



Draghi's industrial masterplan has decarbonisation at its core

Description

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A report on the future of European competitiveness, prepared by former Italian prime minister Mario Draghi and long awaited in Brussels, is finally out. It is expected to significantly shape the work programme for the next five years of the European Commission, led by Ursula von der Leyen, who commissioned the report.

The report is a masterplan for a new European industrial strategy. Draghi sees decarbonisation at its core. While some voices – especially on the far-right – portray the green transition as an existential threat to Europe's industrial competitiveness, the report stresses that ambitious climate policy can and should unleash substantial industrial opportunities for the continent.

Decarbonisation is indeed an opportunity for Europe to cut energy prices and to take the lead in clean technologies. To marry decarbonisation with technological leadership, Draghi puts forward a “joint plan for decarbonisation and competitiveness” that matches a new flagship initiative proposed by von der Leyen for 2024-2029 – the ‘Clean Industrial Deal’. This is aimed at further developing the under-addressed industrial aspects of the flagship initiative for the last five years, the European Green Deal.

Draghi is very blunt about what's at stake in this regard: Europe's green strategy is premised on the creation of new green jobs, so its political sustainability could be jeopardised if decarbonisation leads instead to the de-industrialisation of Europe.

Draghi's plan has what any modern industrial policy should have: a combination of horizontal actions to set the right framework conditions for investment, and vertical actions to fix sector-specific issues. This also reflects a general principle underpinning the report – the EU's need to focus on developing a competitive, open and innovative knowledge economy, while putting in place targeted interventions for those situations in which EU companies face asymmetries, such as different speeds of decarbonisation in Europe and around the world.

The report sets out four main horizontal actions. First, there should full implementation of the EU single market along the lines envisaged in another report produced by a former Italian prime minister, April's Letta report. Second, measures should be implemented to better coordinate industrial, competition and trade policies in order to avoid the pitfalls of internal incumbent favouritism and external protectionism. Third, measures are needed to mobilise the massive investments required, including new EU borrowing for European public goods, such as breakthrough innovation and cross-border electricity grids. Fourth, EU-level industrial policy coordination should be strengthened, to overcome the traditional fragmented approach that prevents the EU from achieving economies of scale and obtaining global leverage.

On vertical policy actions, the report spotlights the key trade-off of decarbonisation versus competitiveness versus security. Textbook examples are Chinese solar panels and electric cars: while they are certainly good for European decarbonisation, they are also problematic for its competitiveness and security.

To manage this difficult trade-off, Draghi suggests avoiding black-and-white solutions in the European context. Most notably, his report firmly rejects the temptation to emulate the United States approach of systematically shutting out Chinese clean technologies, which would make the European green transition more difficult and expensive. Instead, Draghi rightly suggests that Europe should deploy smart and technology-specific green industrial policies, tailored to the circumstances of each industrial sector.

On solar panels, for instance, for which Europe has no strong comparative advantage, the report suggests keeping Europe's doors open and basically free riding on the expensive manufacturing subsidies provided by the countries of origin, while diversifying suppliers to

the greatest possible extent to maximise security.

However, in industries such as wind turbines, on which Europe does have a strong comparative advantage, Draghi suggests that Europe ramp-up support, also introducing explicit minimum quotas for local products and components in public procurement. His report also stresses the need to make more use when necessary, of trade policy instruments – starting with tariffs – to ensure the level playing field. He stresses the need to deploy all possible tools to support and protect infant industries where Europe has an innovative edge and future growth potential.

The detailed nature Draghi’s recommendations will be an authoritative basis for the European Commission to develop the Clean Industrial Deal. The EU already has the Net Zero Industry Act, a law aimed at supporting clean-tech manufacturing by addressing some of the barriers to the scaling-up of clean-tech companies. This represented a first step in the right direction and should be promptly implemented, but the Draghi report makes clear that much stronger actions, on both clean-tech manufacturing and on the decarbonisation of established energy-intensive industries, including steel, aluminium, cement and chemicals, are still required to ensure that Europe can efficiently combine decarbonisation and technological leadership.

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