

A discussion of:
Industrial Policies, Competition and Efficiency: The Need for State Aid Control
Joanna Piechucka, Lluís Saurí-Romero, and Ben Smulders

Tomaso Duso*

*DIW Berlin, TU Berlin, CEPR, and CESifo

EAGCP Session on Industrial Policy and Competition, October 26 2023

Few General Considerations

Extremely timely contribution

- Several crises and significant global challenges (COVID, war against Ukraine, Climate crisis, digitization...)
- Renaissance of industrial policy (IP) as a strategic tool to address these challenges
 - Need of a framework (goals & instruments)
 - Need of better measurement and data

“EU **State aid control rules** reflect the economic principles of efficiency-enhancing industrial policies and provide a **blueprint** that could be applied more broadly”

- State aid control key to establish and strengthen the EU single market & maintain competitive market structures...
- ... but IP \neq State aid (OECD, 2023)
 - Unclear (possibly very broad) definition
 - Run to reform state aid control based on IP's reasoning
 - Some will question the role of competition & balancing test (DG COMP)
- Sort the key questions/critiques and come with (new) answers

An Example: The new German industrial policy strategy

The new German industrial policy strategy provides a useful analysis of the challenges

- Challenge 1: Geopolitical turning point (Made in China 2025, IRA) → strategic independence and resilience

Example, state aid for chips production

*“With the aim of **strengthening the chip supply**, we therefore support the settlement and expansion projects of semiconductor manufacturers in Germany **on the basis of the European Chips Act**. These investments must bring the latest technologies to Germany and Europe. Large-scale investments, for example by **Intel** in Magdeburg or **TSMC** in Dresden, form crystallisation points for the emergence of an **ecosystem of upstream and downstream industries and suppliers**.” [p. 46]*

- Recent survey of over 400 German firms shows that **89% of the companies that have purchased semiconductors** this year have experienced procurement difficulties
- Minister Habeck: “We are the only one in Europe with the **financial capacity** to invest in a project that benefits all Europeans”
- Should the Commission request specific commitments?

The new German industrial policy strategy

- Challenge 2: Neglected location factors (**energy prices**, skilled workers, bureaucracy & regulations, infrastructure, taxes & duties)
 - Challenge 3: Climate neutral transformation (e.g. helping the energy intensive industrial base to become climate-neutral)
 - Several horizontal and infrastructure policies: less problematic if well designed
 - Other policies – e.g. CBAM – coordinated at EU level or focusing on expansion of renewable electricity generation: less problematic
 - Few specific instruments: “Industrial electricity price” (6ct/kWh): potentially distortive, risk of intense lobbying
- “Otherwise, there is a risk of production losses or even the **relocation of structurally competitive firms from Germany**, especially in the basic industries. This would destroy the **nodes at the beginning of value chains** that run through the whole of Europe. It is not only in Germany’s interest to prevent this, but also in the interest of the entire European economy and security policy.” [p. 32]*

The new German industrial policy strategy

Conclusion: Good overview of challenges by national governments. Germany claims their IP should be embedded in an European IP, but it does not want to wait for the EU. **For now: loosen state aid rules!**

*“Secondly, competition law must be geared to the global competitive situation and the actual EU’s scope for action. It is important that fair competition prevails within the EU – but this **fair competition must not be achieved at the cost of European companies fall behind globally.** We must therefore ensure that **national industrial policies do not fail due to state aid law policies that are necessary to renew our prosperity or for reasons of economic security in the pan-European interest**” [p. 42]*

Main open questions

What is the right framework for IP?

- Market failure as a basis for IP?
 - Geopolitical risks? Vulnerability of Global value chains & resilience?
 - “Shaping markets in the direction of well-defined missions”
- Balancing test as a basis for assessing IP?
 - Welfare standard: Consumer welfare standard? Out of market efficiencies?

The way ahead

- We need an European IP
 - IPCEI and beyond
 - State Aid Control as an imperfect substitute of an European IP in the transition period?
 - Who will be in charge of doing the balancing?
- To assess trade-offs we need evidence based analyses
 - We know very little about IP’s effectiveness: Need for **better data** and more evaluations!