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A proposal for

A Unified Industrial Transition for Europe (UnITE) Pact

Only a unified EU is a global player

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A Unified Industrial Transition for Europe (UnITE) Pact

Only a unified EU is a global player.

Summary

In a new world riddled with protectionist tendencies and geopolitical tensions, the national fragmentation of industrial policy in the EU risks a two-speed Europe that puts its long-term competitiveness at stake. Addressing these risks by using the economic potential of all EU regions requires an EU-level industrial policy approach that coordinates effective and efficient funding for the development of strategic cross-EU value chains in high-potential regions.

"[O]ur organisation, decision-making and financing are designed for the world of yesterday - [...] pre return of great power rivalry. But we need an EU that is fit for today's and tomorrow's world."

Mario Draghi[i]

Rationale

New reality. A new world shaped by protectionist tendencies and geopolitical tensions has supplemented the EU's existing priorities, such as decarbonisation, with priorities like economic security and Open Strategic Autonomy. Pursuing these priorities requires a unified EU that can act as a global player.

Dynamics. Although this new reality demands stronger fiscal and industrial coordination to maintain the EU's economic competitiveness and act as a unified global player, Member States tend to fall back to fragmented national industrial policy approaches.

Risks. Fragmented national approaches to industrial policy risk to:

a) Fuel a **two-speed Europe,** with some highly competitive regions, but other regions stuck in development traps, which undermines economic cohesion and leads to less support for European integration and values.[ii]
b) Generate economic **inefficiencies** through uncoordinated and mutually inconsistent national industrial policies.
c) **Hold back the EU's long-term competitiveness** by failing to make use of all region's economic potentials.

Policy gap. Addressing these risks requires overcoming national fragmentation of industrial policies and pursuing a coordinated industrial policy at EU-level. Existing EU-level initiatives like the Recovery and Resilience Facility, Net Zero Industry Act, the Internal Market Emergency and Resilience Act (IMERA), National Energy and Climate Plans (NECPs), Critical Raw Materials Act and cohesion policy provide important starting points for such a coordinated industrial policy. However, a genuine industrial policy approach at EU-level additionally requires three complementing pillars in order to use the full economic potential of all regions for strengthening the EU's competitiveness:

1. **Make use of all regions' economic potentials** to safeguard the EU's competitiveness.
2. **Provide EU-level funding** for the development of strategic cross-EU value chains in high-potential regions.
3. Implement smart regulation that ensures the **effective and efficient use of the public support** for strategic industries.

Components

The Unified Industrial Transition for Europe (UnITE) Pact builds on three complementing pillars:

Pillar 1: Make use of all regions' economic potentials to safeguard the EU's competitiveness

The EU's long-term competitiveness is jeopardised by the current national fragmentation of industrial policies. This fragmentation generates economic inefficiencies, especially by locating industries and their value chains in regions that do not have the highest economic potential in the long run. For instance, countries with limited renewable energy potential could cut costs by up to 20% for green steel and 40% for green chemicals by moving their energy-intensive production to nations where renewable energy is cheaper and importing the products.[iii] To safeguard the EU's competitiveness and strengthen economic cohesion the EU should make full use of its regional economic potentials by **identifying the regions' economic potential and coordinating their contributions to strategic cross-EU value chains**. This can be achieved through:

Identifying high-potential regions for establishing cross-EU value chains for strategic industries.

→ First, selecting the industries that can contribute best to the EU's long-term competitiveness requires the **identification of strategic industries** as well as their value chain segments that should be specifically promoted though cross-European cooperation. This should be guided by quantitative methods for selecting future-fit industries and should align with Open Strategic Autonomy and common EU priorities, such as decarbonisation.

→ Second, the **economic potential of EU regions should be evaluated for each value chain segment of strategic industries**, based on regional skills, technological capabilities, transition pressures, and renewable energy capacity, with a focus on cohesion regions and regions locked into development traps – conventionally not covered by cohesion policy – stressed by the European Commission[iv] and the Letta Report.[v] This place-based approach is beneficial for the whole block as e.g. increasing access to affordable renewables boosts competitiveness, aids in decarbonisation, and reduces reliance on energy imports.[1] Central and Eastern European countries could, for instance, increase renewable energy six-fold by 2030.[vi]

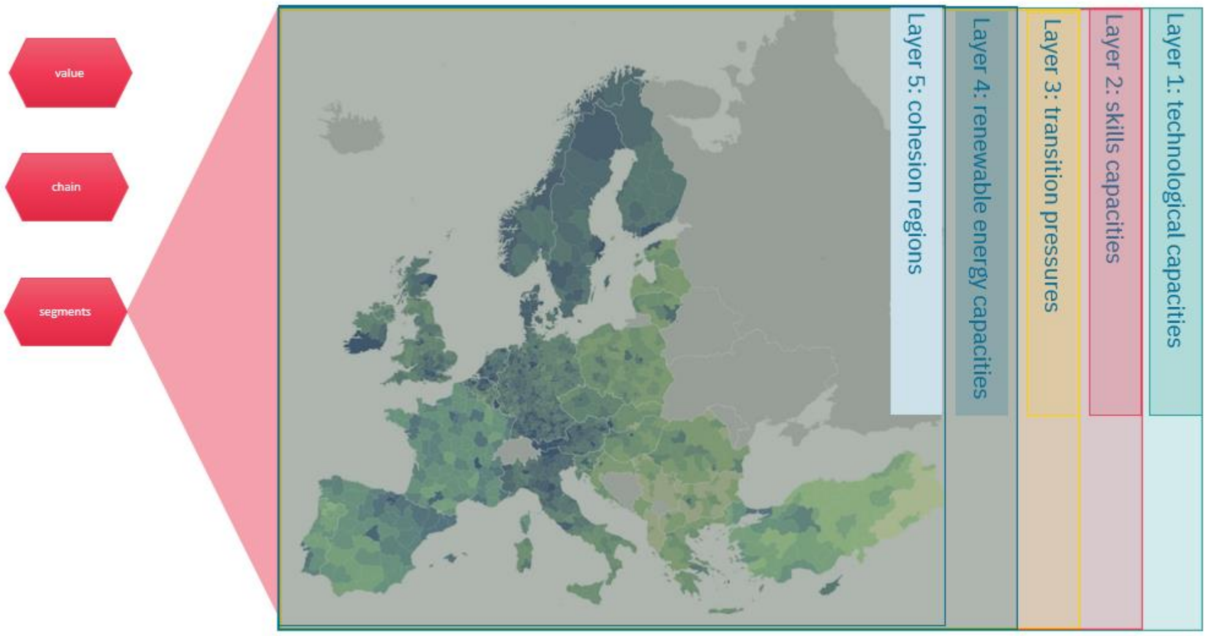

Figure 1: Exemplary heat map to guide allocation of value chain segments based on economic potentials; own representation.

Coordination with existing initiatives and relevant stakeholders.

→ Industrial policy concerns multiple services at the European Commission. A taskforce with representatives from GROW, COMP, ECFIN, REGIO, SG as well as ENER, EMPL and CLIMA enables horizontal cross-DG coordination for the development of cross-EU value chains for strategic industries and promotes alignment and knowledge transfer across services.

→ For Member State participation, knowledge sharing and capacity building, the taskforce should foster close collaboration with country teams or mirror them.

→ The European Semester should be utilised to coordinate and monitor the cross-EU value chain development as well as integrate it with the Net-Zero Europe Platform and the Joint European Forum for Important Projects of Common European Interest (IPCEI).

[1] To cushion potential adverse consequences for regions from which strategic industries are relocated to higher-potential regions, the respective governments should manage the transition proactively by identifying regional future-fit sectors with related skill profiles to which displaced workers can transition.

Pillar 2: Provide EU-level funding for the development of strategic cross-EU value chains in high-potential regions

Unequal financial resources among Member States risk leaving the economic potentials of high-potential regions untapped. Thus, supporting the development of strategic cross-EU value chains in high-potential regions requires **EU-level funding from which all regions can benefit**.[2] This can be achieved through:

Providing public funding on EU-level to support the development of strategic cross-EU value chains.

→ A **dedicated EU-level fund** should be set up to provide grants and loans for developing strategic industrial projects in high-potential regions lacking fiscal capacity. To refinance this fund a percentage of profits from state aid-supported companies should flow into the fund and be leveraged on capital markets.

→ Where the development of strategic cross-EU value chains in high-potential regions contributes significantly to economic cohesion, existing cohesion funds should be utilised for this purpose. For instance, this can be done through the Strategic Technologies for Europe Platform (STEP) which allows for **directing existing cohesion funds towards investments into critical technologies**. Going forward, expanding the size of STEP could be explored under the next multiannual financial framework (MFF).

[2] The need for EU funding to avert fragmentation within the single market and to bridge the funding gap between available resources and industry investment requirements was also recognised by the Draft Council Conclusions of March 1, 2024 and by the Letta Report on the Future of the Single Market.

Pillar 3: Implement smart regulation that ensures the effective and simplified use of the public support to strategic industries

Taking into account the lessons learnt from the Recovery and Resilience Facility, the success of EU-level funding hinges on swift and effective implementation of the supported projects. Any EU-level public support, financial or non-financial, for the development of strategic value chains in high-potential regions **as effective and efficient as possible**. Effectiveness will be ensured by targeting only the businesses that fulfil the purpose of the EU-level support, e.g. by targeting only the most productive, green, and social businesses. Efficiency will be ensured by simplifying public support and giving businesses more flexibility. This can be achieved through:

Ensuring that public support goes to the regions with the highest economic potential.

→ To avoid undermining the coordinated EU-level approach by national measures, the decision to grant **state aid for strategic industries should be guided by the heat map for identifying economic potentials of regions**. To this end, the Temporary Crisis and Transition Framework (TCTF) should be extended and revised accordingly. In addition, the Climate, Energy and Environmental State Aid Guidelines should be modified to comply with the presented approach.

Ensuring the effectiveness and efficiency of public support.

→ Effectiveness should be ensured by **making public support to strategic industries progress-dependent** to avoid profit-capture and the survival of unproductive firms. Only businesses that meet agreed economic, environmental, and social objectives will be eligible for continued support. Because businesses have to commit to objectives but not to specific measures to receive public support, **the public support to strategic industries will be simpler and more efficient**. Such mechanisms can be applied in any process of granting public support to strategic industries, for example by establishing sector banks, similar to the EU hydrogen bank.

UnITE pact: Objectives, pillars, and foundations

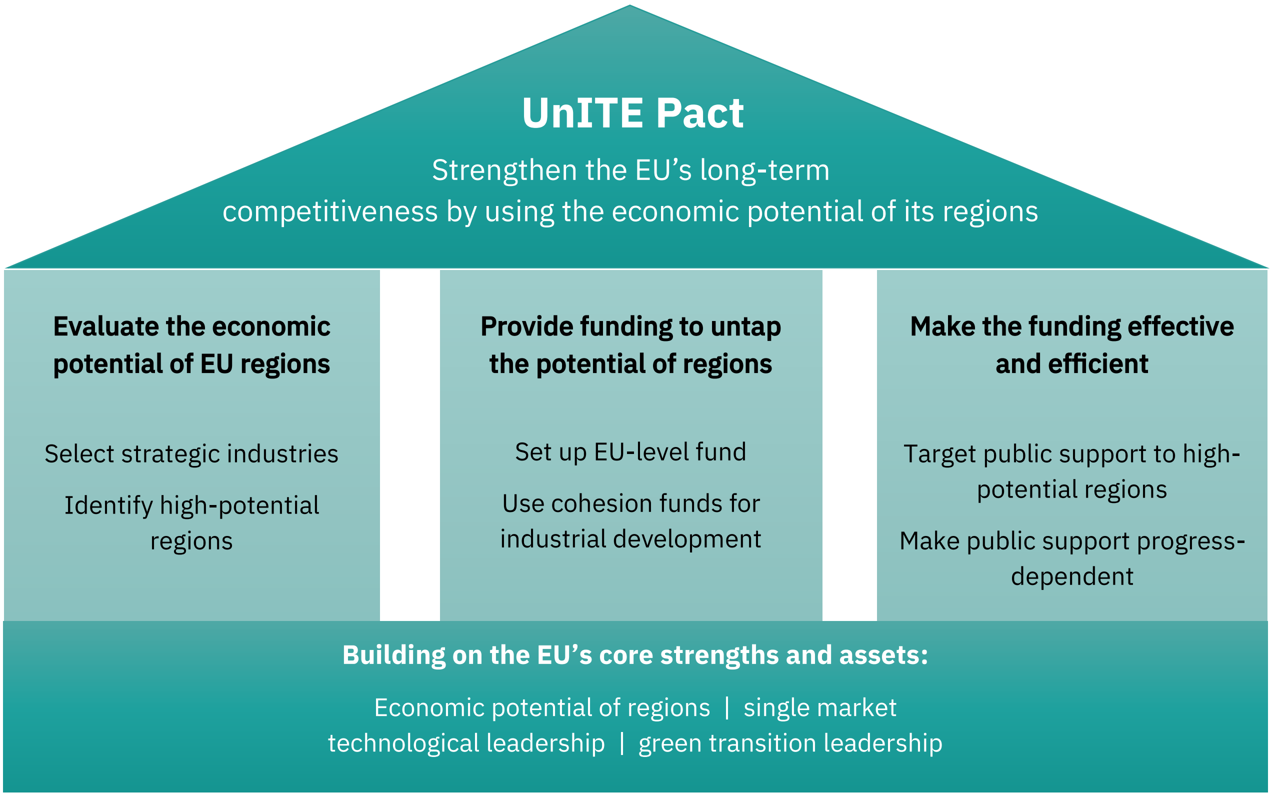

Figure 2: Overview of the objectives, pillars and foundations of the UnITE Pact; own representation.

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