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For a competitive European industrial policy:

Common financing, governance and conditionalities in the EU Single Market

#IndustrialPolicy
#EUSingleMarket
#CompetitionPolicy

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Abstract

The recent shift towards industrial policy in Europe creates tensions with the Single Market and its competition policy paradigm. In this policy paper I argue that only a more European industrial policy will be capable to address the various internal and external economic challenges the EU is facing while also safeguarding the functioning of the Single Market, one of the EU's key public goods. In order to work, this European industrial policy needs more common financing, common governance mechanisms and capacities, as well as common conditionalities. First, this paper calls for the creation of an EU industrial policy fund whose financing should be based on two pillars, an (1) initial endowment preferably based on common debt and own resources, and (2) arrangements to make the fund self-sustainable over time. These arrangements include an EU state aid contribution and profit-sharing mechanisms. Second, the existing state aid instruments need to become consolidated, simpler, and better integrated. Due to its comparatively European approach, the IPCEI model could serve as a blueprint for the future governance of the various EU industrial policy objectives. To function adequately, any EU industrial policy governance needs to be supported by common capacity building, covering public administrations and private enterprises. Finally, the intelligent and consistent use of common conditionalities is key to ensure that subsidies lead to the achievement of public policy objectives while limiting corporate welfare and state-aid shopping across the EU.

Introduction • Recent shifts in European industrial/competition policy paradigms

UNTIL THE MID-2010S – COMPETITION POLICY AS THE BEST FORM OF INDUSTRIAL POLICY

One of the main tenets of the EU Single Market is – or at least was for a very long time – that the construction of competitive markets, through the creation of a 'level playing field' between economic actors across the EU, will foster innovation and lead to economic growth. This competition policy paradigm was accompanied by industrial policymaking that was limited to horizontal and regional measures without supporting specific economic sectors[1].

The 2010 Monti Report strongly reflected this thinking, criticising voices that called for a flexibilisation of competition and state aid rules to allow for more active industrial policies. Instead, and in line with the – at the time – dominant view among policymakers, the report stressed the need for competition between companies "to create the varieties, comparative advantages and productivity gains on which growth and innovation flourish". The resulting internal competitiveness would also lead to external competitiveness. **The Monti Report argued that existing competition rules were not prohibitive and that their further strengthening would, in fact, constitute the most effective form of industrial policy**[2].

SINCE THE 2010S – INDUSTRIAL POLICY IN A SHARPLY DIFFERENT WORLD

Only 14 years later, the EU finds itself in a completely different geopolitical and geoeconomic context. The logic of rendering European companies competitive at the global level through internally competitive markets is undermined by an international economic order that is less and less characterised by multilateralism and the application of common rules to ensure a global level playing field. The largely defunct WTO and the large subsidies handed out by China and the US illustrate these changes. In addition, the Covid-19 crisis with its accompanying supply chain problems and the economic warfare of Russia against Europe have highlighted the dependencies to which economic globalisation has exposed Europe. High fossil fuel prices have led to a significant competitivity loss, especially among energy-intensive industries, while the late and uneven adoption of digital technologies has led to a gradual loss of competitiveness over the course of the last decades[3][4]. Finally, the urgency of the climate crisis has made it clear that directed public and private action is needed to safeguard a liveable planet for future generations[5].

To soften the blow of these various crises, achieve the green transition and protect European industries in the developing subsidy race, the EU has – in the last years – developed a considerably more active approach to industrial policy[6].

1 Bulfone, Fabio (2022): Industrial policy and comparative political economy: A literature review and research agenda, *Competition & Change 27* (1) 22-43.

2 The Monti Report acknowledged the usefulness of tailored state aid support schemes for specific sectors (such as energy, innovative industries, clean vehicles), calling for the development of a "new approach to industrial policy which builds on a mutually reinforcing relation with Single Market and competition rules", but remained very vague, not providing any concrete policy recommendations.

3 Schnabel, Isabel (2024): From laggard to leader? Closing the euro area's technology gap. https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp240216~df6f8d9c31.en.html

4 Draghi, Mario (2024): The future of European competitiveness. Part A | A competitiveness strategy for Europe. September 2024. https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en#paragraph_47059

5 Fontana, Olimpia & Vannuccini Simone (2024): How to institutionalise European industrial policy (for strategic autonomy and the green transition. *LUHNIP Working Paper* 7/2024

6 Di Carlo, Donato & Schmitz, Luuk (2023): Europe first? The rise of EU industrial policy promoting and protecting the single market, Journal of European Public Policy 30(10): 2063-2096.

Using exemptions in the Treaty's state aid framework, the Union has developed and instruments such as **Important Projects of Common European Interest (IPCEIs)**[7], made changes to the **General Block Exemption Regulation (GBER)** rules, created a more elaborate **state aid framework for the green transition**, and flexibilised state aid rules through **several temporary frameworks** (2020 state aid temporary framework, 2022 temporary crisis framework, 2023 temporary crisis and transition framework)[8].

TENSIONS BETWEEN INDUSTRIAL POLICY AND COMPETITION POLICY

This massive growth in public subsidies (mainly financed by member state budgets, but partly also by the EU, e.g. the recovery and resilience facility (RRF) and the cohesion funds[9]) has raised many questions on the compatibility of the Single Market's existing competition policy framework with the Union's new industrial policy. **While the EU's common objectives (green and digital transitions, reduction of economic dependencies, competitiveness) justify the use of a more active industrial policy in a context of geopolitical and geoeconomic confrontation, this approach creates risks of unfair competition and market fragmentation inside the Single Market.** If EU industrial policy is based largely on a national approach (in terms of financing, selection of projects, etc.) then richer and larger member states with bigger financial, administrative, and technical capacities could undermine the Single Market's level playing field.

If the Union thus wants to make its new industrial policy-making a more permanent instrument to reach its climate targets, become an innovation leader, and increase its economic resilience and security, it needs to find ways to render industrial policy more compatible with EU competition policy. The most sensible solution to reduce the tensions between industrial and competition policy would be to make industrial policy more European. This policy paper thus argues that a European industrial policy needs more (1) common financing, (2) common governance mechanisms and capacities, and (3) common conditionalities[10].

I • Common financing

Both at the national and EU level, **targeted state aid can be useful to produce positive externalities (e.g. regarding security) and help to achieve public policy objectives**[11]. In the context of the Single Market it matters, however, who – and through which means – finances subsidies. If state aid is primarily provided by the member states, it can create fragmentation risks for the Single Market. This is due to significant differences in the budgetary and technical capacities of member states, which can result in a tilted playing-field towards richer and larger EU countries. The

7 Eisl, Andreas (2022): EU industrial policy in the making. From ad hoc exercises to key instrument: how to make IPCEIs fit for the long run, *Jacques Delors Institute Policy Paper No. 286*.

8 Di Carlo, Donato; Eisl, Andreas & Zurstrassen, Dimitri (2024): Together we trade, divided we aid: EU industrial policy, state aid, and the loosening of the EU competition regime. LUHNIP EU Industrial Policy Report. Chapter 4.

9 European Commission (2024): EU Cohesion Policy: €79 million in EU funds for research and development of semiconductor technologies in Sicily, Italy. July 2024. https://ec.europa.eu/regional_policy/whats-new/newsroom/18-07-2024-eu-cohesion-policy-eur79-million-in-eu-funds-for-research-and-development-of-semiconductor-technologies-in-sicily-italy_en

10 To deal with some of the geopolitical and geoeconomic concerns, the EU should also think about how to jointly use industrial policy (internal subsidies) and trade policy (external tariffs). A mix of policies might, as often, be the most adequate approach.

11 Juhász, Réka; Lane, Nathan & Rodrik, Dani (2023): The new economics of industrial policy, https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/the_new_economics_of_ip_080423.pdf

possibility to, at least partly, use RRF funding and cohesion funds for state aid projects has limited Single Market fragmentation risks over the course of the last years. But the RRF's expiry in 2026 highlights the need to put common funding on more ambitious and permanent foundations.

EU INDUSTRIAL POLICY SHOULD BE FINANCED BY A COMMON FUND

To minimize the tensions between a more active industrial policy and the functioning of the Single Market, state aid should – at best – be financed through common EU funding rather than national funding. This would help to ensure that the most efficient projects across the continent will be funded, reducing the risks of intra-European subsidies races and 'state aid shopping' by enterprises. This is also the message of the recent high-level reports by Enrico Letta and Mario Draghi, with the latter also calling for the use of common debt instruments to finance a common EU industrial policy.

Already in 2022, Commission President Ursula von der Leyen[12] and Single Market Commissioner Thierry Breton ventilated the **idea of a European Sovereignty Fund** to finance an EU industrial policy. Due to low member state appetite for a new common industrial policy fund financed through debt or additional contributions, the Commission transformed its initial proposal into the Strategic Technologies for Europe Platform (STEP), which was presented in June 2023. The final compromise on STEP further reduced the common funding ambitions, now almost exclusively based on a reutilisation of existing EU programmes and funds.

The idea of an EU fund to finance industrial policy was revived by von der Leyen in her political guidelines for the 2024-2029 Commission mandate, in which she called for the establishment of a **European Competitiveness Fund** as part of the upcoming multiannual financial framework and the Commission's Clean Industrial Deal project[13].

But how to finance a sufficiently ambitious EU industrial policy, if the majority of additional EU own resources needed to repay the commonly issued NextGenerationEU debt have not been agreed upon and if key member states such as Germany seem to be adamant about not allowing any additional borrowing at the EU level[14]? And how to ensure that state aid will not end up as corporate welfare?

FINANCING OF THE FUND

This policy paper calls for the creation of an EU industrial policy fund, which can be an integral part of the proposed EU competitiveness fund. Its **financing should be based on two pillars that would allow EU industrial policymaking to become a more permanent instrument**, with an initial endowment and arrangements that provide for short-, medium- and long-term revenues.

12 von der Leyen, Ursula (2022): 2022 State of the Union Address by President von der Leyen, 14.09.2022, https://ec.europa.eu/commission/presscorner/detail/en/speech_22_5493

13 von der Leyen, Ursula (2024): Europe's Choice. Political Guidelines for the next European Commission 2024-2029. 18.07.2024. https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en?filename=Political%20Guidelines%202024-2029_EN.pdf

14 Faggionato, Giovanna & von der Burchard, Hans (2024): Germany's Lindner rejects Draghi's common borrowing proposal. Politico. 09.09.2024. https://www.politico.eu/article/germanys-lindner-rejects-draghis-common-borrowing-proposal/

A significant initial endowment is crucial to ensure that the EU industrial policy fund can be used immediately to address Single Market fragmentation risks and the implications of third countries' state aid policies. There are different financing options for this initial endowment, including the emission of new common debt similar to the NextGenerationEU model[15][16], the agreement on and earmarking of new Own Resources (EU taxes or contributions)[17], funding from the EU budget, the transfer of expected remaining RRF funds and/or member state contributions. A European approach based on a mix of common borrowing and common taxes/contributions would be more promising than to fall back on member states contributions, as many member states are going to be considerably constrained in their spending capacities in the coming years due to fiscal (high public debt levels) and institutional reasons (implementation of the reformed EU fiscal framework).

Beyond an initial endowment for an EU industrial policy fund, **two arrangements should serve to both (re-)direct industrial policy and replenish the fund over time, with the aim of making it self-sustainable in the future:** an EU state aid contribution (short- and medium-term) and profit-sharing mechanisms (long-term).

First, the **EU state aid contribution would require member states making use of state aid to pay a certain percentage of national state aid expenditures into the common fund**[18]. The objective of this instrument would be to disincentivize the use of national state aid spending, making European state aid funding more attractive and thus limiting fragmentation risks for the Single Market. Its implementation would, however, be conditional on the availability of additional EU financing for industrial policy, e.g. through the proposed initial endowment of an EU industrial policy fund. The goal of the state aid contribution mechanism would not be to reduce overall state spending across Europe, but rather to ensure that it is redirected towards the EU level, without forbidding individual member states to make use of state aid nationally if necessary. The percentage of the EU state aid contribution could increase progressively with overall national state aid spending. The advantages and risks of a differentiating approach should, however, be carefully weighed. Some categories of state aid could also be completely excluded from the state aid contribution, e.g. in the area of culture.

Second, **profit-sharing mechanisms should be introduced for all state aid projects with a potential for profitability, ensuring long-term revenue flows into the EU industrial policy fund.** Both the EU and its member states should take on more the role of a public investor, which would allow the public authority granting state aid, in return for its risk taking, to recuperate the invested money and/or participate in the project profits if an industrial policy project should be successful. Profit-sharing mechanisms would also help to reduce the risk of state aid becoming corporate welfare, making it more likely that a project actually needs public support.

There are **different options for profit-sharing.** It could come in the form of **uncapped or capped royalties** (e.g. that apply until the granted state aid including foregone interest is repaid), **'silent partnerships'** (which would give the public

15 Abraham, Laurent; O'Connell, Marguerite & Oleaga, Inigo Arruga (2023): The legal and institutional feasibility of an EU Climate and Energy Security Fund, *ECB Occasional Paper Series* No. 313

16 Grund, Sebastian & Steinbach, Armin (2023): European Union Debt Financing: Leeway and Barriers from a Legal Perspective, *Bruegel Working Paper* No. 15/2023

17 Baccianti, Claudio; Buck, Matthias; Sartor, Oliver & Schröder, Christopher (2024): Investing in the Green Deal: How to increase the impact and ensure continuity of EU climate funding. *Agora Energiewende Impulse.* September 2024.

18 Letta, Enrico (2024): Much more than a market. Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens. April 2024. https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf

investor the right to a share of the profits without taking on a decision-making role in an enterprise/undertaking), or as **equity** in subsidised enterprises[19]. Such public co-ownership of enterprises/undertakings (equity) could be subject to conditions such as a buyout possibility for private shareholders. Most IPCEI projects already contain similar arrangements, so-called 'clawback provisions'[20], which can be compared to the capped royalties mentioned above. Importantly**, not only member states but also state aid provided by the EU industrial policy fund should make use of profit-sharing mechanisms.** Such provisions could thus, over the long-term, help to reduce both the public costs of a more active EU industrial policy and make it self-financing in the long-term.

SPENDING OF THE FUND

In terms of spending, all the fund's revenues should be earmarked for EU industrial policy, financing projects in line with common European interests, objectives and goals. The fund should be able to finance projects with different underlying logics for the use of state aid such as innovation, competitiveness and economic security. A revised IPCEI communication, as laid out further below, could provide a common governance and conditionality framework for such projects to be financed through the EU industrial policy fund.

By making use of an exemption in the reformed EU fiscal framework, the spending of the EU industrial policy fund could also be designed in a manner that would allow it to be leveraged with additional national state aid. National spending on co-financing of EU-funded programmes is excluded from the Stability and Growth Pact's net expenditure trajectory. European subsidies could thus be complemented by national subsidies, simultaneously limiting fiscal rule constraints for such spending and purely national selection procedures.

Key take-aways for the common financing of EU industrial policy:

- Creation/reinforcement of a common fund to finance EU industrial policy
- The fund's revenues should include an initial endowment (different options for its financing) and more permanent revenues (state aid contribution, profit-sharing arrangements)
- Fund's spending should be directed at state aid projects in line with EU interests, objectives and goals
- Design of the common fund's spending could be used to leverage it with national spending

19 Mazzucato, Mariana & Rodrik, Dani (2023): Industrial Policy with Conditionalities: A Taxonomy and Sample Cases, *IIPP Working Paper* No. 2023/07

20 European Commission (2019): State Aid Decision on the Important Project of Common European Interest (IPCEI) on Batteries, C(2019) 8823 final, 09.12.2019, Annex I.

II • Common governance and capacity building

Over the course of the last few years, state aid instruments have multiplied and diversified, making use of the exemptions provided in the EU treaties[21]. First, since 2014, the EU member states have increasingly made use of the IPCEI instrument, based on Art. 107 (3)b TFEU. Based on the 2014 and 2021 Commission guidelines on IPCEIs, ten IPCEIs have been developed to foster innovative and globally competitive sectors and value chains related to the green and digital transitions. Typically covering large state aid amounts per project (€37.2 billion in public subsidies were handed out to 334 projects), IPCEIs have so far been used to support highly innovative (global state-of-the-art) projects reaching from the R&D phase up to first-industrial deployment in situations of market failure. Second, over the course of the last decade, the GBER rules were amended several times, raising notification thresholds, simplifying procedures and adding additional sectors and categories of aid to the GBER framework. Third, in 2022, a more comprehensive state aid framework for the green transition was introduced, the so-called Climate, Energy and Environmental Aid Guidelines (CEEAG). Finally, in response to the Covid-19 crisis and the war in Ukraine, the EU further flexibilised the existing state aid regime through several temporary frameworks, initially to cushion the economic fallout. With the energy price crisis, these frameworks, however, also became instruments to foster the transition towards renewable energies.

I PERMANENT AND INTEGRATED GOVERNANCE INSTRUMENTS FOR EU INDUSTRIAL POLICY

This growth in permanent and temporary state aid instruments has led to an increasingly fragmented and partially incoherent system. Various elements of the temporary frameworks have been repeatedly prolonged, but most remaining exemptions still in force should in principle expire by the end of 2025. In this context, the EU should now draw the lessons from the use of the various instruments over the last years and reflect on which elements should become a more permanent feature of EU industrial policy and how they can getter better integrated in a more harmonised governance system. **To improve policy efficiency, legitimacy, accountability and credibility, the new EU Commission should phase out any remaining temporary state aid instruments and link the revised industrial policy governance framework with the common fund lined out above.**

I COMMON GOVERNANCE MECHANISMS FOR DIFFERENT INDUSTRIAL POLICY OBJECTIVES

The EU's new industrial policy governance should fulfil several functions. It should **allow for the effective identification, development, selection, implementation and evaluation of state aid projects.** It should equally support the reduction of existing member state differences in terms of administrative and technical capacities and support the development of a truly European approach to industrial policy. By bringing various private and public stakeholders together, an effective governance system could also help to **overcome potential co-ordination or agglomeration failures**[22], which hinder innovation and the development of a competitive European industry.

21 Di Carlo, Donato; Eisl, Andreas & Zurstrassen, Dimitri (2024): Together we trade, divided we aid: EU industrial policy, state aid, and the loosening of the EU competition regime. LUHNIP EU Industrial Policy Report. Chapter 4

22 Juhász, Réka; Lane, Nathan & Rodrik, Dani (2023): The new economics of industrial policy, https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/the_new_economics_of_ip_080423.pdf

The common governance of EU industrial policy does not necessarily have to be designed in the same manner for all state aid projects but could function differently according to the underlying public policy objectives and the maturity of a technology, product, etc. Some of the Union's industrial policy priorities, e.g. in terms of economic security, require the financing of already existing technologies. For such policies, governance mechanisms should be designed to ensure an efficient use of public financing and to evaluate whether the measures taken have allowed to achieve the common objectives.

In other policy areas, e.g. climate and energy policy, there is a need for innovation and the development of disruptive technologies. Here, given the higher extent of uncertainty, the EU should be inspired by more iterative and collaborative forms of governance, such as the US DARPA and ARPA-E models[23]. Such governance models allow projects to adapt more easily to encountered difficulties and new information, helping to ensure goal achievement[24]. **Both top-down (with policy guidance) and bottom-up approaches (through open calls) should play a role in identifying projects that should be supported by industrial policy.**

IPCEIS AS A MODEL FOR THE FUTURE OF EU INDUSTRIAL POLICYMAKING

Due to its comparatively European approach for providing state aid, the IPCEI model could serve as a blueprint for many of the different EU's industrial policy ambitions. First, as highlighted by the 2021 Commission Communication on IPCEIs[25], such projects need to contribute to Union objectives/strategies, such as the European Green Deal, the Digital Decade and Next Generation EU. Second, such projects need to show that they can overcome important market failures, systemic failures, or address key societal challenges that the EU and its Single Market might face. Third, IPCEIs need to include enterprises established in at least four member states and give all EU member states the opportunity to participate. This ability has been recently reinforced with the creation of the Joint European Forum (JEF) for IPCEI, which will play a crucial role in the development of future IPCEIs. Finally, IPCEI projects need to produce positive spillover effects beyond the participating countries, e.g. through knowledge dissemination, and are organised along a holistic value chain approach.

As highlighted by the Letta and Draghi reports, the IPCEI approach could be further developed and generalised in a stronger EU industrial policy. **To accommodate a broader set of logics for the use of state aid, the existing IPCEI Communication could be revised.** First, the revised IPCEI Communication should aim to put into place coherent governance models that are adapted to specific public policy objectives. This includes adequate monitoring and evaluation mechanisms of notified state aid. Second, state aid provided under the IPCEI instrument should be allowed to support projects below the 'global state-of-the-art' innovation level and cover maturity levels beyond first industrial deployment.

23 Defard, Camille (2023): Energy Union 2.0. to deliver the European Green Deal: stronger governance, common financing and democratic tools, Jacques Delors Institute Report No. 127, https://institutdelors.eu/wp-content/uploads/2023/11/R127-Energy_Union_2.0_European_Green_Deal_EN-1.pdf

24 Juhász, Réka; Lane, Nathan & Rodrik, Dani (2023): The new economics of industrial policy, https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/the_new_economics_of_ip_080423.pdf

25 European Commission (2021): Communication from the Commission. Criteria for the analysis of the compatibility with the internal market of State aid to promote the execution of important projects of common European interest, Document C(2021)8481, https://eur-lex.europa.eu/resource.html?uri=cellar:c6681395-4ded-11ec-91ac-01aa75ed71a1.0004.02/DOC_1&format=PDF

SIMPLIFICATION, HARMONISATION AND COMMON CAPACITY BUILDING

To ensure that EU industrial policy is not a laggard, it is very important to foster the swift development, selection, implementation and evaluation of industrial policy projects. In this regard, **the EU and its member states need to work together to simplify and harmonise state aid procedures and invest in common capacity building.**

First, state aid is currently available via a multitude of different instruments and programmes at the EU, national and regional levels, often based on very different application requirements and deadlines. **The complexity of this current state aid 'galaxy' needs to be reduced to limit the administrative burden for enterprises**. Simpler and more harmonised state aid application, selection, implementation and evaluation processes would also help smaller enterprises to have a more equal chance to benefit from state aid support. Quicker permitting procedures, as envisaged e.g. by the Net Zero Industrial Act (NZIA), could further support the development of industrial policy projects in the EU. Recent efforts to better integrate IPCEIs with GBER[26] have helped to make large industrial policy projects more manageable and should serve as inspiration for a further consolidation and integration of different state aid instruments.

Second, large differences in technical and administrative capabilities between member states as well as their enterprises tilt the Single Market's level playing field towards those with the largest resources. **Capacity building** could help to address this issue. It requires the **training and hiring of well-trained staff at different government levels and the instauration of exchange forums to identify promising industrial policy projects across the EU and share experiences and best practices between professionals of different member states.** The new Joint European Forum for Important Projects of Common European Interest (JEF-IPCEIs) could serve as a blueprint to generalise such exchange forums.

Key take-aways for a common governance mechanisms and capacities:

- Common governance mechanisms depending on the respective policy objectives and the nature of a technology or product (IPCEIs can serve as a model)
- State aid application, implementation and evaluation processes need to be harmonised and simplified across all government levels
- Creation and reinforcement of exchange forums to identify projects and share expertise

26 Di Carlo, Donato; Eisl, Andreas & Zurstrassen, Dimitri (2024): Together we trade, divided we aid: EU industrial policy, state aid, and the loosening of the EU competition regime. LUHNIP Working Papers 3/2024

III • Common conditionalities

For a more active industrial policy in the EU to work, it is key that national and EU spending is used towards the achievement of (common) public policy objectives and to avoid wasteful expenditures. State aid is not necessarily wasteful if supported industrial policy project fail, e.g. due to the inherent risks of innovation. The public support of private enterprises is, however, likely going to be wasteful in the absence of conditionalities attached to state aid disbursements. In this case, state aid might simply end up as 'corporate welfare'[27].

I CLARITY AND ENFORCEABILITY OF STATE AID CONDITIONALITIES

State aid conditionalities can be designed in a myriad of ways, such as in terms of eligibility, the type of targeted enterprise behaviour and the conditionality objectives. First, eligibility conditionalities can reach from 'ex-ante eligibility criteria' to required 'ex-post changes' in enterprise behaviour[28]. Second, targeted enterprise behaviour can include, for example, (1) the directionality of enterprise activities towards public policy objectives, (2) the access to resulting products and services, as well as (3) profit-sharing and reinvestment requirements[29]. Third, conditionality objectives can cover the environment, 'governance and accountability conditionalities', 'public value and economic security' concerns', 'equity, well-being and human rights' as well as workers' rights[30]. Public subsidies provided by the US Inflation Reduction Act (IRA), for example, come with local-content and social conditionalities for companies[31].

To ensure enterprise compliance with conditionalities it is important that the defined conditionality criteria are clear and unambiguous, measurable, verifiable and enforceable. Successful industrial policymaking does not only depend on the initially agreed conditionalities but also to which extent they are later renegotiated or not followed through[32]. Consistent monitoring and enforcement are key to the achievement of public policy objectives supported by public funds.

I TAILORED CONDITIONALITIES FOR SPECIFIC INDUSTRIAL POLICY OBJECTIVES

For the EU to achieve its various common objectives, such as the green and digital transitions and economic security, its industrial policy needs to include conditionalities tailored to the respective goals. It is crucial that these conditionalities are operationalizable, measurable, verifiable, and have tangible consequences in case of non-compliance. **National state aid projects should be bound by a common set of conditionality requirements that apply in the same manner across member states to avoid 'state-aid shopping' based on the least restrictive conditionali-**

27 Bulfone, Fabio; Ergen, Timur & Kalaitzake, Manolis (2023): No strings attached: Corporate welfare, state intervention, and the issue of conditionality, *Competition & Change* 27 (2) 253-276

28 Juhász, Réka; Lane, Nathan & Rodrik, Dani (2023): The new economics of industrial policy, https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/the_new_economics_of_ip_080423.pdf

29 Mazzucato, Mariana & Rodrik, Dani (2023): Industrial Policy with Conditionalities: A Taxonomy and Sample Cases, *IIPP Working Paper* No. 2023/07

30 Estevez, Isabel (2023): Multi-solving, Trade-Offs, and Conditionalities in Industrial Policy, *Roosevelt Institute Brief*, October 2023, https://rooseveltinstitute.org/wp-content/uploads/2023/10/RI_Multi-Solving-Trade-Offs-and-Conditionalities-in-Industrial-Policy_Brief_202310.pdf

31 Landais, Camille; Jean, Sébastien; Philippon, Thomas; Saussay, Aurélien; Schnitzer, Monika; Grimm, Veronika; Malmendier, Ulrike; Truger, Achim & Werding, Martin (2023): The Inflation Reduction Act: How should the EU react? Franco-German Council of Economic Experts Joint Statement, 09.2023, https://www.cae-eco.fr/staticfiles/pdf/cae-svg-joint-statement-ira-230921.pdf

32 Bulfone, Fabio; Ergen, Timur & Kalaitzake, Manolis (2023): No strings attached: Corporate welfare, state intervention, and the issue of conditionality, *Competition & Change* 27 (2) 253-276

ties, safeguarding the functioning of the Single Market. Certain conditionalities, e.g. regarding wages, workers' rights and the support for less developed regions, could be applied across different types of state aid logics and help to ensure that industrial policy projects support convergence and fair competition inside the EU.

Well-designed conditionalities should strive for the creation of synergies between different goals, while aiming to minimize potential trade-offs[33]. One example for this are the complex interrelations between the need for an acceleration of the green transition and a reduction of the EU's energy dependency from Russia, which required – at least in the short term – investments in additional gas infrastructure. In the case of EU industrial policy, conditionalities should include, as discussed in the following section, clawback provisions or other forms of profit-sharing. The EU should also inspire itself by best-practice examples from around the globe for the use of state aid conditionalities, while adapting them to the Union's common objectives[34].

Key take-aways for conditionalities:

- Common sets of conditionality requirements to apply for specific policy objectives
- Conditionalities need to be measurable, monitorable and enforceable
- Importance of well-designed conditionalities to create synergies and avoid tensions between different policy objectives

33 Estevez, Isabel (2023): Multi-solving, Trade-Offs, and Conditionalities in Industrial Policy, *Roosevelt Institute Brief*, October 2023, https://rooseveltinstitute.org/wp-content/uploads/2023/10/RI_Multi-Solving-Trade-Offs-and-Conditionalities-in-Industrial-Policy_Brief_202310.pdf

34 Mazzucato, Mariana & Rodrik, Dani (2023): Industrial Policy with Conditionalities: A Taxonomy and Sample Cases, *IIPP Working Paper* No. 2023/07

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