terms of a subsidy race you see.

0:12:19.120 --> 0:12:19.380

Tobias Gehrke

Yes.

0:12:20.960 --> 0:12:26.450

Rutten, E.B.G. (Elias)

So that's my observation, but I am not so sure if it's actually a fiscal capacity.

That's what I'm talking about

0:12:29.960 --> 0:12:30.990

Tobias Gehrke

No on that front. I think you're absolutely right.

And the reality is we are very far away from a common industrial policy in Europe, unfortunately. You have a lot of great documents coming out of Brussels and the Commission is trying to come to some sort of common European line and you know the Net-Zero Industry Act has quite some forthcoming language of what Europe wants to achieve the Chips Act has been a rare. A case of a really powerful industrial policy that defined in a European way, or at least try to.

But on the tool side, so it's easy to write kind of the strategy side where the Commissioner has been leaning forward under the Von der Leyen Presidency, but on the actually financing it, the Raw Material Act is another one particular industrial policy, quite specific on very specific security issues that we all agree on and all have identified that we're dependent, that these dependencies and raw materials are potentially quite dramatic if things go South.

0:13:52.560 --> 0:14:4.410

Tobias Gehrke

So we all agree on the broad analysis, but the Commission has basically failed in getting a new finance, financial, financial, tools, common financial tools.

It's launched, tried to launch last year the Sovereignty Fund, which was supposed to be that big one, completely failed.

0:14:13.150 --> 0:14:19.820
Tobias Gehrke
Then the uh Strategic technologies platform, whatever it's called, you know. STEP.

0:14:18.900 --> 0:14:20.640
Rutten, E.B.G. (Elias)
Yeah, just step regulation, yeah.

0:14:20.950 --> 0:14:22.260
Tobias Gehrke
Yeah, which also failed.

0:14:23.680 --> 0:14:41.990
Tobias Gehrke
It's supposed to be 10 billion, with the Commission, asked Member States now, wrangled it down to 1.5 billion and that 1.5 billion is also only supposed to be spent for dual use industries, those that are tied up to our defence posture in Ukraine, which is of course important. But it's also very narrow, and the Commission failed basically across the board on the financial side. Will that change now, the next Commission? No, not if not. If Something else gives not something else will have to change.
Either Trump administration, umm, uh, a clear indication that you Ukraine is losing this war, without a doubt. Umm, uh, trade conflict with China, where sort of the overcapacities of China that we fear today are actually reality. And so, with these big International factors, that could all well happen.
The politics, the political economy in Europe is just not. It's just too far away.
And so in that environment, uh, it will be more State aid basically and that's what.

0:15:53.410 --> 0:15:56.570
Tobias Gehrke
Anyway, Germany mostly wants and France is.
Yes, I think you absolutely right, France would like both, but France is also.
Yeah, I think, yeah, somewhat fine with the state aid side also. National state aid that is and so yeah, we're in a bit of a quagmire. Where I think the analysis is quite good. Analysis is fairly aligned.

0:16:26.180 --> 0:16:30.750
Rutten, E.B.G. (Elias)
So everyone sees the problem in the same manner, but they don't know how to solve it basically.

0:16:32.30 --> 0:16:48.690
Tobias Gehrke
Yeah, not entirely the same thing, but given yeah, given how I mean it had the has been definitely a serious conversion on the issues of security risks on the of dependencies that something needs to be done there. There is a clear conversion among the main economies anyway. The main industrial powers that we are in a in a somewhat of a battle of.
Techno industrial capacity that both the United States and China subscribe to, and that this is a clear threat that we need to address that analysis is broadly shared among the important countries. There is a broadly shared understanding that the climate crisis requires massive investments, and so I'm just repeating myself.

0:17:25.70 --> 0:17:29.310
Tobias Gehrke
But yes, I would say your analysis is there. But the political economy.
Isn't and so? And you, you come out. You know, there's all sorts of ideas always on the table, but they all been washed away now. The next one is capital markets union coming up every couple years. It also it will never happen because the implication of that is.
Basically that it's a potentially that the pension funds of of Germany might be implicated in some sort of banking crash in Italy and that doesn't have to be. Maybe there's some middle ground, but that's always the kind of looming issue. And so so we we end up as as these kind of tinkering around the edges, these important projects of common European interests, as you know, all pretty yawning stuff and really cumbersome nonsense in a way. But it's the best we have at the moment, and even the defense industrial policy.

0:18:33.430 --> 0:18:35.160
Tobias Gehrke
You know, I don't follow the defense side. I have to say, but when does defense side came out? When does the defense industrial strategy came out? A couple weeks ago, right, I read it and, well, put differently, I. Because my partner, she works in defense and she was part of the negotiation of this and basically the defense side, you'd think that the, the the risk is so large.

I mean, you know, there is a broad shared view that Ukraine might well lose this war and that everything needs to be done, that we need to ramp up our industrial policy on the fence urgently. And even though that is like the most dramatic geopolitical threat to Europe in its existence, you know the the politics are so nasty, where at the end of the day it's a tiny new kind of budget line that they agreed. And, umm, Germany has always wanted to have all these carve outs where it says I want to spend nationally on my projects, but I want to and then get the money back from the EU.
And so it was the typical in a way, it was the typical kind of industrial policy debate stuck on all the same issues, even though the urgency on defense industrial production is so, so, so massive, more massive than than for the other fields, at least in the minds of of leaders.

0:20:10.160 --> 0:20:13.440
Tobias Gehrke
This one is a bit of a a cold shower, unfortunately.

0:20:14.650 --> 0:20:16.20
Rutten, E.B.G. (Elias)
That's that's a really good thing you said there.

0:20:18.510 --> 0:20:21.680
Rutten, E.B.G. (Elias)
Because I on a personal note, I completely agree.
You said the same issues come back constantly.
What do you think the same issues are?
Do you think it's the lack of supernational values or do you think it's more like everyone is trying to get something for themselves?
What do you think is the thing that's coming back?

0:20:46.890 --> 0:20:50.160
Tobias Gehrke
An inward-looking Europe that is concerned about creating local jobs.
Rather than sort of seeing the bigger picture of competing with great powers or competing against global warming, and there is this myopicism and I think that's very strong. Uh, which is different in other nations that are more, I think, see more the global competition, the reality of needing to engage in it. That's one so. Yeah, local jobs, always the killer. It's always about local jobs.

0:21:45.880 --> 0:21:47.670

Tobias Gehrke

Yeah, maybe national companies. How do you Europeanize a company?

So why would France spend some big, big, massive project?

So only that Siemens can get the contract. That's, you know, that's a really difficult one.

0:22:5.850 --> 0:22:18.930

Rutten, E.B.G. (Elias)

So just to add on to that of a quick question about that, do you think that's also a problem then with competition policy because you see that for example the Siemens, Alstom merger, they wanted to merge these two companies.

Do you think it would have been more likely if they wanted European funding, if those were a French and German company instead of just one nationality, that maybe the competition policy is holding back such a united strategy?

0:22:35.480 --> 0:22:36.110

Tobias Gehrke

Yeah. I can't give you this answer as you as you are well aware it's it's one of the arguments that some of the arguments also that the letter report makes. That what we lack is scale and if you want to compete in this industrial age and it's scale and so we are have exact opposite paradigm on our competition policy which is all about breaking down scale. I'm. I don't know. I'm definitely open to this. I believe it. It's true in the global context, but clearly there's also a lot of pitfalls, so I umm, I do think to Siemens Alstom merger would have been probably beneficial in today's context if it would have would have happened back then not perhaps so much for the actual competition in the railway sector.

But for the paradigm potential paradigm, sure, if that it would have already indicated at the time, which could have led to some. I mean, I'm just speculating here, but yes, I think it was A time where we didn't have enough foresight of of how competition five years down the road would look like with China that the railway sector is of course just a tiny example of what we are up to and up against. **And so yeah, but clearly I tell you that this scale argument is very controversial among almost the entire EU, except for the big ones. No one likes it**.

0:24:7.330 --> 0:24:15.510

Rutten, E.B.G. (Elias)

So that that's very valuable for my research actually, because that's no one except France and Germany basically or also Italy or what what's the?

0:24:17.310 --> 0:24:29.510
Tobias Gehrke
I don't know the Italian position, but I know that everyone that has a midsize economy, probably the Netherlands included, except for maybe some of their champions that they already have. But there's a huge scepticism that this move towards champions is extremely one sided, where European champions are what you said earlier is the French ploy to actually have French champions. And so I was just earlier this week I was in Stockholm.
Everyone was like, well, yeah, that sounds very good. The scale and yeah, we need European champions and so on. But like, where would Sweden be? In this? We would be gone, and same in Belgium and Denmark.
And you know most smaller or mid sized economies I think are very skeptical about this.
Umm, so the political economy on that one?
I don't know. I can't really judge, but the fact that letter has it in his poor, potentially Draghi, he will have it. Umm, I don't think we're gonna see any sort of big Airbus of, you know, Airbus of this Airbus of that in Europe. But what it would what it might lead to is this.
Eroding a little bit these old standards and rules on competition policy.
Right not to immediately create.
Your European champion, but to have a impact on how we think about competition policy, what its goal should be, what it's what it's benefits and so on are so that's I think it will have an impact.

0:25:58.260 --> 0:26:5.230
Rutten, E.B.G. (Elias)
That's really good actually, because I what you said about the the small countries and the position of the Netherlands, I all found that back in the literature.
So that's good confirmation of of what I found so far also had a Italian paper which said basically said the same because they don't have that much spending power.

0:26:14.90 --> 0:26:15.440
Rutten, E.B.G. (Elias)
Well, that's very interesting.

0:26:16.310 --> 0:26:20.620
Rutten, E.B.G. (Elias)
So you would say, I think this this kind of also the thing which was my last question.
So I think it's a good last question for this interview is you, you said like the problem is that there's too much of a fear that it's gonna be a French or German champion instead of European champion. You said there should be some kind of reorientation that works for everyone. If I understand you correctly. What do you think the future will hold for this industrial policy? Because you alluded to that a little bit already where you were saying like you don't think it will actually produce a lot of results until it actually matters, but what do you think the future of European industrial policy will be?

0:27:0.750 --> 0:27:2.770
Tobias Gehrke
I mean I.

0:27:4.100 --> 0:27:6.500
Rutten, E.B.G. (Elias)
For this you don't have a glass ball to look into, yeah.

0:27:4.520 --> 0:27:9.640
Tobias Gehrke
I mean, I can tell you when you what I want it to look like and what I think it will look like?

0:27:11.870 --> 0:27:14.910
Rutten, E.B.G. (Elias)
You can you can say both.

0:27:27.640 --> 0:27:28.780
Tobias Gehrke
OK, clearly it's a huge topic.
Competitiveness will be the the leitmotif of the next Commission.
Umm, industrial competitiveness in particular is big on the agenda.
But so that could that could mean. The next five years, we'll see more opportunities, more windows of opportunity. A sort of push for common industrial policy. We have a lot of strategy papers, right? We just need the funding to back some of them up. So maybe there's an opening because the focus is on the economy, the focus is on competitiveness, there is a huge concern across Europe now that we are losing and productivity growth with the

Americans and so on. So yeah, there's a there's a definitely a window for issues like this. However, that doesn't mean that industrial policy, how we talk about it and more European, central European fiscal capacity to launch projects that have a impact on the entirety of the continent, not just on a particular region, I think that's I'm not sure those who want to see competitiveness blossom and there is business sector, many of them, that admits more of an old school Economic policy.

While we gotta do single market integration, we gotta do get rid of this red tape here and there. We gotta do services integration. All of that stuff is true, but it's not necessarily helping us to have a more common focus. Rather, this kind of policies that are just described, they're quite horizontal.

A lot of the business side of pushing very hard on these horizontal measures to make the single market more efficient and industrial policy to me is with different it's much more focused. You need to prioritize certain things. Sectors supply chains. In particular, you need to be able to take risks and not let let all the risk taking be given to the market themselves. And there's a clear conflict that if you unleash the single market, that's great and probably it will help our productivity quite a lot. But that doesn't mean, uh, these market actors will allocate their risk and their resources and the industries and supply chains that we think are important to combat. Either you know the part of Russia, the industrial capacity of China to tech war with the Americans, and so on.

There's all these political priorities, and so coco Either way, I don't know. It's hard to tell. I think for real breakthrough on on this as I said you need some the the current but the political economy is just so it's not there yet. It needs some sort of other event. To trigger it I think. Otherwise it will be more tinkering around, you know.

"Ohh and yeah, maybe the EIB can take on another 5-billion-year loan and all." These are all technocratic fixes. If for some specific issues we try to find another technocratic fix and can you go see it for four months in Brussels and then there will be some technocratic idea, EBRD needs to derisk this investment.

0:31:11.660 --> 0:31:15.850

Tobias Gehrke

But whether all of that amounts to an industrial policy is quite questionable. Either way, I can't. I really can't tell.

0:31:29.40 --> 0:31:51.940
Rutten, E.B.G. (Elias)
Yeah, because what I feel like a little bit personally is that this whole thing about like reducing barriers and reducing red tape is more of a market oriented approach where it's like more of it in this neo liberal tradition instead of actually stepping into the economy, intervening and saying we have to create a sort of sector here or if I understand you correctly, is that what you're alluding to a little bit?

0:31:51.950 --> 0:31:55.870
Rutten, E.B.G. (Elias)
I'm putting the neoliberal word in your mouth, so that's not what I'm trying to say, but like.

0:31:57.210 --> 0:31:58.440
Tobias Gehrke
I think that's exactly true.

0:31:58.450 --> 0:32:1.640
Tobias Gehrke
I do think I don't think it's not an either or, it's just for me. I think you we need to make sure that we do both. I do think single market integration is absolutely important because we don't just have an industrial policy issue.

0:32:13.750 --> 0:32:34.580
Tobias Gehrke
We actually do have a growth issue internally and there is there is a good case to some of these policies, but if they if these sort of just general market policies are crowding out the more strategic projects that are that industrial policies can bring, that's an issue and that's where we would go.

0:32:34.630 --> 0:32:38.940
Tobias Gehrke
I think the wrong way and some understand that you know I.

0:32:39.250 --> 0:32:41.660
Tobias Gehrke
I'm gonna be very curious about the report of Draghi. Who gave the speech the other day in Paris, I think. Or somewhere there was a transcript online where you kind of tease it a little

bit of his report and he understands is I think quite well where he speaks about competitiveness, but he really also means this kind of industrial competition with the Chinese and the Americans. And then it need to be priorities, some.
Some industries are more important than others kind of narrative, and while still catering through this entire competitiveness agenda, we need to, you know, catch up on productivity growth. And so these kind of figures and Von der Leyen I think is also quite good at this.
Sometimes I speak with the industry and it's a they don't really get there.
For them, it's kind of an either or issue. If you wanna do.

0:33:52.620 --> 0:33:58.870
Rutten, E.B.G. (Elias)
OK, well, I'm glad I learned so much like a it's it's one of my favorite topics.

0:33:58.880 --> 0:34:2.770
Rutten, E.B.G. (Elias)
This industrial policy thing, and you really helped me out a lot here.

0:34:2.820 --> 0:34:6.180
Rutten, E.B.G. (Elias)
So not only for my research, but also just that personally

0:34:6.190 --> 0:34:7.630
Rutten, E.B.G. (Elias)
It's it's one of my favorite topics.

0:34:7.640 --> 0:34:8.760
Rutten, E.B.G. (Elias)
Industrial policy.

0:34:9.120 --> 0:34:11.50
Rutten, E.B.G. (Elias)
So yeah, thank you so much.
So much for this this amazing interview.

Sources analysed

A EUROPEAN RESILIENCE AND COMPETITIVENESS AGENDA: REINFORCING THE EU INDUSTRIAL BASE, RELAUNCHING COMPETITIVENESS.

Italian views on the EU response to the Inflation Reduction Act (IRA) and the need for a full-fledged European Industrial Policy

The European economy is facing a dual challenge. The Inflation Reduction Act is by and large in line with European goals – encouraging the production of green technologies. However, it can result in a competitive advantage prompting many European firms to move their operations overseas. This compounds the problem of high energy prices, that put our companies at a competitive disadvantage vis-à-vis their American and worldwide competitors. The combined effect of these factors seriously risks undermining the European industrial system.

The Union must react cohesively to these dangers. The European Council shall provide a sense of direction and reassure the European citizens, the business environment, and the markets, allowing Member States and European Institutions to work intensively, in the next weeks, to identify the most exposed sectors and the fields in which proactivity is needed.

In carrying out this process, **we should start by acknowledging the link between economy and security.** The Covid-19 pandemic, the Russian aggression to Ukraine, the increase of energy cost and general inflation have exposed our potential weaknesses. The fragility of global value chains emerged, with a number of ramifications which continue to impact on the EU manufacturing system and on citizens. The process of deindustrialization in Europe has accelerated further. More recently, a number of EU companies are considering delocalisation as a mean to benefit from lower energy prices and a wider array of subsidies. In the absence of an immediate industrial policy response, this can turn into a serious threat to the survival of the European manufacturing landscape.

Loosening the State aid Temporary Crisis and Transition Framework is not the answer, since it would entail a risk of fragmentation of the internal market. More than 77% of the State aid approved under the current scheme is concentrated in 2 Member States and this imbalance could further increase should we give free rein to national Governments, since not all Member States have the same fiscal space for providing State aid.

This would jeopardize the unity of Europe in the very moment we need to tackle together the challenges ahead of us.

Lastly, we also need to better understand the impact of the IRA on our European industrial sector before finalizing the EU response, both in terms of state aid framework and use of national and European funds. Hence, the decision on the 'Temporary Crisis and Transitional Framework' should be discussed together with other relevant topics affecting the future European integration and the public intervention in the economy as far as investments are concerned.

All the challenges that we are facing should be addressed in a wider context. We cannot politically accept to go ahead with a piecemeal approach moving forward on one topic without a clear and coherent progress on the other challenges.

In order to reinforce our economic resilience and relaunch our competitiveness, we need a comprehensive industrial, economic and trade policy. A policy aimed at bolstering our industrial base, fostering sustainable growth and preserving the level playing field at the international level, without falling into the protectionist trap, which in the end would result in a zero sum game.

Below are some thoughts, and policy suggestions, from an Italian perspective.

Addressing the key issue: the loss of competitiveness of the European industrial system

Europe needs a healthy, vibrant industry, for social, economic and security reasons. If we want to avoid being sidelined in the global race for competitiveness and innovation, we need to address the structural factors that risk hamstringing our industrial base. Particularly relevant, in this respect, are the technological lags accumulated by Europe in key economic sectors and the European dependence on raw materials and energy sources.

We need to act, swiftly, at national and European level, to maintain, foster and upgrade the EU industrial capability, thwarting delocalization, boosting economic security in strategic sectors, with a view also to enhance industrial co-operation with neighboring Third countries.

To achieve these goals, we should focus on the following lines of action:

i) Supporting and accelerating a sustainable green and energy transition: Decarbonization entails not only the need to speed up the adjustment in the energy mix, but also the industrial and technological transformation of entire economic sectors. Therefore, the regulatory framework and the trajectory of our effort aimed at reducing pollution should take into account the importance of preserving the competitiveness of our industry.

ii) Accompanying the digital transition: An inclusive and digital transition is a prerequisite to foster our industrial competitiveness. Bearing that in mind, EU legislation should support the creation of related infrastructures, the development of digital skills and a widespread promotion of digital services both in the public and the private sector.

iii) Fostering research, innovation and human capital empowerment: We will not be able to ensure Europe's resilience and competitiveness without adequate investments in high-risk research projects, which would result in cutting-edge technologies to be transferred to the business sector. We need the development of innovation ecosystems that encourage the emergence of start-ups and the co-operation between business and research as well as the upskilling and re-skilling of the labor force as appropriate.

iv) Developing strategic sectors: To move towards strategic autonomy and economic security, Europe should focus its future industrial policy actions towards specific key sectors: semiconductors, raw materials, energy, defense and aerospace, bio and high-tech tools. Upgrading these sectors will prevent further delocalization processes and will make our industries competitive, while preserving the efficiency of global value chains. The development of strategic sectors should be done within a pan-European strategy, in a WTO-compatible way and consistent with the green transition process. Strengthening IPCEI instrument and exploring the possibility to finance the development of strategic sectors through new EU funding instruments is a fundamental European priority.

This ambitious resilience and competitiveness agenda can be carried out only through a comprehensive approach. The next sections will examine possible initiatives in the domain of State aid and EU financing.

The revision of the state aid rules:

Streamlining State aid rules is one of the elements to be taken into consideration. Administrative simplification is necessary to expedite and facilitate approval procedures that are currently too long and burdensome. In particular, **a simpler and faster state aid framework** with a fast track for notification and approval for strategic projects, including IPCEI, is needed.

Changes to the "temporary framework" should also aim at facilitating a rapid implementation of the investments under the NRRPs through a simplification of state aid rules for projects already planned. Also, the temporary adjustment of the State aid framework applicable to measures contained in the NRRPs should remain in place for the whole duration of the Recovery and Resilience Facility, currently until 2026.

Another possible change could consist in simplifying the state aid regime for public guarantees allowing ex ante clearance in terms of targeted sectors, tenor, and remuneration of the guarantees, which will incorporate the cost of the risk of the transactions.

However, **streamlining the EU rules on State aid shall not turn into a "free pass" for all,** which would give a competitive advantage to Member states with greater fiscal leeway or more opportunities to underwrite debt on advantageous terms. This would only trigger a subsidy race within the EU and lead to a fragmentation of the Single Market.

A policy of simplification and flexibility is needed, but it has to be proportionate, evidence-based and targeted. In particular, targeting is crucial to interfere as little as possible in the market dynamics and avoid squandering public resources. Therefore, we should make sure we avoid generic and indiscriminate subsidies.

We should narrow down the sectors to be supported, taking into account national specificities and developing shared analysis. It is therefore of the utmost importance that the upcoming proposals on the State aid rules adequately heed the national contributions to the consultation launched by the Commission.

In this respect, the choice of the legal instrument, i.e. a regulation, is key to allow a debate between Member States in the Council.

Reforming the European economic governance:

To preserve a level playing field for business across Europe, the decision on the 'Temporary Crisis and Transition Framework' should be discussed together with other relevant topics in the domain of European economic governance.

The March EUCO could focus on both topics, providing the EU institution and Member States with sufficient leeway for an impact assessment.

Updated common fiscal rules should account for the conspicuous investments that Member States will have to make in the coming years to sustain the green and digital transitions and to foster competitiveness in leading sectors. A system of common fiscal rules that encourages public investment, both with regard to promoting strategic investments and improving growth potential, could be one of the key elements of the new Stability and Growth Pact.

The discussion of the future of the European economic governance should also address the missing piece of the Economic and Monetary Union: the creation of a central fiscal capacity. A demarche that can be undertaken, more than twenty years after the launch of the Euro, building on the positive experience of Next Generation EU.

Financing strategic projects, stimulating the competitiveness of the European Industry:

To limit the distortive effect of State aids, an ambitious resilience and competitiveness agenda cannot hinge exclusively on national resources. It needs to pool together different forms of private and public investments, both at national and EU level.

In the short-term it is essential to ensure a proper leeway for re-prioritizing investments under the NRRPs and cohesion policies that can no longer be implemented due to fundamental changes of circumstances and allow the reallocation of funds already available, as needed to provide timely and targeted support in strategic areas.

The MFF mid-term revision will provide us with an opportunity to screen existing EU funds, and examine whether some of them should be reoriented, or better funded, in order to foster competitiveness. In this context, we also need to consider carefully which role can be played by all EU/Euro area Institutions (namely the ESM and EIB).

The real game changer would be creating European funds aimed at financing strategic projects, stimulating the competitiveness of the European industry and making up for unbalances created by foreign subsidies and/or distortions in the raw materials and energy markets.

The proposal to establish a European sovereignty fund, targeted towards the most strategic sector of the EU economy, is a step in the right direction. Thanks to spillover effects, all Member States could benefit from this tool. Furthermore, through better coordination of national investment policies, it would be possible to implement systematically Europe-wide priorities. The Important Projects of Common European Interest demonstrate the value and potential of a European dimension in the development of sophisticated and cutting-edge technologies.

This sectoral fund – however useful to spur EU competitiveness –– would leave unaddressed the short-term level playing field conundrum, though. In order to provide relief to the European productive system and put European companies on the same footing as their subsidized international competitors we need a horizontal initiative to support the EU competitiveness.

In engineering this new tool, we should draw inspiration from the mechanism we have been experiencing, successfully, during the pandemic. Next Generation EU and SURE have already demonstrated that market borrowing to finance European programs is not only feasible, but also efficient. If we act together and speak with one voice, we are stronger, capable to optimize our resources and able to generate positive spillovers.

We are aware of the reluctance of some partners towards instruments involving a certain degree of common funding. Yet, the alternative is decidedly worse given the limits, contradictions and dangers of a strategy based on granting state aid on a purely national basis. Only through a purely European mechanism can the public support to economic competitiveness be reconciled with the integrity of the common market.

The creation of innovative financing instruments will be of fundamental importance in the coming months: we should face the debate with a constructive spirit, and without ideological prejudices.

Pursuing strategic autonomy through resilient value chains and trade agreements:

Our resilience and competitiveness agenda should also have an external prong. Strengthening energy security, reshoring production of semi-conductors (EU Chips Act), securing sourcing of lithium for batteries and rare earth for electronics (upcoming Critical raw material act) were all mentioned in September 2022 by President Ursula von der Leyen as fundamental short-term objectives of the EU industrial policy. Those objectives need now to be operationalized and framed within a broader industrial strategy.

The main objective of a new, assertive, industrial policy should be to uphold a competitive European industrial base, which is able to guarantee the security of supplies, export capability and job creation. This can only be pursued by strengthening European economic security and by ensuring the resilience of the national and European value chains, both cornerstones of the EU strategic autonomy.

To pursue these goals we need Europe-wide investments aimed at reducing our strategic dependencies. A promising example of this approach is the Chips Act, which aims to reduce the Union's dependence on the semiconductor sector.

We also need to invest in critical infrastructures within the Union and with our partners. Major infrastructure projects should be revamped, particularly with regard to the completion of the TEN-T networks; connectivity with third countries developed, building on the logic of Global Gateway.

Trade policy will be an important enabler of this strategy. The extension and further diversification of the EU's trade and investments agreements network is urgently needed to reduce European dependencies in strategic sectors and to open new supply sources and export markets for our industries. In this regard, we look with interest at the global diversification strategies of critical raw materials proposed by the Critical Raw Materials Act, in a crucial sector for the defense of national energy supply.

The above listed policy suggestions have different time horizons. Some can be quickly implemented, others will take longer, and the correct sequencing is key. However, it is essential that the European Council sends a clear signal of commitment, to reassure businesses and citizens, identifying a path that allows the EU to tackle the challenges ahead, boost its competitiveness and safeguard its very own economic fabric.

EU LEADERS' IRA TEXT GOES BACK TO DRAWING BOARD:

A number of EU ambassadors, led by Germany and the Netherlands, dismissed draft conclusions prepared by European Council President Michel for the summit next month to respond to major new green subsidies in the U.S. As Playbook previously reported, the draft text called for the Commission to work on a fund financed by joint EU loans that would allow EU countries to subsidize industry on equal terms.

Germany's Ambassador Michael Clauss suggested the draft text would not be backed by a consensus of EU leaders and would need to be reworked.

But Dutch Ambassador Robert de Groot issued the punchiest rebuke of Michel's draft, slamming proposals for joint EU funds to subsidize industry as "Karl Marx on steroids," three diplomats told Barbara Moens and Playbook.

However, other countries such as Italy, Greece and Portugal were more welcoming of the idea, officials said.

'Like Marx on steroids:' EU governments slam subsidy plan

EU countries are coming out against a Brussels blueprint to expand state aid for industry to counter soaring energy prices and US competition.

Ursula von der Leyen is drawing up a plan to save Europe's industries from toppling towards ruin. There's just one problem: Europe's governments hate it.

The EU Commission president will this week lay out her ideas for an industrial policy designed to help major manufacturers and other businesses remain competitive in the face of two existential threats: high energy bills and American domestic subsidies for their rivals.

Central to her blueprint is loosening restrictions on how much money governments — or the EU centrally — can pump in as subsidies known as "state aid" to prop up struggling businesses.

The risk is that if subsidy limits are lifted, the EU's richest economies like Germany and France will be free to outgun the bloc's weakest minnows, and that would wreck the principle of fairness underpinning the European single market.

"These plans risk fragmenting the single market and laying the ground for a subsidies free-for-all," one EU diplomat said. The European economy's so-called level playing field "hangs by a thread" after trillions of euros in state subsidies were already approved during the pandemic and to counter the initial shock of Russia's invasion of Ukraine, the diplomat added.

Von der Leyen's plans for a new European sovereignty fund – potentially a source of cash open to smaller member countries – is only a "ploy" to get more subsidy rules relaxed, another suspicious diplomat added.

In draft conclusions co by POLITICO, Council President Charles Michel has also pitched the idea of establishing a fund financed by joint EU loans that would allow EU countries to subsidize industry on equal terms.

A wide range of EU ambassadors hit out at those draft conclusions in a meeting last week, four EU diplomats told POLITICO. In the meeting, Dutch Ambassador Robert De Groot slammed Michel's pitch as "Karl Marx" on steroids, according to three of the diplomats.

'Written in Paris'

Another EU diplomat said the draft conclusions "were written in Paris."

France — which has been forthcoming with its own grand industrial designs for Europe — including calls for the EU to accelerate production targets and establish an emergency sovereignty fund — has been at the forefront of efforts to expand and extend looser state aid rules that would allow governments shower more money on companies.

EU leaders will thrash out their options at a summit on February 9 and 10. Von der Leyen plans to follow that up with more detailed industrial policy proposals in March, followed by a Net-Zero Industry Act which would channel investments into green tech production sites as part of new benchmarks for climate-friendly industries. She has said she'd work in the longer term on the European sovereignty fund.

Denmark, Finland, Ireland, the Netherlands, Poland and Sweden already laid out their fears that "state aid for mass production and commercial activities can lead to significant negative effects including the fragmentation of the internal market, harmful subsidy races and weakening of regional development," according to recent nonpaper obtained by POLITICO.

And last week, finance ministers of Finland, the Czech Republic, Denmark, Estonia, Ireland, Austria and Slovakia sent a letter to Trade Commissioner Valdis Dombrovskis, criticizing what they call "permanent or excessive non-targeted subsidies" in response to the U.S.'s moves.

Italy also sent around a nonpaper that warns against loosening state aid rules and points to 77 percent of state aid approved under the current crisis framework as "concentrated in two member states" – France and Germany – "and this imbalance could further increase" since other countries can't match their spending power.

For her part, Competition Commissioner Margrethe Vestager has taken a guarded approach, telling EU state aid attachés recently that a subsidy rush to boost EU industrial competition "will not work."

Sparring EU nations

As EU nations continue to spar over how best to respond to the United States' huge green subsidy package, the Commission holds the cards when it comes to where the money is likely to come from.

As part of draft plans that von der Leyen is set to present to EU nations on Wednesday, the Commission's preference is to repurpose unused loans from the bloc's recovery package and other financing frameworks such as RePower EU, rather than raise funds through new debt issuance.

And in the broader question of how Europe can compete globally by protecting jobs, talk has also turned to whether or not Brussels should bolster its SURE financing framework, which leverages social bonds to provide loans to EU nations.

Certain countries aren't happy about the repurposing of an instrument that was used during the depths of Europe's economic crisis, as part of the pandemic recovery efforts.

It's especially sensitive for the "frugal" countries, such as Germany and the Netherlands. Others are skeptical as well, as it's not likely to yield much easy money in comparison to the U.S. tax breaks in the Inflation Reduction Act.

German Finance Minister Christian Lindner said on Monday that he was "not in favor of more subsidies and excessive state aid [and] I'm not convinced that we need any kind of further funding instrument." He said Germany was reluctant to repeat EU debt-based instruments like NextGeneration EU or SURE. "I suggest to avoid these debates because there is no good end to expect," he said.

Given the divisions, the European Council is not likely to lead to a clear direction, several of the diplomats said.

Hope remains high that Washington and Brussels may find common ground before the EU embarks on a subsidy spree of its own. EU officials are pushing for greater access to the U.S.'s subsidy program for European firms.

"There is still room to take some of the negative side effects off the table," one EU diplomat said. "There is room to keep talking."

Europe under siege — from within

EU competition law is turning political as France and Germany seek to set the agenda in Brussels.

Only two months into Ursula von der Leyen's presidency of the European Commission, Paris and Berlin have dramatically ramped up an attempt to gain influence over her strongest policy weapon: competition law. Teaming up with Italy and Poland, France and Germany last week sent an unusually undiplomatic letter to Brussels, in which they demanded an action plan within "weeks" on relaxing the EU merger rule book to allow the creation of more industrial champions to rival the U.S. and China.

Defenders of the European Union accuse Paris and Berlin of now defying the treaties underpinning the EU in their attempt to hijack competition policy. More economically liberal EU nations in Northern and Eastern Europe fear that France and Germany want to transform the EU into a vehicle for pampering their corporate kingpins to the detriment of smaller enterprises and open markets.

"We have an assault by two big EU countries, France and Germany, on the independence of the European Commission as a competition enforcer," said Adam Jasser, former head of Poland's competition regulator, who served under the previous government in Warsaw.

"It's done in [broad] daylight: They are seeking to have more politicized decision-making when it comes to merger approval. And they're talking about national champions, European champions, but they happen to be French and German. I think broadly it reflects the fact that you can no longer pretend that competition policy has not become more political."

Chains of command

In theory, there shouldn't be much debate about the division of competencies between national capitals and Brussels. The fundamental trade-off at the heart of the EU is that Brussels should be allowed to act as a global big hitter thanks to two exceptional powers: trade negotiation and competition enforcement. Bolstered by the leverage of 450 million EU consumers, officials in Brussels are supposed to have free rein (entrusted to them by the 27 member countries) to negotiate trade pacts with the U.S. and China, and slap multibillion-euro fines on Google for antitrust infringements.

For member countries, the advantage is meant to be that the neutral authority in Brussels can clamp down on cartels, sweetheart deals and subsidies that distort the single market.

But France and Germany are increasingly unhappy with the balance of power. Their ire boils down to the European Commission's decision last year to block a mega-merger in the rail sector between Alstom and Siemens. France and Germany viewed the merger as the epitome of the sort of deal that the EU needed to create global champions, while European Competition Commissioner Margrethe Vestager said that a European rail behemoth would sap competition and drive up prices for EU suppliers and consumers.

For French politicians, champions are a make-or-break question. With the far right on the march, they are racing to find ways to keep jobs within Europe. At a POLITICO event last week, French Economy Minister Bruno Le Maire defended the need to protect home-grown industries and argued, "We are locked in a race against the clock between decision-making in Europe and the rise of populist movements."

Competition lawyers in Brussels say it's no wonder that France is exerting pressure on the Commission when there are so many potential mergers in the pipeline involving French interests: Chantiers de l'Atlantique/Fincantieri in the shipbuilding sector and GrandVision/EssilorLuxottica in lenses — as well as a potential telecoms mega-merger between Deutsche Telekom and Orange, which is widely expected in the months ahead.

Liberal loathing

For Europe's liberals, this political meddling in competition policy is anathema. They argue the political problems posed by inequality and populism will only get worse if Europe turns its back on the free market and relies on a few "champions" that weaken small and medium-sized enterprises in the supply chain.

Karel De Gucht, a Belgian liberal and former European trade commissioner, said the reforms sought by Paris, Berlin, Rome and Warsaw risk backfiring. "The EU is the largest exporter and the largest investor in the world and would mainly stand to lose from more protectionism," he said.

"This discussion [on competition reform] will keep festering, just like the trade discussion. A number of countries led by France took the initiative," he added. "These pressures have always existed but could be more intense now. They want a more political Commission. I think the Commission was always quite political but this time its politics does not suit the member states."

In a sign of the deepening concern in Europe's liberal nations about the more protectionist trade and industry agenda being charted by France, Sweden is pulling together a rival bloc.

Stockholm has invited five nations (Denmark, Finland, the Czech Republic, the Netherlands and Germany) to a meeting of "like-minded nations" next Tuesday in what is being viewed as a counterweight to the French agenda.

Germany is the most intriguing invitee as it has joined Paris in pressing for looser antitrust rules, but also has liberal instincts as a massive exporter. The ultimate fate of EU industrial policy probably lies in which way a conflicted Berlin finally leaps.

Tanja Alemany, a spokesperson for Germany's economy ministry, played down the suggestion that there was anything taboo in Berlin's call for changes to competition law. "As far as I know, member states are allowed to communicate good suggestions, when they have any, to the EU Commission," she said.

Sacred treaties

Several high-level EU veterans, however, expressed alarm at the quartet's cavalier attitude toward the hallowed status of independent competition law.

Mario Monti, a former EU competition chief and Italian prime minister, said it would be "suicidal" for the bloc to "erode the credibility of competition policy," and added that the tone adopted by the quartet sounded "disrespectful of the competencies given ... in the treaties."

"If I were the commissioner, I would first of all call the attention of the four countries to the principles about who is responsible for what in Europe."

Franklin Dehousse, a law professor and former judge at the Court of Justice of the European Union, agreed that the pressure from the four countries could damage the essential fabric of the EU.

De Gucht added there is no need for Vestager to take immediate action. "They can write a letter, but it has no legal value," he said.

The Danish executive vice president herself shows no sign of being rushed (and has also previously signaled that the Alstom-Siemens debacle would be a bad basis for shaking up competition policy).

EU big four press Vestager to clear path for champions

Paris, Berlin, Rome and Warsaw tell competition chief to hurry up and reform the rule book.

France, Germany, Italy and Poland have urged European Commission Vice President Margrethe Vestager to stop dragging her feet on competition law reforms that they insist are needed to forge European champions to rival China and the U.S.

For more than a year, Paris and Berlin have been pushing for new EU antitrust rules after Vestager blocked a mega merger in the rail sector between France's Alstom and Germany's Siemens. They reckon that deal would have created the sort of corporate giant that Europe needs — an Airbus of the train sector — while Vestager argued that the merger would have harmed European consumers.

After months of resisting the Franco-German onslaught, Vestager unexpectedly announced in December that she would review the rule book, but then declined to map out any timeframe. In late January, Vestager said the process would "take some time."

Paris, Berlin, Rome and Warsaw — four of the EU's political heavyweights — have now taken the unusually confrontational step of telling Vestager to hurry up and produce her action plan on various competition reforms within weeks. Their letter, dated February 4 and obtained by POLITICO, comes amid a major European strategic shift toward a centralized industrial policy, and only weeks before the Commission is due to launch its own industrial strategy agenda on March 10.

The four member countries are specifically targeting measures that they know Vestager is largely able to finalize herself. It's a more pragmatic tack than their original calls to change Europe's competition rules, which included plans to change treaties and regulations requiring unanimity among the member countries.

Explaining that "the nature of global competition has changed," ministers from the quartet called "on the Commission to adopt a work plan in the forthcoming weeks with practical proposals and rules to address these specific challenges." The letter was signed by German Economy Minister Peter Altmaier, France's Bruno Le Maire, Italy's Stefano Patuanelli and Poland's Jadwiga Emilewicz.

Member country muscle

In a conspicuous sign that member countries are willing to flex their muscles, the ministers concluded that they were confident that Vestager's "involvement in long-term strategy for the future of European industry would lead to greater collegiality in the assessment of the EU's long-term industrial challenges in the evaluation of competition rules, merger control and state aid rules."

The reference to "collegiality" picks up on long-standing frustration among member countries that the EU's competition police are lone guns, who do not allow a significant role for other parts of the Commission and the national capitals. Vestager is a key personality in the Commission as she acts as both digital supremo and competition commissioner.

A senior competition lawyer in Brussels noted the hint of menace in the demand for "greater collegiality."

"The common theme throughout the letter is: Commissioner, you've got an awful lot of power now, but that means you've also got to listen more to the member states," the lawyer said.

China looms large in the ministers' wish list. France and Germany argue that Brussels was wrong to block Alstom-Siemens because the antitrust enforcers failed to take a sufficiently global view of competition that would have shown the rising threat posed by state-backed Chinese industries. For this reason, one of the key demands from member countries is a new "market definition" that would put greater focus on China.

The letter called for "an evaluation and modernization of the current European Commission's guidelines on the assessment of horizontal mergers and on the definition of the relevant market in order to ensure fair and undistorted competition."

The review of market definition is exactly the topic where Vestager has been elusive on providing a timeframe. The letter also called for specific guidelines, to be drafted in "forthcoming weeks" to provide clarity on the "efficiencies brought about by a merger."

In another measure apparently aimed squarely at China, the ministers asked for a "competition toolbox more efficient and effective in tackling potentially abusive behavior in the single market of economic actors from outside the EU, including state-backed or subsidized companies."

One of the proposals favored by more defensive EU industries is the suggestion that the onus would fall on Chinese investors to prove that they are not backed by state subsidies when operating in Europe, rather than the burden being on the EU side to prove that they are state-backed.

"European companies now have to compete with foreign companies that sometimes benefit from substantial state support or from protected domestic markets, in some instances to a very high degree," the letter from the four ministers reads.

Free-trading Stockholm six counter French protectionism

Sweden is rallying trade ministers from ‘like-minded’ liberal countries to counterbalance protectionist proposals.

The battlelines in the clash to determine the future of EU trade and industrial policy just got clearer.

Sweden is rallying trade ministers from "like-minded" liberal countries to counterbalance protectionist proposals from both their EU colleagues and the European Commission.

Swedish Trade Minister Anna Hallberg has invited her counterparts from Denmark, Germany, Finland, the Netherlands, and the Czech Republic to meet in Stockholm next Tuesday. "The purpose of the meeting is to gather like minded-countries in the EU," a spokesperson for Hallberg said.

The meeting comes at a crucial moment. France, Italy and even Germany, have aggressively pushed the new Commission to get tougher on trade defense, softer on subsidies, and allow more heavyweight "European champions" to counter China.

Amid the protectionist onslaught, liberal countries feel under the gun and the Swedish initiative aims to form a new grouping to weigh in on trade proposals, which are currently dominated by French positions at the European level. It also seeks to reawaken Germany's more liberal instincts. However, Berlin is still cautious. A spokesperson for the German economy ministry did not wish to comment on the meeting and said only that "the appointment is not open to the press."

While officially the group of ministers will prepare for a WTO ministerial summit later this year, Swedish officials said it was also intended to send a message. "We want to see if like-minded countries can take a clearer stance in favor of free trade," one official said.

Berlin annoyed by EU’s reluctance on industrial power tariff

Germany’s economy minister has defended plans to subsidise electricity consumption for energy-intensive industries, despite warnings from Brussels and smaller EU member states that it would distort competition on the EU single market.

Germany is currently in the midst of a tense debate over its future as a global industrial hub.

The imperative of replacing cheap Russian gas with costlier alternatives has signalled a long-term increase in energy prices for German industry, while corporate giants like chemical giant BASF are lured by foreign subsidy schemes like the US Inflation Reduction Act (IRA).

To prevent manufacturers from leaving the country, German Economy Minister Robert Habeck has proposed to subsidise energy consumption for key indutrial sectors that are heavy consumers of electricity. In return, companies would be obliged to keep production at home and invest in the green transition.

At the heart of the minister's proposal is a special power tariff of 6 cents per kilowatt-hour for 80% of consumption until 2030 for large industrial consumers. According to the government's calculations, this would bring Germany's industrial energy prices close those of China and the US.

In total, the German subsidy scheme would cost up to €30 billion, a price tag that has sparked criticism in Brussels and other EU countries.

Concerns in Brussels and beyond

EU competition chief Margrethe Vestager has cautioned against the idea, saying the scheme risks unduly penalising smaller companies that are not eligible for such subsidies.

It would also make it more difficult to maintain fair competition within the EU single market where other countries cannot afford such largesse for their own industry, she cautioned while on a visit to Berlin in May.

Germany is aware of those reservations from smaller EU member states, which were already expressed during the COVID-19 crisis when Germany injected billions of euros to prop up its economy.

Smaller EU member states "are influencing the Competition Commissioner to ensure that she is not allowed to approve this under any circumstances," said Wolfgang Schmidt, special minister in charge of Chancellor Olaf Scholz's cabinet, on 3 July.

However, Germany's Habeck believes it is now time to reform the EU's state aid rules, which he argues are out of touch with today's realities.

"Competition law has been designed purely with a European perspective in mind," explained the economy minister. "But the competitive situation is no longer France against Italy, but

Germany against the USA and Germany against China," he added in front of chemical workers' union IG BCE on Tuesday (4 July).

What's more, EU state aid investigations take too long to conclude at a time when global competition requires moving fast, Habeck warned.

"These state aid negotiations are extremely complicated because Europe is very meticulous about making sure that one country does not take advantage of another," Habeck continued. "Those who have gone through this once have aged years over an application procedure. It's like dog years, one year counts as seven, because it's so, so tedious."

"If we tie our own hands behind our backs, we should not be surprised if we get dented in the [global] boxing match we are in," he said.

Government infighting

However, Germany's proposed industrial electricity tariff does not only face resistance in Brussels.

German Finance Minister Christian Lindner, who holds the purse string and is considered a key hurdle for the proposal, is similarly not a fan of such a subsidy scheme, instead favouring a tax cut.

"The goal must be to relieve all electricity customers without directly intervening in the market," he said in late May.

Habeck defended his proposal in front of the trade union, saying the subsidised electricity price would only act as a "bridge" until a sufficient amount of cheap renewable electricity is available.

The German chemical workers' union applauded his view. "Industry helps Germany, it helps Europe, it helps the [green] transformation, and we need it," IG BCE boss Michael Vassiliadis said.

Germany's heavy-weight industry association BDI supports the subsidy scheme as well – while stressing that the underlying problem of high taxes on electricity would need to be addressed too.

However, others warn that the German industrial power tariff may be a waste of money.

A study by the Institute for Macrofinance (Dezernat Zukunft), a political think tank, estimates that electricity generation will come in at about 7 cents per kWh in 2030. Thus, industrial consumers will likely have to pay higher prices once the "bridge tariff" comes to an end.

"The German electricity production costs are up to 80% higher than the production costs of other favourable industrial locations," **according to a briefing by the think tank**. Energy-intensive products like steel, ammonia and olefine will make more sense to be imported instead of produced domestically, the paper argues.

Europe speech. – Emmanuel Macron at Sorbonne 25th of April 2024

N.B: The speech is 19 pages long, thus I have removed anything which is not related to the paper.

Firstly, the choice of financial unity to free ourselves of the pandemic. I want to recall that here, because the subject was never discussed, obviously, before the pandemic hit. But when we proposed, we French, the capacity for common debt, people said, again, a lovely French idea, wonderful, but of course, it's never going to happen. We managed to forge a Franco-German agreement a few weeks after the pandemic broke out. Then, as Europeans, we worked to raise €800 billion. This step forward when it comes to common debt was, in itself, what then Federal Finance Minister, now Chancellor, Scholz quite rightly called a Hamiltonian moment. But it is the choice of a united Europe, and we have seen, across our regions, towns and villages, its direct consequences. Thanks to what we have done at European level, we have implemented recovery and support projects for our companies. And SMEs across France have seen the benefits.

…

The third decisive step of these last years was us beginning to lay the groundwork for greater technological and industrial sovereignty. Nowhere in the world apart from Europe would have been content to depend on others for vital products and essential components. In 2018, we launched an initiative with Germany to support our battery industry, which was then expanded to hydrogen, electronics and health. We also launched major projects with Germany, including the future tank programme and the Future Combat Air System. And with our friends in the Netherlands we have worked on submarines, with more structural initiatives. But as soon as the pandemic hit, and above all in the first weeks following the start of Russia's war of aggression against Ukraine, we built, at the Versailles Summit, a genuine strategy of autonomy. Yes, this strategic autonomy that we talked of at that time, asserting the concept as Europeans, was the choice to end our strategic dependencies in key sectors, from semiconductors to critical raw materials. European texts were adopted, and a policy was upheld for investment, security and relocation. That was unprecedented in our contemporary history. In the last seven years, Europe has started growing out of that technological and industrial naivety, if you will, just as it has also begun to correct its trade policy, even if, on this subject, which I will come back to, we still have a long way to go in my view

…

So, yes, to do so we must successfully build a European preference, successfully build European industrial programmes, provide more support from the European Investment Bank and additional funds, including the most innovative finance, such as the idea of European debt that was put forward by Prime Minister Kaja Kallas.

…

The second key part of the response is prosperity. Yes, if we want to remain sovereign in these times of profound change which I mentioned, we need to build a new growth and production model. This is essential, as there can be no power without a solid economic foundation. Otherwise, we declare our power, but it very quickly becomes funded by others. Similarly, there can be no economic transition without a solid economic model. And there can be no social model, which is one of the strengths of Europeans, if we don't generate the money which we then want to redistribute. And Europe was for a long time the main asset in our growth, in an ordoliberal model of competition and free trade, and at a time when, in essence, the rules were very different, the raw materials seemed endless, there were no geopolitics in terms of raw materials, climate change was disregarded, there was free trade and everyone observed its rules. Until recently, that was the world we lived in. And in the course of a few years, everything changed – everything. Raw materials, critical materials and energy are limited. And with regard to fossil fuels, we are not producing them on our own soil, unlike the United States and many others, we are dependent. We need critical materials, and China began trading and securing huge capacities thereof. And as I said, the rules of trade are indeed changing. A return to a state of nature. And yet we have clear objectives: we want to produce more wealth to improve our living standards and create jobs for everyone; we want to safeguard Europeans' purchasing power – that is the very concrete concern of all our compatriots, it is the objective of our European policy – we want to decarbonize our economies and respond to biodiversity and climate challenges; we want to ensure our sovereignty and thus have full control over our strategic production chains; and we want to keep our economy open to maintain our status as a major trading power. Our objectives are clear, but we are not meeting them and we cannot do so with our current rules. We are not meeting them. We are not meeting them because we are out of step with a shifting world. We are not meeting them because we are over-regulating, under-investing, too open and not sufficiently defending our interests. That is the reality. And so here too, we must create a new growth and prosperity paradigm if we want to meet the five objectives I have just set out. Because if we do so using our current rules on competition, trade, monetary and fiscal policies, we will not succeed. And that will be seen through a simple adjustment: we will lose production. And why is it, here too, that I feel a sense of urgency? First, because I can see this gap between Europe and the United States over the past 30 years, and because it is now that the reallocation of production factors is taking place. Because the issue of where green technologies, artificial intelligence and calculation capabilities will be is going to be decided in the next five to ten years, probably mostly within the next five. And so now is the time for historic decisions. And so now is the time to stop the over-regulation, to step up investment, to change our rules and to better protect our interests. That is the objective. That is the new model.

…

The third precondition of this prosperity pact is to speed up on industrial policy. That was a dirty word seven years ago, remember. On industrial policy, people said it wasn't really the point of Europe. And at a time when many people are returning to an – also interesting – concept, namely the "freedom to stay" , industrial policy is providing the answer. It is the opportunity to produce everywhere in the EU, when in a way our Europe, by relying too much on a competitiveness model – including intra-European competitiveness and a model of competition – created its own imbalances which the cohesion policy did not sufficiently compensate for, and which then also created the demographic imbalances many of our partners are experiencing. I believe very strongly that industrial policy is a key milestone in our prosperity in relation to the outside world, but also in the proper organization of European territory. "Made in Europe" is an area of great convergence between France and Germany. Chancellor Scholz called for it during his Prague speech in August 2022. It's been central to our strategy for seven years and it’s central to the Versailles agenda we built as Europeans. This industrial policy that we’ve built in recent years through innovation – from the Chips Act to everything that’s been done in clean tech and other areas – must have production targets on European soil, training initiatives and joint investments, and must strengthen what we’ve already done on strategic sectors: strategic raw materials, semiconductors, digital technology and health, where Europe’s policy, again, is a response to our compatriots’ needs, because this policy alone will enable us to address the medicine shortages we are experiencing, and also on the issue of access to patients.

The European Union must create dedicated strategies for finance in these five strategic industries at least. To this end, we need the right instruments. So we must define and invest in these industries and take action together, but as I said, we need the right instruments. We have started creating appropriate instruments, such as the well-known Important Projects of Common European Interest, IPCEIs; our manufacturers know them well. And they were really crucial when, with Germany in 2018, we decided to move forward. But here again, we must get back in sync. In the wake of the US Inflation Reduction Act and Chinese over-investment, this is no longer working because it is too slow and too uncertain. So we need to devise new IPCEIs, if you will. In other words, we must give our manufacturers greater visibility, reduce lead times by at least half, have mechanisms as simple as tax credit mechanisms, giving manufacturers an idea of the way ahead over five to 10 years, while responding in very short periods, three to six months, and making a success of the key industries to support.

Dutch position on EU competitiveness and the ‘Green Deal Industrial Plan for a Net-Zero Age’

The Netherlands welcomes the European ambition to remain at the forefront of the climate transition and clean technologies, and welcomes the steps other countries have taken in this regard. Our wish is to strengthen cooperation with other countries in reaching our climate-targets and to complement each other’s climate policies. At the same time it is in our interest to maintain a leading position in clean tech. Therefore we need to assist our industries in the green transition and help address challenges such as high energy prices and global competition. This also applies to sectors that contribute to the digital transition and open strategic autonomy of the EU. However, this also comes with the realization that not all current economic activities have a future in a climate-neutral European economy.

Strengthening our long-term competitiveness starts with a strong economic foundation. Therefore we need to step up our commitment to a strong and fair internal market, a level playing field, an open economy and international cooperation, a dynamic and agile workforce and strong EU Member States with sound public finances. But more is needed from the EU and its member states to ensure a sustainable, resilient and competitive Union. This includes the following actions: 1. Accelerating the energy transition Further developing the initiatives for a clean tech platform, a European hydrogen bank, and a European transport network for hydrogen. Uptake of new IPCEIs for low carbon industry to make the green transition can be envisaged. 2. Improve EU investment climate Identify strategic sectors for the green and digital transition and open strategic autonomy of the EU. Provide the right conditions for growth by creating long-term strategies to strengthen these strategic value chains. Such strategies should entail a solid impact assessment and an evaluation of the complete toolbox of instruments available. It is important that we identify what (part of) sectors are of strategic importance. When improving access to finance, the EU should improve EU and funding mechanisms for strategic sectors, starting with improving the governance of IPCEIs. This means standardization and developing the joint European forum for IPCEI. Increase availability of risk financing in the EU, by deepening the capital markets union. Improve access to critical raw materials. NL welcomes proposal by the CION for a CRM club with like-minded countries and is looking forward to the upcoming Critical Raw Materials Act and would like to see initiatives on circularity, innovation, diversification, and partnerships. Ensure a dynamic and agile workforce with active labour market policies by EU member states on upskilling and reskilling to better match supply and demand on the labour market. Digital skills and creating the right conditions for the development of these skills should be prioritized. 3. Funding Accelerate and simplify state aid procedures and if necessary allow for a targeted expansion of state aid possibilities to accelerate the green transition, e.g. for circular projects and projects with environmental benefits along the value chain. NL is hesitant to broaden state-aid framework too much, in particular for production aid. The level playing field on the Single Market is already under pressure. The CION should first study the needs in relevant sectors and develop a long-term strategy taking into account the complete toolbox of EU instruments before deciding to allow for additional State aid possibilities. Evaluate how existing funds such as RRF, REPowerEU and the Innovation Fund could better facilitate the green transition. 4. Ambitious green trade agenda NL welcomes VdL remarks on an ambitious green trade agenda. This is crucial for diversifying suppliers of raw materials that are needed for the transitions of our industries. NL welcomes the recently launched Trans-Atlantic Sustainable Trade Initiative. A EU-US Summit for Sustainable Economy can contribute to working on the complementarity of our climate policies. The Green Deal Industrial Plan for a Net-Zero Age We are glad to see important aspects of our position back in the Green Deal Industrial Plan (GDIP). Notably the Critical Raw Materials Act, a hydrogen backbone, hydrogen bank, skills, EU standards, access to private finance, strengthening of Capital Markets Union, speeding up of permits, regulatory sandboxes and an ambitious green trade agenda are important ways to speed up the net-zero transition. We understand the focus of the communication is on the green transition, but want to stress that strengthening the Single Market should also be a priority in a strategy to strengthen EU competitiveness and is valuable to speed up the green transition. This aspect is currently missing in the GDIP. Other aspects of the GDIP that need our attention are the following: State Aid The Netherlands is concerned about current proposals on state aid, specifically the extension of the temporary crisis framework to 2025 and the possibility for anti-relocation aid. We believe that the regular state aid framework should be fit for purpose. This will give more continuity and certainty for companies and governments, would be more targeted and contains more guarantees for the level playing field. The possibility of matching of aid offered by third countries could have far reaching effects for the level playing field on the internal market. We question the effectiveness and believe it only increases the chances of a subsidy race. We should not be working reactively on what other countries are doing, but look at what is needed to reach our climate goals and build up a competitive industry for the future. Funding The Netherlands support the Commission to evaluate how existing funds could be used better to facilitate the green transition. Important that existing funds for climate remain tailored to green investments. Further explanation needed: For other proposals, such as the Net-Zero Industry Act, we believe that it is very important to have clear criteria for which technologies and projects can be supported. We suggest to quickly give clarity on these criteria. For us the net-zero transition spans beyond green energy, it should also include areas such as electrolysers, biorefinery, biobased feedstock, (chemical) recycling, gasification of biomass to produce green gas, circular economy, batteries, and CCU are included. This way the entire scope of the net-zero transition is included and the link with the Critical Raw Materials Act is embedded. With regards to setting production targets, the Netherlands remains critical and finds it is important to use similar targets to the Chips Act or the digital decade and not binding targets. Trade The Netherlands supports the importance of open trade, the rules-based international trade system, and bilateral free trade agreements to achieve the objectives of the European green transition. This is in line with existing Dutch and European policy positions, including the EU Trade Policy Review of 2021. The three new initiatives presented by the Commission in the GDIP could help us bring the objectives more within reach. The Netherlands looks forward to more concrete proposals.

Germany's Scholz seeks to placate Italian concerns over EU state aid changes

German chancellor tells Italian Prime Minister Giorgia Meloni that there are 'a lot of good things' in EU proposal

BERLIN — German Chancellor Olaf Scholz on Friday defended plans to relax European state aid rules against criticism from Italian Prime Minister Giorgia Meloni, who warned that such changes risk distortion of the EU's single market.

Speaking to reporters following a joint meeting in the German chancellery, Scholz said he had "seen a lot of good things" in a proposal unveiled by the European Commission this week, which aims to make it easier to access tax breaks for green technologies, redirect cash toward clean-tech industries, and relax state aid rules. EU leaders will meet in Brussels next Thursday and Friday for an extraordinary meeting to discuss the Commission proposals.

Yet Meloni — whose government had already come out against the EU plans earlier this week by warning that they would "jeopardize the unity of Europe" — reiterated her concerns, which boil down to the point that EU countries with less financial leeway like Italy might not be able to offer their companies such lavish subsidies or tax cuts as Germany or France could, which might risk creating economic imbalances.

"I have explained to Chancellor Scholz our position, which is certainly one of caution on the issue of changing state aid schemes in the sense that we all need to maintain in Europe what we call the level playing field, a level of competitiveness that is equal for all," Meloni said.

Meloni proposed instead to provide "full flexibility" on spending existing EU money from the coronavirus recovery fund, the REPowerEU program that aims to overcome dependencies on Russian energy imports, or regular EU budget funds.

The Italian leader also voiced support for the creation of a new "sovereign fund" financed "by new communal debt" for which all EU states would be jointly liable — an idea that the German government has repeatedly rejected.

Scholz sought to take up some of Meloni's proposals by suggesting that there could indeed be "quick wins" by using money from the RecoveryFund and the RePowerEU program, but he also sought to rally support for the Commission proposals to relax state aid rules.

"The focus of the discussion is more on how to handle [state aid decisions] in a simpler, more flexible and less bureaucratic way," the chancellor said. "If you look closely, that is essentially what the Commission has proposed, with a few openings in addition."

Scholz stressed that "no one has an interest" in EU economies falling behind internationally because the bloc does not change its state aid rules while the U.S. is boosting local business with its $369 billion Inflation Reduction Act.

Yet "we don't want to get into a global subsidy race," Scholz said, and added: "I am sure that we can come together."

Scholz on Sovereignty Fund: Use money from existing packages first

BRUSSELS, Dec 14 (Reuters) - German Chancellor Olaf Scholz on Wednesday countered proposals for a European Sovereignty Fund by arguing there was still money available from prior European support packages that should be used up first.

"First of all, there are quite a lot of funds that have not been disbursed yet...this is the beauty of the European Recovery plan," he told reporters on the sidelines of a meeting in Brussels, referring to a giant stimulus package agreed by the EU to help speed up the bloc's post-COVID recovery.

Earlier on Wednesday, European Commission President Ursula von der Leyen said she would present concrete proposals in the summer on the idea of creating a European Sovereignty Fund to help Europe become a world leader in clean-tech.

German Finance Minister Christian Lindner has warned against taking on new common European debt in response to the U.S. Inflation Reduction Act.

"If 'sovereignty fund' means new common European debt, then I think this would not be an improvement of our competitiveness or stability. It would be a threat for competitiveness and stability," he said.

Staat van de Europese Unie – Dutch Parliament Upper House

De Commissie heeft op 20 november jl. besloten om het crisisdeel van de *Temporary Crisis and Transition Framework* met zes maanden te verlengen. Het kabinet is niet overtuigd van de noodzaak van verlenging, zeker gezien de rechtsgrondslag van het tijdelijke steunkader. De verlenging is bovendien schadelijk voor het gelijk speelveld op de interne markt. Daarnaast is in juni 2023 een voorstel voor een platform voor strategische technologieën voor Europa (STEP) gepresenteerd. Het kabinet ondersteunt het doel om het Europese leiderschap op het gebied van kritieke technologieën te versterken en duidelijke definiëring van deze technologieën, maar staat kritisch tegenover de voorgestelde verhogingen van de MFK-plafonds hiervoor.73 Er wordt nog over een Raadspositie onderhandeld.

Het verschil maken met strategisch en groen industriebeleid

Internationaal gelijk speelveld Het disciplinerende effect van concurrentie tussen bedrijven is essentieel om onze industrie efficiënt en innovatief te houden. Maar deze concurrentie moet wel eerlijk zijn. Om een mondiaal gelijker speelveld af te dwingen, dient de EU assertief gebruik te maken van haar marktmacht. Gevoed door voorstellen van onder meer Nederland, heeft de Commissie de afgelopen jaren aanvullende instrumenten gepresenteerd die hieraan zullen bijdragen: de Verordening voor buitenlandse subsidies en het Internationaal Aanbestedingsinstrument. Nederland steunt deze voorstellen en wil vaart maken met de afrondingen en implementatie ervan. Ook binnen de EU kan het gelijke speelveld onder druk komen te staan wanneer de mededingings- en staatssteunkaders versoepeld worden en sommige lidstaten meer staatssteun kunnen en willen geven dan andere lidstaten. Actualisering van de steunkaders (de regels waarbinnen lidstaten staatssteun mogen geven aan bedrijven) is nodig, met name in het licht van technologische ontwikkelingen en de digitale en groene transitie. Een subsidierace tussen lidstaten moet echter voorkomen worden. Op de interne markt heeft Nederland het gelijk speelveld deels zelf in de hand, door terughoudend om te springen met de mogelijkheid om bij minimumharmonisatie aanvullende voorschriften voor de Nederlandse industrie op te leggen. Ook bij aanbestedingen heeft de overheid invloed op het gelijk speelveld. Het kabinet zal daarom bij de aanbesteding van verduurzaming- en digitaliseringsprojecten IMVO-kaders gaan hanteren. Specifiek op het gebied van verduurzaming zal het kabinet verkennen of in de kavelbesluiten en tenders voor

Wind op Zee en waterbouwtrajecten in de voorwaarden rekening kan worden gehouden met innovatieve oplossingen die een wezenlijke bijdrage kunnen leveren aan de vermin-dering van de CO2-uitstoot en stikstof, of bijvoorbeeld de verbetering van de economische veiligheid. Dit om te voorkomen dat partijen die lagere normen hanteren of geen ketenverantwoordelijkheid willen dragen, bedrijven uit Europa of gelijkgestemde landen uit de markt prijzen. Technische standaarden hebben grote impact op het concurrentiever-mogen en zijn de laatste jaren meer onderdeel geworden van wereldwijde concurrentie tussen zowel staten als bedrijven. Daarom heeft Nederland een Strategie voor technische standaarden ontwikkeld, inclusief voor industriële standaarden.

Nieuwe Commissievoorstellen en initiatieven van de lidstaten van de Europese Unie BRIEF VAN DE MINISTER VAN ECONOMISCHE ZAKEN EN KLIMAAT

Toegang tot financiering

Ten aanzien van financiering verwelkomt het kabinet de versnelling en versimpeling van staatssteunprocedures en acht het kabinet het gericht verruimen van de relevante reguliere staatssteunkaders wenselijk voor zover dit helpt de groene transitie te versnellen en omkleed is met voldoende waarborgen voor het gelijk speelveld. Concreet steunt het kabinet de in de mededeling genoemde voorstellen voor aanpassing van de AGVV. Het kabinet pleit er bij de gerichte herziening van de AGVV onder meer ook voor dat er aanpassingen worden gedaan ten behoeve van milieu-investeringssteun via fiscale maatregelen, voor het onderdeel circulaire economie en op het gebied van risicofinanciering.7 Ook steunt het kabinet het voornemen van de Commissie voor verbetering van de governance van IPCEI's. Gerichte verruiming van reguliere kaders en versnelling en versimpeling van procedures kunnen ervoor zorgen dat staatssteunmaatregelen sneller geïmplementeerd kunnen worden ten behoeve van de groene en digitale transitie. Het kabinet is kritisch op de inzet van de Commissie om van het tijdelijk crisiskader voor de gevolgen van de oorlog in Oekraïne een tijdelijk crisis- en transitiekader te maken. Het kabinet acht het van belang dat de reguliere steunkaders fit for purpose zijn. Deze kaders kunnen duidelijkheid bieden voor de lange termijn aan bedrijven en bevatten meer waarborgen voor een gelijk speelveld op de interne markt. Een tijdelijk crisiskader is hiervoor per definitie niet geschikt. Het voorstel om anti-relocatiesteun mogelijk te maken acht het kabinet zorgelijk. De effectiviteit en economische noodzaak zijn onvoldoende onderbouwd en dergelijke steun is in potentie zeer marktverstorend. Voor uitbreiding van het steunkader naar productiesteun is volgens het kabinet eerst een goede probleemanalyse nodig om een afweging te maken of voor bepaalde strategische sectoren verruiming van de reguliere steunkaders noodzakelijk en wenselijk is, bijvoorbeeld in het kader van de open strategische autonomie van de EU. Voor wat betreft Europese financiering is het kabinet nog niet overtuigd van de noodzaak voor nieuwe middelen of instrumenten. Het is met name van belang om te kijken naar de verbetering van de inzet van bestaande middelen en instrumenten en de toegang tot financiering voor het bedrijfsleven, zonder af te doen aan de bestaande fondsen die reeds een belangrijke bijdrage leveren aan het Nederlandse en Europese concurrentievermogen. Het kabinet vindt het positief dat de Commissie in haar mededeling in eerste instantie met name inzet op het gebruik van bestaande middelen en instrumenten, zoals RePowerEU, InvestEU en het innovatiefonds en zal concrete voorstellen voor versnelling en betere benutting van deze fondsen constructief bezien. Het kabinet verwelkomt de uitgebreide uitleg die de Commissie geeft over het benutten van de RRF-middelen ten behoeve van de klimaattransitie en de groene industrie in het bijzonder in de richtsnoeren voor de herstel- en veerkrachtplannen in de context van RepowerEU. Het is voor het kabinet van belang dat middelen bestemd voor de klimaattransitie, zoals o.a. het Innovatiefonds, ook dusdanig worden ingezet en niet voor het in stand houden van fossiele productiemethodes. Hoewel het kabinet het behoud van de Europese voortrekkersrol op kritische technologieën van belang vindt, is het kabinet op dit moment niet overtuigd van de noodzaak van een soevereiniteitsfonds. De Commissie heeft aangekondigd nog met een nadere analyse te komen over de financieringsbehoeften ten aanzien van investeringen in net-zero sectoren. Het kabinet zal dit voorstel verder beoordelen na publicatie van een voorstel van de Commissie, waarschijnlijk als onderdeel van de evaluatie van het MFK in de zomer. In een brief van de Minister van Financiën van 30 maart 2022 is het kabinetsstandpunt ten aanzien van eurobonds en gemeenschappelijke schuld verwoord.[8] Daarin geeft het kabinet toelichting op verschillende instrumenten die opgezet zijn voor crisissituaties waarbij op korte termijn grote bedragen nodig waren, die niet via de nationale afdrachten voor de reguliere EU-begroting te financieren zouden zijn geweest, waardoor gebruik van gemeenschappelijke schuld is gemaakt. Nederland heeft steeds ingestemd met deze instrumenten, omdat deze voor de betreffende crisissituaties een gepaste reactie vormden. Het kabinet heeft aangegeven eventuele toekomstige voorstellen voor crisisinstrumenten waarbij gebruik wordt gemaakt van gemeenschappelijke schuld ook weer op hun merites te zullen beoordelen. In de ogen van het kabinet betreft het door de Commissie voorgestelde beleid geen crisisrespons maar een beleidsreactie op structurele uitdagingen en ligt het gebruik van gemeenschappelijke schuld daarom nu niet voor de hand.

Het kabinet steunt de versterking van de kapitaalmarktunie, om bedrijven betere toegang tot (markt)financiering te bieden en kapitaalallocatie richting duurzame en digitale investeringen te verbeteren. Het kabinet zet in op voortvarende uitwerking van het kapitaalmarktunie actieplan uit 2020.9 Daarbij ziet het kabinet dat de financiële sector een vliegwiel voor verduurzaming kan zijn. Transparantie over (duurzame) investeringen vormt een belangrijk onderdeel van het Europees regelgevend kader, mede om groenwassen tegen te gaan.

Concurrentiekracht en geopolitieke aspecten

Het kabinet ziet de mededeling als een belangrijke bijdrage aan het versterken van Europese economische weerbaarheid en open strategische autonomie.16 Door de inzet op onder meer het stimuleren van innovatie en vestigingsklimaat; de notie om in de energietransitie rekening te houden met huidige en potentiële nieuwe risico's van strategische afhankelijkheden; en het inzetten van de EU als geopolitieke speler (Clean Tech Industrial Partnerships), kan de mededeling de economische weerbaarheid van de EU langs alle drie de OSA-pijlers die door het kabinet zijn geïdentificeerd versterken.17 Wat betreft concurrentiekracht ziet het kabinet zoals benoemd zowel positieve als negatieve elementen in de mededeling van de commissie. Het Green Deal Industrial Plan kan een positieve invloed hebben op het versnellen van de groene transitie in de industrie en het behoud van de concurrentiekracht van de EU. De vier pijlers van de Commissie adresseren voor een groot deel de uitdagingen voor de huidige industrie en geven perspectief voor het versnellen van de klimaattransitie en het uitrollen van schone (energie)technologieën.

Anna Lührmann : « La France et l'Allemagne ont créé une dynamique en faveur de la réforme de l'UE » (TRANSLATED)

Areas of disagreement nevertheless persist in energy, defense and space…

In life, we can't always agree on everything. We have different energy mixes and industrial conditions. But France and Germany also share long-term objectives, such as the need for Europe to develop its capabilities and its defense industry, even if the method of achieving these objectives can be debated.

Convergences are also being built. Germany has moved closer to French positions on questions of European sovereignty and industrial policy, while France has done the same on European enlargement.

Second, Germans themselves don't agree on everything, so why expect Germany to agree with another country on everything? Both the Germans and the French are divided on certain issues, and I can feel closer to a Frenchman who is worried about the climate issue than to a German who is not concerned about it.

This is also one of the reasons why I support the European project so much and campaign for a strengthening of the role of the European Parliament in Strasbourg.

Is it more difficult to find a common position with France when the German position is itself the result of a long negotiation between three political parties?

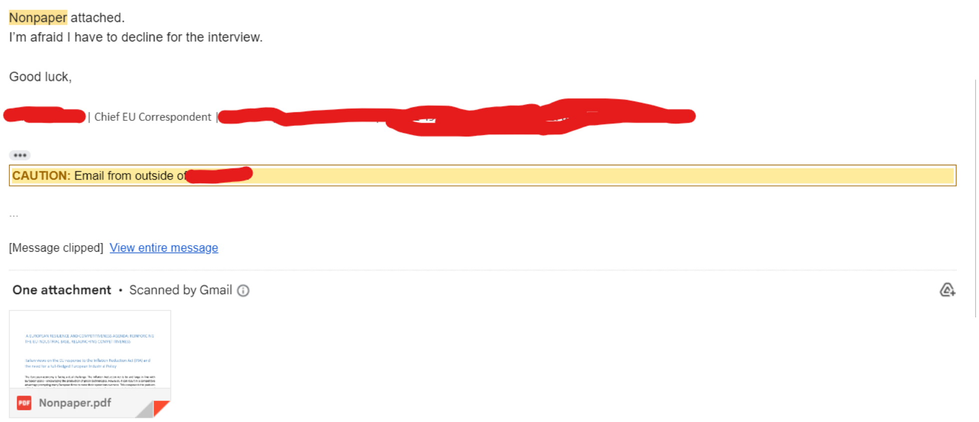
The way the German government makes its decisions is different from that of France. Coalition partners engage in dialogue to define a common position. But we are extremely transparent, so that our French partners always know the positions of the different parties.

We speak with Paris throughout the process, while taking into account, at the same time, the French point of view. This is why I say that this relationship is very deep and very intense.

In France, I sometimes have the impression that a person can decide something alone and then it comes true. This is not the case in Germany. Things take longer but then they are deployed at scale.

I think we must learn from our differences and draw inspiration from the partner's best practices. In Germany, we must become more agile, faster in our decision-making process and in implementation.

Proof of correspondence regarding the Non-Paper by Italy accessed by contacting journalist (name not mentioned for privacy):


Nonpaper attached.
I'm afraid I have to decline for the interview.

Good luck,

[redacted] | Chief EU Correspondent | [redacted]

CAUTION: Email from outside of [redacted]

...

[Message clipped] View entire message

One attachment • Scanned by Gmail

Nonpaper.pdf