A discussion of:
Industrial Policies, Competition and Efficiency: The Need for State Aid Control
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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 ≠ 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."

- 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!