*Adam A. Ambroziak**

Renaissance of the European Union's Industrial Policy

Abstract: *After the economic crisis of 2008–2010 the Member States, instead of improving cooperation and deepening their integration within the Internal Market of the EU, began thinking about public interventions, including changes in state aid rules and the introduction of a new industrial policy. The concept of a new industrial policy is subordinated to the Europe 2020 strategy, although achieving its targets may in some instances contradict the main goal: increasing the competitiveness of the EU's entrepreneurs. Moreover the European Commission established the goal of reversing the declining role of manufacturing, which in 2012 stood at the level of around 16 per cent of GDP, aiming to increase its level to 20 per cent of GDP by 2020, although this is not the EU industry competitiveness index. Due to the many statements, declarations and letters issued by the Member States about the need for a new industrial policy, it is important to identify the real industrial leaders of the EU and their approach to public interventions within the internal market.*

Keywords: industrial policy, European economic integration, public interventions, industry

Introduction

There are many recently-published books and papers on industrial policy. The literature on the topic defines industrial policy in different

* Prof. **Adam A. Ambroziak**, Ph.D. – Professor at the Warsaw School of Economics, Jean Monnet Chair of European Integration, Collegium of World Economy, Warsaw School of Economics.

ways, emphasizing various aspects of state intervention in support of industry. It seems that the category of 'industrial policy' exists within the European Union, but it mainly covers *ad hoc* interventions aimed at supporting companies experiencing difficulties on one hand, or 'European champions' on the other, which leads to a discussion on economic patriotism.[1] The scope within which such policy operates depends on two related aspects: policy-making capacity and the number and scope of the instruments used, which in turn depends on the development strategy and its specific objectives.[2] Some authors argue that market integration and the accompanying legal framework put pressure on national economic policy-makers to eschew old-style industrial interventions.[3] However other researchers claim that the recent crisis has shown that markets are not necessarily efficient and without government interventions the markets might have collapsed.[4] But it seems that industrial policy works best when a government is dealing with the areas where it has a natural interest and a developed competence. The worst problems occur when politicians intervene in purely private domains with short term goals.[5]

There are additional reasons for rethinking industrial policy: climate change, a new post-crisis realism, and the large-scale use of growth-enhancing sectoral policies by emerging countries.[6] Other researchers have observed that the increased interest in 'industrial policies' comes at a time when global value chains have become more complex and more important,[7] and when competition from emerging economies is growing.[8] There are other reasons for a rediscovery of the importance

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[1] B. Rosamond, *Supranational governance as economic patriotism? The European Union, legitimacy and the reconstruction of state space*, "Journal of European Public Policy", No. 19(3)/2012.

[2] W. Peres and A. Primi, *Theory and Practice of Industrial Policy: Evidence from the Latin America Experience*, "CEPAL Serie Desarrollo Productivo", No. 187/2009.

[3] B. Cliffand and C. Woll, *Economic patriotism: reinventing control over open markets*, "Journal of European Public Policy", Vol. 19(3)/2012.

[4] *The Industrial Policy Revolution I. The Role of Government Beyond Ideology*, J.E. Stiglitz and J.Y. Lin (eds.), Houndmills Basingstoke 2013 and *The Industrial Policy Revolution II. Africa in the Twenty-first Centry*, J.E. Stiglitz, J.Y. Lin and A. Patel (eds.), Houndmills, Basingstoke 2013.

[5] *Picking winners, saving losers: Industrial policy is back in fashion. Have governments learned from past failures?*, "The Economist", 05.08.2010.

[6] P. Aghion, J. Boulanger and E. Cohen, *Rethinking Industrial Policy*, "Bruegel Policy Brief", No. 4/2011.

[7] *The UK in a global World. How can the UK focus on steps in global value chains that really add value*, D. Greenaway (ed.), Centre for Economic Policy Research, 2012.

[8] K. Warwick, *Beyond Industrial Policy: Emerging Issues and New Trends*, "Technology and Industry Papers", OECD Science, No. 2/2013.

of manufacturing: technological progress, economies of scale and scope, and learning and innovation in industrial activities.[9] Moreover, some authors see special attributes in an industrial policy focused on 'national champions',[10] while others argue that it should be created and applied in a competition-friendly manner and not aimed at creating such 'national champions'.[11] It seems that what is needed is a policy that is holistic in its approach and focuses on how to improve the ability of the economy as a whole to not only survive and continue to function when hit by a crisis, but also to recover and thrive thereafter.[12] Researchers used to argue that, like other microeconomic policies, industrial policy operates at different territorial levels depending on the degree of a given country's decentralization. Nowadays, Member States of the European Union are discussing a new industrial policy at the supranational (European) level. Thus the main purpose of this paper is to show and assess the evolution of the most recent industrial policy concept(s) in the European Union after the crisis period.

1. Evolution of the legal framework for industrial policy in the European Union

The first step towards a common industrial policy was taken by the Schuman Declaration of May 9, 1950. According to this document, peace in the world would be achieved by placing 'Franco-German production of coal and steel as a whole' under a common High Authority. Moreover it was underlined that 'the pooling of coal and steel production should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe'.[13] The targets of the Schuman Declaration were transformed into the objectives of the European Coal and Steel Community (ECSC), mainly aimed at contributing – in harmony with the general economies of the Member States – to economic expansion, as set forth in the Treaty establishing the European Coal and Steel Community (TECSC). Due to the fact that the countries interested in ECSC membership were characterized by different levels of

[9] A. Szirmal, W. Naudé and L. Alcorta, *Pathways to Industrialization in the Twenty-First Century: New Challenges and Emerging Paradigms*, Oxford 2013.

[10] O. Falck, Ch. Gollier and L. Woessmann, *Industrial Policy for National Champions*, Cambridge, London 2011.

[11] P. Aghion, M. Dewatripont, L. Du, A. Harrison and P. Legros, *Industrial Policy and Competition*, "CEPR Discussion Paper", Vol. 8619/2011.

[12] V. Pryce, *Britain Needs a Fourth Generation Industrial Policy*, "Centre Forum" 2012.

[13] The Schuman Declaration, 1950, not published.

industrial development, the declaration proposed some transitional measures, such as 'the application of a production and investment plan, the establishment of compensating machinery for equating prices, and the creation of a restructuring fund to facilitate the rationalization of production.' The character of the proposed actions reflected the influence of the French etatist approach to the role of government in the economy. The proposed actions were slightly altered in favour of market-oriented measures in the final version of the TECSC, which provided that the institutions of the Community should, *inter alia*, promote the orderly expansion and modernization of production, the improvement of quality, and the growth of international trade, without protection against competing industries. Although these objectives could be deemed as consent to increase the role of the Member States' governments in the economy, the TECSC unambiguously declared that subsidies or aids granted by States, or special charges imposed by States, in any form whatsoever (TECSC, art. 4), were incompatible with the common market.

The next important primary law document – the Treaty establishing the European Economic Community (TEEC) – did not contain any specific provisions concerning industrial policy. While there were many paragraphs on the elimination of trade barriers between Member States, which can be treated as a prerequisite for closer cooperation and integration in the industrial sphere, the concept of an industrial policy *per se* was not mentioned. At the same time however the TEEC provided for a special regime involving one set of tools linked to industrial policy: governmental intervention in the economy. The activities of the Community were substantially extended by the 1992 Maastricht Treaty (*inter alia* by the new title XIII solely concerning industrial policy). The new article 130 of the TEC (Treaty establishing the European Community) stated that '*the Community and the Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist*.' Such an economic environment should be created on the basis of 'a system of open and competitive markets'. This demonstrates that the treaty foresaw a liberal approach to the market, without interventionist or protectionist steps taken by governments. Moreover, the treaty contained an even more precise formulation, which states that the provisions concerning industrial policy 'should not provide a basis for the introduction by the Community of any measures which could lead to a distortion of competition' (art. 130 TEC). It is worth noting, that the TEC also provided for procedures with respect to the implementation of some measures aimed at improving the conditions necessary for the competitiveness of the Community's industry. The Commission maintained its exclusive competences with respect to legislative initiative, while the Council could, acting unanimously and following consultation with the European Parliament and the Economic and Social Committee, decide on specific measures in support of actions taken in the Member States. This meant that Member States could agree to elaborate new instruments, which needed however to be acceptable to all European countries. It is worth observing that the EC decided to extend the range of economic integration to include industrial issues at the beginning of 1990s.

The next revision of these provisions was contained in the Treaty of Lisbon. It inserted into the Treaty on the Functioning of the European Union (TFEU) a substantial clarification that the above-mentioned actions should include '*particular initiatives aiming at the establishment of guidelines and indicators, the organisation of exchange of best practices, and the preparation of the necessary elements for periodic monitoring and evaluation*.' Significantly, the ordinary legislative procedure replaced the previously-existing unanimous procedure with respect to when the Council could decide on specific measures in support of actions taken by Member States in the field of industrial policy. This new procedure involved a modification of the previous co-decision method of the EU's institutional decision-making process, and as a result made the Council and the European Parliament equal co-legislators. This grant of additional power to the European Parliament in effect made it easier to for the Council to adopt guidelines, measures or indicators which, in its opinion, would support Member States in their industrial activities.

2. Reindustrialization of the EU in the light of the Europe 2020 strategy

The present economic activities of the European Union are subordinated to **the Europe 2020 strategy**.[14] After the crisis hit the European economy, the previously-existing Lisbon strategy came to be considered as an ineffective document, with no indicators, no strong aims, and weak instruments, implemented through an ineffective open-method of coordination. Thus the European Commission proposed a new strategy as a response to the new challenges of globalisation, the aging of European society, and climate change.

It's worth noting however that achieving the Europe 2020 targets may in some instances contradict the main goal: increasing

[14] European Commission, 'Europe 2020. A strategy for smart, sustainable and inclusive growth', Communication from the Commission, COM(2010) 2020, Brussels, 03.03.2010, European Council, Conclusions, doc. ref. EUCO 7/10, 25–26.03.2010.

the competitiveness of the European Union's entrepreneurs. There are some doubts with respect to how, for example, higher employment (with its attendant higher labour costs for industry due to the European social model), new environmental rules (which are very costly for industry), a higher share of the EU population completing tertiary education (which does not accord with traditional industrial needs), or reduction of poverty can improve the competitiveness of EU industry on the world market. It seems that the set of goals is more an expression of the European social and ecological model which has dominated in the EU's policies since the 1990s.

Various instruments may be used to achieve the aforementioned goals. Although many of them are in entrepreneurs' hands, governments like to intervene in the market. The Europe 2020 strategy does not give a clear answer on the role of governments in a market-oriented economy. On the one hand, when it describes the problem of R&D activities, the Commission presents its opinion that the low level of R&D spending in Europe – in comparison to the USA and Japan – results from the low level of private investment, and does not imply a need to increase governmental support for R&D. But on the other hand it argues that state aid policy can actively and positively contribute to the Europe 2020 objectives by promoting and supporting initiatives for more innovative, efficient and greener technologies, while facilitating access to public support programmes for investment, risk capital, and funding for R&D. This shows that the Commission was trying to balance two rather contradictory approaches. For example, it admitted that Member States gave massive support to banks and other sectors of the economy under the temporary framework which relaxed state aid rules in response to the crisis. But in this same paragraph of the Commission's communication it underscored that this situation had to be changed and state aid discipline should be restored, stating *inter alia* that: '*the fiscal stimulus should be withdrawn as soon as recovery is in a firm footing, short-term unemployment support should be shortly suspended as a turning point in GDP growth is firmly established, sectoral support should be phased out as soon as possible due to negative effects on competition within the internal market*'.[15] It is significant that the European Council, in adopting the Europe 2020 strategy, did not mention state aid as an important tool to exit the crisis, but only repeated that, as agreed in December 2009, once recovery is fully secured there should be an exit from the exceptional any support measures adopted to combat the crisis.[16]

[15] European Commission, 'Europe 2020...', op.cit.

[16] European Council, Conclusions, doc. ref. EUCO 7/10, 25–26.03.2010.

As regards industrial policy, the European Commission issued a special communication called the **industrial flagship initiative**, wherein it stated that '*industry is at centre stage of the new growth model for the EU economy as outlined in the Europe 2020 Strategy*.' It is worth noting that the Commission introduced the expression 'the EU's sustainable industrial policy', focusing on a transition to more resource efficiency across industry as a whole.[17] The Council, in its answer to the Commission's communication, widened that phrase to '*a new European sustainable industrial competitiveness policy*' (emphasis added), which was the outcome of the discussion between two groups of Member States.[18] All Member States supported economic growth and development, however some of them put environmental aspects over economic ones, while others acted conversely. This reflected a substantive division between the Member States of the EU. Due to the fact that the Council's conclusions can be accepted only unanimously, a compromise paragraph of the Council's conclusions stated that a fresh approach to European industrial policy should ensure the transition towards, *inter alia*, '*a safe and sustainable, low-carbon, resource and energy-efficient economy with a high level of employment, which should be competitive and knowledge-based at the same time*.' This is an illustrative example of how European phrases are constructed by adding different, sometimes contradictory, words into one 'well-balanced' sentence, which can then be interpreted in various ways by the individual Member States and EU institutions. Unfortunately the document finally agreed upon was not a basis for actions aimed at the same common objectives, but was rather used to allow space for pursuing particular and national interests.

The new integrated industrial policy proposed by the Commission was intended to be based on a horizontal approach and sectoral application. Only after following a strictly sectoral approach to industry in the 1970s and 1980s did the European Union turn towards horizontal instruments, suitable for the economy as a whole. This horizontal concept matched the economic and legal situation in the EU at the time. The Single European Act and the Maastricht Treaty put two extremely important initiatives on the European agenda: the single European market and Economic and Monetary Union. Both concepts required a horizontal approach, without special arrangements or exclusions from the general rules for different

[17] European Commission, 'An Integrated Industrial Policy for Globalisation Era Putting Competitiveness and Sustainability at Centre Stage', Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2010) 614, 28.10.2010, Brussels.

[18] Council, Conclusions on industrial policy for globalisation era, 3057th Competitiveness Council meeting, Brussels, 10.12.2010.

sectors of industry. In its communication of 2010, the Commission seems to have reversed course, declaring the application of a tailored approach to selected sectors. It appears that this substantial modification of the previous approach was designed to take into consideration differences in the needs, expectations, and capacities of industrial sectors, as well as the effectiveness of the tools being applied.[19]

With respect to one of the pro-industrial tools most often mentioned by politicians – state aid, the Commission is of the opinion that competition is a key achievement of the EU internal market. It has been one of the main motors of economic growth in the EU for over 20 years: it considerably reduced cross-border trading costs, increased competition between entrepreneurs and enabled benefits resulting from economies of scale and a Europe-wide market. The Commission argued, in its communication, that a well-functioning market contributes to the competitiveness of European industries by driving innovation and efficiency gains and creating incentives for firms to increase their productivity. By ensuring a level playing field, EU competition policy gives all EU players access to the large market and allows efficient companies to improve their position in the world.[20] The Committee of the Regions, which was consulted on the industrial flagship initiative, agreed with the Commission on the strategic importance, for the competitiveness of EU industry, of competition policy and undistorted competition in the single market. It stated that an environment which favours fair competition and creates a level playing field encourages businesses to improve and promotes private initiative.[21] However the Council, in its answer to the Commission communication, took a slightly different position. It noted that due to some problems with access to finance, which is a key factor for European industry and especially for SMEs, not only was the development of more integrated and efficient capital markets called for, but also an appropriate framework for state aid must be ensured.[22] In this context the fact that the Council welcomed the Commission's plans to review state aid rules could be treated as a signal for the relaxation of rigid state aid rules.

Two years later, in 2012 the European Commission proposed a **partnership on industrial policy**.[23] As a continuation of earlier discussions,

[19] European Commission, 'An Integrated…', op.cit.

[20] Ibidem.

[21] Committee of the Regions, Opinion of the Committee of the Regions, 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage', doc. ref. ECOS-V-010, Brussels, 11–12.10.2011.

[22] Council, Conclusions on industrial policy…, op.cit.

[23] European Commission, 'A Stronger European Industry for Growth and Economic

the Commission suggested making the new EU industrial policy more detailed and focusing on investment and innovation in six priority areas: advanced manufacturing technologies, key enabling technologies, bio-based products, sustainable industrial and construction policy and raw materials, clean vehicles, and smart grids. Moreover, in order to establish a firm goal and strong indicator, as was done in the Europe 2020 strategy in relation to energy, expenditures on R&D and education, the Commission proposed using the relation of the value of industry to GDP. It established the goal of reversing the declining role of manufacturing (as a main component of industry) in Europe, which in 2012 stood at the level of around 16% of GDP, by increasing its level to as much as 20% of GDP by 2020. The Commission added that this should be reached through a substantial recovery in investment levels, an expansion of goods trade in the internal market, and a significant increase in the number of SMEs exporting to third countries.

Analyses of the aforementioned concept, however, leaves room for some doubts and reveal gaps and even, it seems, misunderstandings in the Commission paper. First, no foundation is established for the relation between the 20% target and the competitiveness of the EU industry. Second, there is no suggestion as to which component's share of GDP will be reduced to offset the increase in the share of industry within the sum total of 100%. Third, some countries are more prepared to increase a share of specific services and are not equipped with the production factors needed to increase industry's share. Fourth, central planning and the establishment of common indicators for all EU Member States' economies is not a good idea, because it does not take into consideration the specificity and structure of their economies, the quality of their available workforce, their access to raw materials, and the presence of new technologies and science centres supplying the innovative solutions needed in manufacturing. The concept of central planning fell by the wayside along with the economic and political transformation of the socialist bloc countries in the early 1990s. In short, different Member States of the European Union have their own different priorities for the development of their economies, and forcing them all to focus on industry would be a mistake.

Hence it seems that after the fascination with services in the first decade of 21st century, the European Commission and some Member States have become fascinated by the reindustrialisation of Europe and governmental

Recovery', Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2012) 582, Brussels, 10.10.2012.

interventions. However the Commission very strongly underlined that public support should only create the right market environment and offer remedies for market failures. Moreover, the objective of the industrial partnership of 2012 was to foster the competitiveness of European industry, leaving industry itself with the responsibility for its own development. But some Member States, instead of tailoring their tools to the EU requirements, made substantial grants of funds to national companies during the crisis period and launched a campaign to relax state aid rules.

3. Recent political initiatives concerning the new industrial policy of the EU

Those Member States which tend to intervene in the economy favour redirecting the discussion towards a new (undefined) industrial policy rather than the reduction of barriers in the internal market. It is not an easy job to introduce a new topic on the European agenda, especially when a Member State does not hold the presidency of the Council of the EU. But there are some unofficial and informal ways to launch a discussion and to be the instigator, author and leader of a topic.

The very good experience and positive results of the coordinated activities of the informal 'Friends of Cohesion Policy' group of Member States,[24] together with the intransigent position taken by the European Commission on the modernisation of state aid rules, inspired and pushed France to establish a 'Friends of industry' group. During **the First Ministerial Conference of Friends of Industry**, in October 2013, Ministers of economy and industry from nine Member States (France, Italy, Spain, Greece, Bulgaria, Luxembourg, Belgium, Czech Republic, and United Kingdom) agreed upon and signed a letter outlining their approach to the new industrial policy.[25] Stressing that '*you cannot have a strong economy without strong industry*', they opted for the introduction of measures commensurate with the situation in the world to make Europe a competitive destination in terms of production and investment. It is significant that the signatories of this letter agreed that in order to improve the competitiveness of EU industry, its share in the EU's GDP should be increased,

[24] A.A. Ambroziak, *The track record of the Polish presidency of the Council of the European Union (selected economic and financial issues)* in: *Poland. Competitiveness Report 2014, A Decade in the European Union*, M.A. Weresa (ed.) Warsaw 2014.

[25] Finances.gouv.fr, Joint communiqué at the occasion of the First Ministerial Conference of Friends of Industry, Paris 23rd October 2013, Available at: http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/16140.pdf (last visited 31.07.2014).

even though industry's ability to compete in the world market and its share in national or European GDP are not necessarily related.

Moreover, the leader of the 'Friends of industry' group – France – supported overcoming the crisis by changing the '*outdated rules that do not correspond to a global economy*'. The French Minister of Reindustrialisation stated that '*European rule are the rules of the old world*' and argued that '*Europe organised the 'Balkanisation' of its companies by clamping down on state aid and preventing the emergence of European champions*'.[26] This approach was reflected in the joint letter of the 'Friends of Industry', which urged that EU competition policy should ensure that European companies are not discriminated against by global competitors.[27] The French minister of Reindustrialisation explained that state aid rules were established to ensure competition within the EU, but are now anti-productive in a global world. Moreover, he added that the European Commission has accumulated too much power and it should leave more room for national policy.[28]

The 'Friends of industry' group also agreed on a sector-oriented approach to the new industrial policy. Its joint communication said that the European Commission should carry forward sector-specific initiatives in important traditional sectors such as steel and shipbuilding and extend that approach to growth sectors such as pharmaceuticals, information and communication technologies, and green technologies.[29] It is also worth noting that France also wanted to change monetary policy, claiming that the European currency is too strong and too expensive.[30]

It is significant that some of the other Member States of the EU were not entirely opposed to the concept of reindustrialisation in Europe. In particular Germany and Poland shared the opinion expressed by the 'Friends of industry' about the need to recognize the crucial role of industry in boosting competitiveness and sustainable development in the EU, while Scandinavian countries supported the concept of improving the competitiveness of not only European industry, but the service sector

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[26] Euractive.fr, Arnaud Montebourg: augmenter les impôts et attendre que la crise passe n'a jamais marché, available at: http://www.euractiv.fr/eu-elections-2014/arnaud-montebourg-augmenter-les-interview-531263 (last visited 31.07.2014).

[27] Finances.gouv.fr, Joint communiqué…, op.cit.

[28] Latribune.fr, Arnaud Montebourg: 'La France rassemble ses forces pour préparer l'avenir', 28.11.2013, available at: http://www.latribune.fr/actualites/economie/france/20131128trib000798357/arnaud-montebourg-la-france-rassemble-ses-forces-pour-preparer-l-avenir-.html (last visited 31.07.2014).

[29] Finances.gouv.fr, Joint communiqué…, op.cit.

[30] Euractive.fr, Arnaud Montebourg…, op.cit.

as well. However, those Member States supported a liberal approach to the internal market of the EU and were against relaxation of the state aid rules.

The effect of the aforementioned letter is reflected in the politicized **Council Conclusions adopted on December 2, 2013**.[31] First of all, the Council agreed to 'take note' of the Commission's intention to see that the share of industry rose to as much as 20% of GDP by 2020. It is worth pointing out that the Council did not *support*, *stress* or *underscore*, but only *took note*, which was less even than an acknowledgement. This showed that neither the European Commission's concept nor that of the 'Friends of industry' was acceptable to all the EU Member States. Secondly, the final version of the Council's conclusions contained references to state aid only in relation to the creation of favourable conditions for new innovative financial instruments (venture capital, business angel networks, crowd-funding) and research, development and innovation actions. This shows that the 'Friends of industry' group was not strong enough to convince other Member States to commonly exert pressure on the Commission to relax state aid rules. It is worth noting that Member States supported the improvement of their industries' competitiveness in the global world while, and at the same time, calling for taking into account 'all relevant public interests'.[32] The latter term includes issues which are extremely costly for entrepreneurs: consumers' rights, health care, and social and environmental protection.

The official **European Commission's approach to the new industrial policy** was presented at the end of January 2014.[33] In its communication it analysed the main problems and obstacles and outlined the actions which had to be taken by the EU institutions, governments of Member States and regions in order to boost European industry. Although the document was prepared by DG Enterprise and Industry and presented by the industry Commissioner Antonio Tajani (from Italy), it was well balanced and was treated as a framework for discussion at the political level before the EU summit. The Commission designated as first and most important the maintenance of an integrated, single European market as an attractive place for enterprises and industrial production. It enumerated some initiatives concerning energy and telecommunication infrastructure aimed at ensuring energy stability and improving the flow of information and

[31] Council, Conclusions on the European Industrial Policy, Brussels, 2.12.2013.

[32] Ibidem.

[33] European Commission, 'For a European Industrial Renaissance', Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2014) 14, 22.01.2014.

new technology. Moreover, the communication listed some programmes aimed at completion of the free movement of goods and services and the creation of a business-friendly environment. As regards industry itself, the Commission underscored the role of commercialisation of research and development through innovation and the implementation of new technologies, pointing out six strategic, cross-cutting areas on which all actions should be focused: advanced manufacturing, key enabling technologies, clean vehicles and transport, bio-based products, construction and raw materials, and smart grids.

Very interestingly, the Commission also worked out a focus and a proper arrangement of some new initiatives concerning financial support to entrepreneurs (e.g. the Horizon 2020 and COSME programmes). Significantly however, public aid issues, including the modernisation of state aid rules, were mentioned only twice, and then only in narrow contexts: Risk Finance State Aid Guidelines and Research and Development Guidelines. This signified the failure of the French offensive in the Commission to treat state aid as the most important and commonly used instrument to reinvigorate and protect European industry. The Commission underlined its liberal approach to industrial policy, opting for available instruments within the EU internal market; in addition it confirmed its pro-ecological concept of the growth of a low-carbon economy, which can be disadvantageous to some industries in selected countries. It is also worth emphasising that the Commission again voiced its key objective to increase the share of industry (including mainly manufacturing) in the EU's GDP to as much as 20% by 2020.[34]

In light of the weak support of the Commission for governmental interventions, Italy organised the **Second conference on industry** at the beginning of 2014**, in order to strengthen the position of the 'Friends of industry'** group.[35] In comparison to the first conference, twice as many (18) Member States decided to support the reindustrialisation of the EU (Italy, France, Spain, Greece, Croatia, Romania, Bulgaria, Czech Republic, Latvia, Luxembourg, Belgium, Slovenia, Portugal, Slovakia, Lithuania, Cyprus, and Malta; but not the UK). They again referred to the political objective to increase the share of industry in the EU's GDP to 20% by 2020 and to improve the coherence of the regulatory and policy framework. As regards state aid rules, the 'Friends of industry' group agreed

[34] Ibidem.

[35] Esteri.it, Joint Communication – Second European Ministerial Conference of Friends of Industry, Rome, available at: http://www.amblavalletta.esteri.it/NR/rdonlyres/54799E38-077A-43F4-8F36-E2FFC17699A6/73652/Final_Declaration_rev.pdf (last visited 31.07.2014).

that they should be reconsidered in the light of changes imposed by global competition, together with the creation of an effective monitoring of grants offered in third countries. France, joined by aforementioned Member States, also wanted to ensure that European companies should not be disadvantaged in comparison to their international competitors.[36] It seems however that France's extreme position on a new industrial policy, including state aid rules, was not shared by all other signatories. Too many objectives in the joint communication were in contradiction with each other, and the earlier battle with the Commission did not help France to consolidate a unified group of Member States before key decisions in Europe were taken.

The next-to-last chance to accommodate the 'Friends of industry' approach was a meeting of the **Competitiveness Council in February 2014**. There Ministers held a debate on fostering competitiveness and in general supported the targets and priorities of the Commission, although only a few mentioned the 20% objective. A broad consensus emerged on the importance of intensifying the mainstreaming of industrial competitiveness in other policy areas and of coordinating different European policies.[37] But it should also be underlined that various Member States interpreted the words differently and extracted sometimes contradictory objectives, instruments and directions of development and growth from the words. Some of them treated the 'coordination of different European policies' as an expression of support for environmental and climate change goals; for some others it represented a welcome acknowledgement of the need for discussion on the role of energy policy in the competitiveness of EU industry; while for others it was an open gate to relax state aid rules within the EU's competition policy. But it is worth noting that at the end of the discussion the Greek Presidency of the Council of the European Union summed up, during its press conference, by stating that the EU aims to address the high cost of energy and the lack of a unified energy market as key problems of European industry.[38] This signifies that a liberal and open market orientation won the battle for the new industrial policy of the EU just before the EU spring summit in 2014.

The **European Council in March 2014** invited the Commission to flesh out its concept of a 'European Industrial Renaissance' with legislative proposals and a roadmap for their implementation. It is quite noteworthy

[36] Ibidem.

[37] Press Release, 3295th Council meeting on Competitiveness (Internal Market, Industry, Research and Space), Brussels, doc. ref. 6653/14, 20–21.02.2014.

[38] Ibidem.

that the EU leaders did not decide to mention any figures, numbers or economic indicators e.g. share of industry in GDP or employment. And in opposition to the emphasis on industry, the heads of state or government agreed on the necessity to completely and fully exploit the potential of the internal market in goods and services. The European Council also supported the concept of a strong, resource-efficient and competitive European industry base linked to a coherent European climate and energy policy. This should allow some Member States with carbon and gas industries to address the issue of high energy costs, particularly for energy-intensive industries.[39]

4. The main features of the EU manufacturing industry

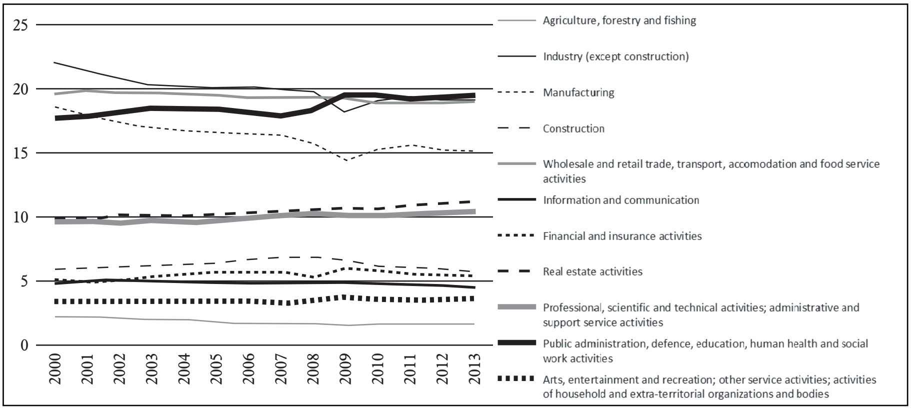
The main assumption of all political discussions on a new industrial policy is grounded in the statement that a strong industrial base is essential for a prosperous and economically successful European Union. Due to the many statements, declarations and letters issued by various Member States on the importance of a new industrial policy, it is important to identify the real industrial leaders of the EU and their approach to public interventions within the internal market.

The composition of the European Union's GDP has systematically changed since 2000, when the Lisbon strategy was formulated and it was agreed upon that the EU should embark on a path of growth and development to become the most competitive economy in the world. In the year 2000 industry (except for construction) had the biggest share in Gross Value Added (GVA) of the EU (22.0%) (Figure 1). This consisted mainly of manufacturing, which constituted 18.5% of EU GVA, and services linked to business (wholesale and retail trade, transport, accommodation and food services) with 19.6% of EU GVA. It is worth noting that public activities, including public administration, defence, education, human health and social works accounted for 17.7% of EU GVA. This means that the public sector already had a significant influence on the EU economy. In the following years the share of industry, including manufacturing, decreased in favour of the public sector. The enlargement of the EU in 2004 and 2007 did not change these trends, although the accession of the Central and Eastern European countries positively influenced the main figures concerning trade, movement of workers, and flow of services and capital within the EU internal market. There was a substantial decrease in the industrial share in the EU GVA, due to

[39] European Council, Conclusions, doc. ref. EUCO 7/14, 21.03.2014.

the decrease in manufacturing in the period 2008–2010, when the crisis was unveiled in Europe. The shares of industry and manufacturing in the EU GVA dropped, respectively, from 20.1% and 16.4% in 2006 to the lowest level of 18.2% and 14.5% in 2009. During this same period the contribution of the public sector to the EU GVA increased by 1.3 percentage point, from 18.2% to 19.5%. This shows that the governments of the EU decided to intervene in their economies and supported the public sector. This was partly owing to the fact that the Commission did not allow for increasing the amount of public aid to entrepreneurs in the real sphere of the economy above the thresholds stipulated in EU law. Thus some governments tried to transfer some money to the economy through the public sector. This was a counterproductive concept of EU economic development during the crisis period, because it strengthened the decline in the importance of industry, including manufacturing, in the EU GVA.

Figure 1. Structure of GVA of the European Union – 28 in 2000–2013



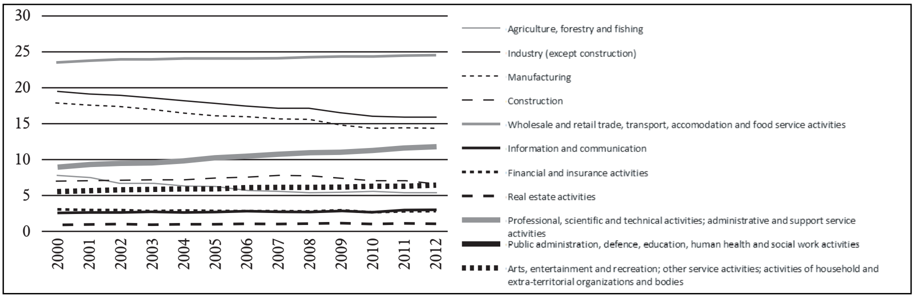
Source: Eurostat.

It is worth underscoring that the higher level of the public sector's share in the EU GVA has been maintained even until 2012 (19.4%), while the share of industry, with manufacturing, decreased to 19.1% and 15.1% respectively. As regards two service sectors: real estate activities and professional, scientific and technical, administrative and support activities; they grew slowly but consistently, from 9.8% and 9.6% respectively in 2000 to 11.2% and 10.4% in 2012. Moreover, wholesale and retail trade, transport, accommodation and food service activities maintained their position and share in the EU GVA at the level of 19.0–19.6%. It is worth observing that these three sectors are linked to businesses conducted in various spheres of the economy which may be viewed as a response to people's needs. While one can argue that the importance of real estate services increased in the crisis period due to the necessity for redundant workers to downgrade apartments, nevertheless whatever the underlying reason was the trend was stable throughout the whole period 2000–2012, and housing changes inherently mean that some people sell (for different reasons) and some people buy. Moreover, taking into account the very wide range of business services, their share also increased as a result of the growth of economic activities demanding those kinds of services. Thus it may be said that the EU redirected its development from manufacturing and an industrial approach towards more advanced businesses: innovative and business-related services instead of traditional production and assembly. There is no doubt that the transposition and implementation of the new service directive, adopted in 2006, had a significant influence on this situation. Member States of the EU opened their service markets (albeit sometimes only partially), which resulted in an increase in the share of different services (trade, real estate, professional and business) in the EU GVA and in a corresponding decrease of the importance of manufacturing and traditional industry.

The situation with respect to employment in manufacturing and industry in relation to total employment in the European Union also reflects the declining importance of these sectors to the economy. In 2000–2012, the structure of employment in the EU followed the structure of the EU GVA, although with no significant changes (increases or declines) during the crisis period. Employment in industry and manufacturing declined respectively from 17.8% and 19.5% in 2000 to 14.4% and 16.0% in 2012 (Figure 2). These changes were accompanied by an increase in the share of employment in services linked to business (wholesale and trade, transport, accommodation and food; the share of which increased from 23.6% in 2000 to 24.5% in 2012; and professional, scientific, technical, administrative and support service activities, the share of which increased from 8.9% to 11.7%). This was the result of, *inter alia*, outsourcing – the contracting out of some business processes to specialised service companies. In opposition to these trends, employment in the construction sector declined slightly, from 7.0% to 6.6%, due to the many problems on the European mortgage market. In that same period the share of employment in the public sector increased from 21.5% to 23.1%, which means that many unemployed persons found jobs paid from public resources, which cannot be deemed as efficient over the long term from the economic point of view.

The decline in manufacturing's share in the EU GVA and EU total employment in favour of the increase in the share of a wide range of services shows that the importance of traditional economic activities has declined since 2000. Unfortunately, this phenomena has been accompanied by an increase of the importance of the public sector, which can be extremely costly for tax-payers, inefficient in terms of the economy (as noted above), harmful for competition and dangerous to public finances.

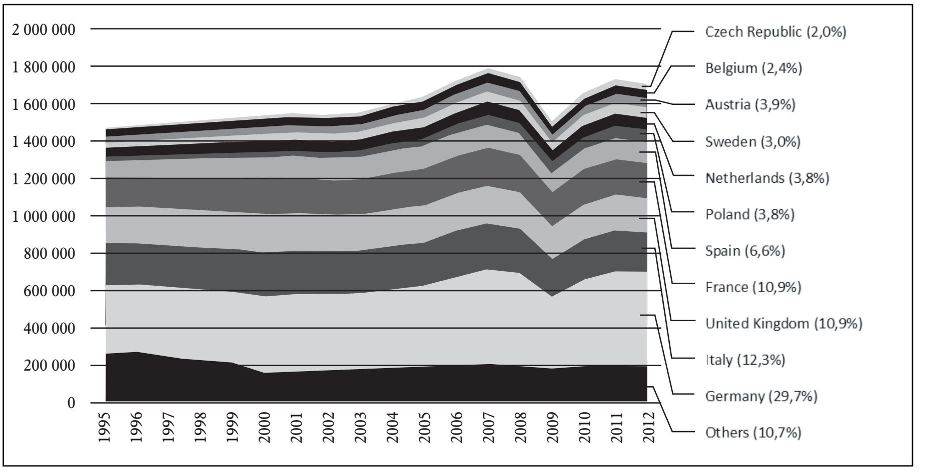
Figure 2. Structure of employment of the European Union – 28 in 2000–2012



Source: Eurostat.

Taking into account the many statements, declarations and letters issued by various Member States it is important to identify the leaders in terms of share in the EU GVA and EU total employment. The biggest contributors of manufacturing to the EU GVA were: Germany (29.7% in 2012), Italy (with a more than twice smaller share of 12.3%), the United Kingdom and France (10.9%), Spain (6.6%) and Poland and the Netherlands (both 3.8%) (Figure 3). It is worth noting that three of these countries – Germany, Poland and the Netherlands – were not signatories of the 'Friends of industry' letters, and the UK supported only the first declaration of 2013. An analysis of their manufacturing input to the EU economy shows that this ranking has not changed dramatically and the share of their manufacturing in the EU GVA has gradually grown, including after the enlargements in 2004 and 2007. Only the crisis period of 2008-2010 (especially in 2009) was characterized by a significant reduction in the share of almost all the leading Member States (mainly Germany), with the exception of Poland, which actually achieved an increase of 3.7% in 2009 in comparison to the previous year. It is also worth noting that the value of manufacturing in relation to the EU GVA began to slowly rise in the following years, although it declined slightly again in 2012.

Figure 3. The leaders in manufacturing in the EU in the period 1995–2012

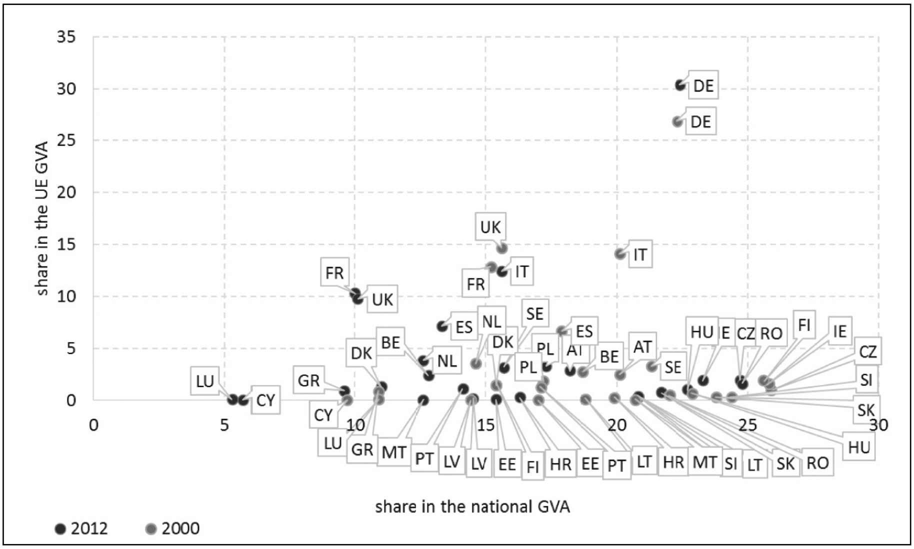


Source: Eurostat.

Any decision on the establishment and implementation of the new industrial policy of the EU should take into account both the importance of the industry sector (including especially manufacturing) for the EU economy as a whole, as well as its significance to the national economies of each individual Member State. Bearing in mind that many of them decided to support the new EU industrial policy, it is interesting to analyse the real importance of their manufacturing sector, not only in the EU GVA, but also in their own national GVA.

The highest – and increasing – share of its manufacturing sector in the EU GVA was reached by Germany in 2012 (in comparison to 2000: from 26.9% to 30.4%), while it maintained the level of that sector in its national GVA at 22.3% (Figure 4). These same twin tendencies were noted in Poland (an increase in the share of industry in the EU GVA by 1.5 percentage point), Romania, Lithuania and Latvia. It is worth noting that in the case of the leading industrial countries – France, the United Kingdom and Italy – a significant decline was observed in the share of manufacturing in their national GVA (accompanied by a somewhat smaller decrease in the EU GVA). A significant decline in the share of manufacturing in the national GVA was also noted in Denmark, Cyprus, Luxembourg, Malta, Portugal, Finland and Sweden. An increase (albeit an insignificant one) in the share of manufacturing in the EU GVA was noted in smaller countries like the Czech Republic, Estonia, Ireland, Spain, Hungary, Austria, the Netherlands and Slovakia, however the share of manufacturing in their national GVAs declined.

Figure 4. Position of manufacturing in the EU and Member States GVA in 2000 and 2012



Source: Eurostat.

Conclusions

The 'new industrial policy' of the European Union is actually not a new topic for the old Member States. The most advanced and most unified actions concerning industrial policy were included in the TECSC. This was justified by the specificity of the main goals of the ECSC and the political, economic and social problems prevailing just after the Second World War. However, the next Treaty, that establishing the EEC, contained no provisions for industrial policy, not even for the coordination of industrial policy among the Member States. Only the Maastricht Treaty implemented some additional provisions concerning industry (strengthened by the Lisbon Treaty), which put industry among the spheres of Member States' actions supported by the European Union. While it did not give the European Union sole competence to conduct industrial policy, it did empower the European Commission to control governmental interventions into the economy in order to protect competition within the internal market.

The concept of a new industrial policy gained in importance after the crisis period, when many economic and social problems were revealed in the internal market of the EU. At that time many Member States launched interventions into the market, which however were successfully limited by the European Commission. However, this did not stop them from lobbying to relax state aid rules during the reform in this field conducted by the Commission. Unfortunately state aid became treated by many Member States as a key instrument to boost EU industry and improve the competitiveness of European enterprises. It seems that the upcoming Presidencies, the new Commission and the European Union will still have to face the problem of the reindustrialisation of Europe and answer the questions how a new industrial policy should be formulated and what instruments should be allowed, while at the same time protecting competition within the EU internal market.

An analysis of the position of manufacturing and industry in the national and EU GVAs and in their total employment figures allows for the formulation of some general conclusions. First, it is hard to unambiguously sort Member States into two groups, i.e. supporters and opponents of a new EU industrial policy. Having this is mind, it is difficult to explain their engagement in the discussions on the substance and instruments, including the issue of state aid, of the new EU industrial policy initiative. Second, some Member States who have supported this initiative were not and are not the most important contributors to the EU manufacturing sector and/or the share of manufacturing is relatively low in their national GVAs. So their support for this approach is not linked with the situation in their economies. Third, the initiative is also supported by Member States with a high level of manufacturing's share in both their national and the EU GVAs and total employment, which would explain their interest in a new EU industrial policy. Fourth, our study shows that overall the share of manufacturing in the EU GVA has declined, even though the Member States with declining shares granted relatively more state aid in relation to GDP in comparison to countries with increasing shares of industry in the EU GVA. Moreover, the economic policies of these countries changed the structure of their GDP, usually boosting the public sector or, less frequently, the business service sector. However it should be kept in mind that the growth of the latter sector is also a result of outsourcing, which has changed the position of industry in many economies.

In summary, it is worth noting that it was the crisis of 2008–2010 and tough external competition on the global market that provoked the Member States and the EU institutions to launch a discussion on new sources of growth. A new industrial policy, apart from the existing internal market of the EU, seems to be one such sought-after source. But there is no solid legal basis upon which to establish common goals, instruments and institutional mechanisms. Moreover this concept is economically questionable, and any new industrial policy should not be treated as a solution to all the problems in all Member States. Any new industrial policy should, first, take into consideration the differing industrial bases, which vary considerably between the Member States. Second, it should offer instruments tailored to the needs of various sectors and regions. Third, it should comply with the modern trends in world economic development (offshoring, outsourcing). Fourth, its objectives should be of equal importance as the objectives of consumer protection, social and environmental protection, and climate change and energy policies. Otherwise, all discussions and works within the EU will be counterproductive and lead nowhere.