

Industrial Policies, Competition and Efficiency: The Need for State Aid Control

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Industrial policy is here to stay

- Inflation Reduction Act (US)
- The [Green Deal Industrial Plan](#) (EU)
- European [Wind Power Action Plan](#) (EU)
- German Industrial Strategy 2030
- ...

At a recent ECB-EIB-IEA meeting:

“Are the US IRA and stronger industrial policies in other countries such as China, Korea and Japan changing the strategic landscape for clean energy investment to the detriment of Europe? If so, what can be done about it?”

Answers

- **Common answers:**

- Increase subsidies
- Relax State-aid rules

- **This paper's answer:**

- Industrial policy and State aid control rules are **complements, not substitutes**.
- State aid control improves industrial policy.
- It can help **reduce overcompensation** of undertakings (funding gap).
- It can help **avoid policies that would be detrimental** to EU citizens.

A test for efficiency-enhancing industrial policies

1. What is the **market failure** the policy is trying to address?
2. What is the **tool** that addresses the market failure with the least possible (unintended) negative effects?
3. Does the **efficiency gain** obtained by addressing the market failure **balance the efficiency losses** caused by the inevitable unintended negative effects?

*“The main challenge in designing efficiency-enhancing industrial policies at EU level is striking the right balance between **avoiding harmful trade wars with third country jurisdictions**, while at the same time **not disfavours EU firms in an international environment** where third country jurisdictions engage in substantial support measures for domestic companies and investments in strategic sectors.”*

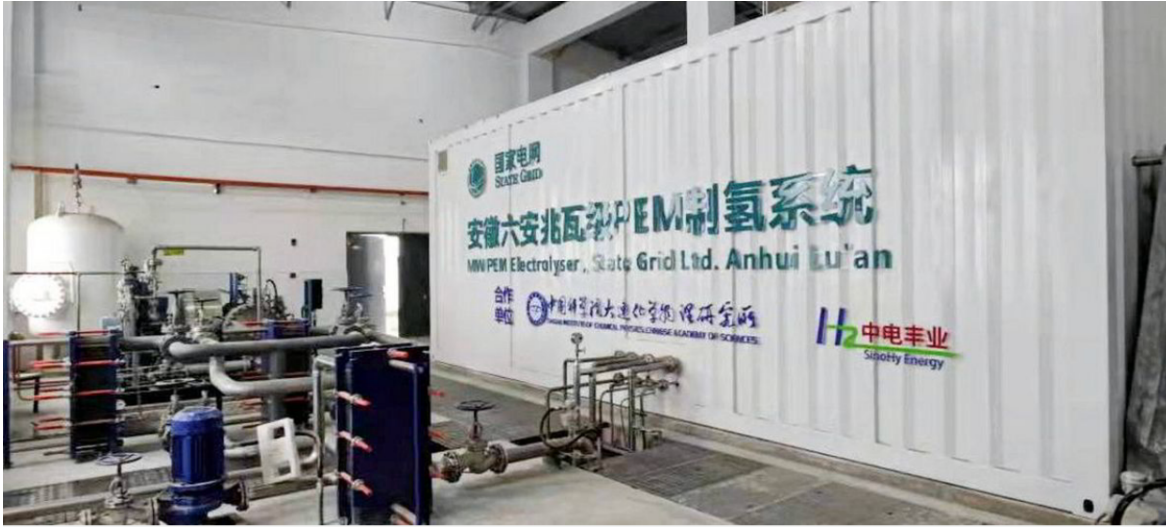
Electric vehicles [+ Add to myFT](#)

BMW plans €800mn Mexican EV and battery investment amid subsidies row

German carmaker's expansion in San Luis Potosí is among largest announced since US Inflation Reduction Act



Example: solar modules and H2 electrolyzers...



EXCLUSIVE | 'Chance is high that China will take over global hydrogen electrolyser market in similar way to solar sector': BNEF

Chinese machines cost 75% less than Western equivalents — and are just as efficient, analyst Xiaoting Wang tells Recharge

In the mid-2000s, European and Japanese solar panel makers dominated the then-emerging industry — yet within a few years, they were being undercut by a wave of cheaper PV modules emerging *en masse* from China.

Former market leaders such as Q-Cells, SolarWorld and Isotoner had to file for bankruptcy, and by 2011, eight of the world's top ten solar manufacturers were Chinese.

History may well repeat itself in the emerging world of hydrogen electrolyzers, according to research house BloombergNEF.

Example: solar modules and H2 electrolyzers...

TRADE-OFF

- If we buy Chinese electrolyzers, green H2 production is competitive *viz à viz* gas
- If we buy European electrolyzers, green H2 production is not competitive but the EU industry can survive



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2023 | Directorate-General for Energy

Commission outlines European Hydrogen Bank to boost renewable hydrogen



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DIFFICULT BALANCING TEST!

How to quantify efficiency gains versus losses?
Particularly because dynamic effects likely involved
And public resources have opportunity costs

Social and Efficiency Impacts

“The social impact of industrial policies must be incorporated in the decision-making process, but it is not per se part of the efficiency assessment of the policy choice set.”

- The social impact will drive the industrial policy decisions.
- How do we balance the social impacts vs the efficiency impact?
- How can the social and efficiency impacts be disentangled?