



Advisory Council  
on International Affairs

# Designing smart industrial policy: new departures for the Netherlands within the EU

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## Advisory Council on International Affairs



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# Summary



Geopolitical relations are changing with breakneck speed. Over the past ten years, unforeseen developments and shocks such as the outbreak of war in Ukraine have forced the European Union to make political decisions that were unthinkable only a short time ago. Often these decisions involve ad hoc measures and one-off responses to global events and turmoil – the banking crisis, the rise of China, the COVID-19 pandemic. Judging those improvised responses in isolation, a single masterplan may seem to be lacking. Looking at the bigger picture, however, and assessing how European policymaking is developing over a period of time, a broader paradigm shift is becoming more visible. This shift touches directly on how the EU views and designs industrial policy, among other things. No longer does the Union conceive of industrial policy as purely ‘horizontal’ – that is to say, as a generic effort to facilitate market choices – but increasingly it has begun to advocate ‘vertical’ approaches, which urge governments to intervene more directly in specific sectors or strategic industrial ecosystems, for example by means of subsidies. This change in Europe’s outlook, moreover, appears to be enduring.

The underlying forces that drive this change are manifold. The global financial crisis and the European debt crisis (2007-2012) changed the way people think about the state and the market. China’s geopolitical rise and the US response to it, the pandemic and the ongoing climate crisis are reinforcing this trend. With renewed confidence, governments are once again seeking to guide the supply side of the economy towards strategically important technologies such as artificial intelligence, microchips and quantum computing. Innovation funds and other policies are employed to promote European technology standards in the global economy. Defence mechanisms against foreign takeovers are increasingly used to safeguard Europe’s prosperity, security and other public interests.

The AIV considers that new geopolitical pressures form the strongest of these underlying forces. Awareness of Europe’s strategic vulnerability in critical supply chains has been steadily growing. Russia’s brutal invasion of Ukraine, which has dramatic repercussions for Europe’s energy security, is the most recent and shocking expression of this vulnerability. China’s rise as a global power ended hopes that the process of globalisation under US leadership would be smooth and uninterrupted, as had been widely anticipated in the West since 1989. Beijing presents itself as an economic rival to the US, including in the fields of artificial intelligence, space and communications technology. The struggle between the two superpowers is increasingly turning into a battle for access to natural resources, technologies and markets. These developments have prompted the US to draw its own conclusions in trade and industrial policy, a policy change which in turn has major consequences for Europe.

These changes and pressures have led politicians and policymakers in Brussels and The Hague to rethink certain long held policy assumptions. Both in the Netherlands and the EU institutions, policymaking and economic discourse have, on the whole, been sceptical of ‘vertical’ industrial policy, favouring policies that instead remained neutral to different technologies, ecosystems and sectors. This preference probably prevailed more emphatically in The Hague and Brussels than in Washington, and certainly Berlin or Paris. In recent years, however, the idea of industrial policy that is more *dirigiste* is again gaining traction – quite unambiguously in Brussels these days and *sotto voce* in the Netherlands. The current Dutch government, in its coalition agreement (2021), claims to want to pursue ‘smart industrial policy’. However, it has so far not given any detailed account of what this notion involves and, crucially, how it differs from industrial policy that is less ‘smart’. The AIV is of the opinion that expounding this distinction, no less at the European level, is a vital task in the coming years.

From an industrial policy perspective, Europe has entered a new era with novel opportunities and dangers. This new era calls for a *recalibrated compass* that helps navigate all areas of industrial policy and that also allows the Union to avoid obstacles and dangers, both old and new, that lurk beneath the surface. As a relatively small trading nation, for the Netherlands the greatest danger used to come from one direction: Franco-German industrial domination. The main manifestations of this threat were state aid for domestic companies and protectionist trade policies. In contrast, the Netherlands, with the help of other member states, and further strengthened by the EU institutions and treaties, sought to emphasise the importance of undistorted competition in the single market and an open international economy. As a result, the country managed to steer clear of the danger it feared most.

In our current situation, however, *new* obstacles and dangers have surfaced, which need to be taken into account simultaneously. They include the loss of access to natural resources and critical supply chains, takeovers of companies by non-European systemic rivals in strategic sectors, and an unbridgeable deficit in the development of technologies of the future (e.g. battery, hydrogen, cloud) that would hinder Europe's twin transitions to a green and digital economy. Not least, these dangers include powerlessness to withstand geopolitical pressure from China or even the US, or indeed from Russia in the field of energy. Navigating around those new obstacles and dangers requires a fresh approach in which shielding and supporting certain strategic industries and other forms of 'vertical' industrial policy are no longer by definition taboo.

The Netherlands has so far taken a guarded stance in the EU debate on industrial policy. The Dutch government has since some time supported certain *defensive* EU measures, such as the proposal to curb unfair foreign competition of state-subsidised enterprises and the new anti-coercion instrument. However, the changing geopolitical situation requires the Netherlands to go further and be open to measures that actively *strengthen* certain industrial ecosystems, including with state aids, such as those for semiconductors or hydrogen. First and foremost this applies to measures facilitated by expanded state aid frameworks such as IPCEIs. However, it also applies to *offensive* measures that build on efforts to promote EU standards and other norms globally, based on the power of a fully-fledged single market. The AIV is of the view that all these measures are necessary to boost the resilience of the European continent. It further believes the Netherlands can benefit from a revival of industrial policy, if properly conceived and implemented at the European level.

Dutch hesitations regarding recent industrial policy initiatives and the Union's quest for 'strategic autonomy' stem partly from reservations that Europe's international partners might have to such policies, the US in particular. However, the AIV believes such concerns can be easily overplayed. Since the outbreak of the COVID-19 pandemic, EU ambitions to become more autonomous have been primarily economic. Europe is seeking to strengthen its economic security and industrial resilience. Under President Biden, the US has embarked on a similar shift towards resilience, based on a re-evaluation of 'vertical' industrial policy that closely mirrors the European debate. Moreover, EU member states equipping themselves with tools to protect themselves against the unwanted participation of China in strategic and high-value ecosystems, and reducing their dependence on Russian gas, seems entirely compatible with US security interests.

The other important reason why the Netherlands, as well as certain other EU member states, regard the revival of industrial policy – and the relaxation of state aid rules perhaps in particular – with a degree of trepidation is that such moves might lead to a repetition of old industrial policy mistakes of the 1970's and the inefficient allocation of public means based on ill-informed and arbitrary choices. Moreover, whereas some member states, notably those with most significant spending power like France and Germany, are likely to reap great benefit from this shift, those states with less to invest will inevitably lose out in a European subsidy race. The risk of such distortions of the single market and unfair distributive consequences of industrial policy rightfully cause concern.

To manage this risk, the AIV advises the Dutch government to, instead of opposing industrial policy outright, take the lead on developing a common assessment framework for 'smart' industrial policy at EU level. Such a framework would help the Union and its member states to avoid well-known pitfalls, while simultaneously enabling the EU to reduce its vulnerability in critical supply chains.



According to the AIV, this framework should at least contain five criteria. To begin with, before industrial policy is employed to strengthen a particular industrial ecosystem or value chain, it should be established, based on empirical data, that strategically vulnerability exist. Second, any industrial policy developed must offer solutions that are effective in achieving the goal of reducing this vulnerability. Third, such a policy must be designed in ways that avoid distortions of the single market that are disproportionate to that goal and be developed in areas where the market has failed to offer solutions. Fourth, the benefits of policies supporting a particular ecosystem should be demonstrably European, that is to say, not accrue to a single member state, but to a reasonable minimum number of such states. Fifth, industrial policy should avoid placing burdens on the multilateral order that are unnecessary and unreasonable in the context of geopolitical developments.

Industrial policy is more than ever bound up with foreign policy and geopolitical developments. The AIV considers that national and EU decision making bodies should recognise this and do more to articulate the strategic connections between economic, climate and social policy objectives on the one hand, and the geopolitical vulnerability analysis on the other. For the Netherlands in particular such an approach constitutes a clear break with the past. As long back as the French Napoleonic occupation (1795-1810), economic and industrial policy in the Netherlands has been driven by the fear of getting locked into a closed continental bloc in which the interests of France and Germany prevail over those of a small trading nation such as itself. *At the same time*, however, a new fear has emerged, which is that the great powers of our own times – China, Russia and at times the US – will exert their industrial power at Europe's expense. While the EU single market served to allay primal Dutch fears of continental confinement, the new industrial policy that Brussels has now begun to develop can serve to assuage this more recent concern. It can safeguard Europe's joint capacity to maintain freedoms, prosperity and jobs in a power struggle that has become global. For the Netherlands, geopolitical change touches on crucial public interests that go well beyond tactical positions in debates on such issues as 'strategic autonomy'. A broader repositioning on the place and future of industrial policy is necessary.



# Recommendations

In the 2021 coalition agreement, the Dutch government announced its intention to pursue ‘smart industrial policy’ at both national and EU level. Given the fundamental changes in the geopolitical situation, this policy should focus on reducing strategic vulnerabilities that threaten major public interests. In response to the government’s request for advice concerning, respectively, the Dutch position in Brussels, its message and allies within the EU, as well as its stance towards international partners outside the EU and the policy areas in which the government should modify its position, the AIV presents the following ten recommendations.

## *The Netherlands’ position within the EU*

### ► Recommendation 1

**Take action. A proactive Dutch position on EU industrial policy presupposes a clear industrial policy at national level.**

Aside from its usefulness for the purpose of setting national priorities, an updated vision on the place and future of Dutch industry is necessary, if only to keep pace with the rest of the Union. If the Netherlands falls behind neighbouring countries (Germany, Belgium, France and also the UK) in this respect, the Dutch business and investment climate will become less attractive by comparison, especially in technologically advanced ecosystems and sectors that are important for greening the economy, like semiconductors and hydrogen. Maintaining the country’s strong position in such strategic sectors requires increased government guidance and prioritisation.

### ► Recommendation 2

**Use the language of European public interests and adapt to the geopolitical shift in the European debate.**

The Dutch input in the debate on EU industrial policy is most convincing when it is translated into the vocabulary of strategic *public* goals (as opposed to purely private goals) and into *European* interests (as opposed to purely national interests of individual member states). Given the geopolitical situation, reducing strategic vulnerability is Europe’s number-one public interest in 2022. As long as this vulnerability continues, European and Dutch ambitions for greening the economy, digitalisation and energy security will be jeopardised.

### ► Recommendation 3

**Bring calm and predictability to the EU industrial debate through one targeted action: develop a binding European assessment framework.**

It is important to clarify, regulate and, where necessary, place limits on the necessary shift towards new industrial policy. A European assessment framework – with tests relating to effectiveness, the single market, the distribution of benefits and the multilateral order – can provide insight into the various interests that the Union must consider, and into why certain choices should or should not be made. The AIV advises the Dutch government to develop such a framework and introduce it at EU level. In addition to improving decision-making, this will allow the government to show that it is no longer approaching the shift in industrial policy from a reluctant perspective (‘no, unless...’) but from a constructive one (‘yes, as long as...’).



► Recommendation 4

**Urge EU partners to recognise the strategic importance of economic scale, strength and dynamism for the continued functioning of the single market and European competitiveness.**

As the EU becomes less naive in its external outlook and starts protecting its own market or companies where necessary, it is essential to remain open and dynamic internally.

► Recommendation 5

**Seek EU allies not only among small, free-trade-supporting member states but also among medium-sized member states.**

When it comes to European decision-making on industrial policy, like-minded medium-sized allies are vitally important in terms of critical mass and voting weight. For example, the Dutch-Spanish non-paper on 'open strategic autonomy' might be followed up by the joint submission of a proposal for a European assessment framework for industrial policy. Following the Franco-German example, moreover, working groups could be set up with these countries to identify cross-border ecosystems, coordinate strategies or prepare other joint contributions to the EU debate. Additional options include developing partnerships that revolve around cross-border strategic value chains in which Dutch industry and knowledge institutions form a strong link, or based on issues that the Netherlands prioritises, such as green industrial policy. As regards the knowledge institutions in particular, links can be established with the Climate and Transition Fund established under the 2021-2025 coalition agreement, and the revamped Horizon Europe programme, which increasingly focuses on specific 'missions'.

► Recommendation 6

**Seek closer alignment with Berlin and Paris.**

The Netherlands has a strong position in various strategic ecosystems and combines the financial strength to support them independently with a guarded approach to financial transfers within the Union. In the near future, the choice the Union faces will be between, on the one hand, relaxing state aid rules and expanding the scope for funding industrial stimulus measures from national treasuries (the Franco-German preference), and, on the other, significantly increasing the EU budget with a view to financing (or co-financing) industrial projects in *all* member states (as in the case of the EU's COVID recovery fund). Both options have advantages and disadvantages. Given the choice, the Netherlands would derive greater economic and political benefit from the first option, under which it would have more control over the allocation of the resources deployed. This future consideration is another reason for maintaining open lines of communication with Berlin and Paris.



***Stance towards international partners outside the EU***

► Recommendation 7

**Within the EU, advocate cooperation – where appropriate – not only with the US but also, for example, with South Korea, Australia, Canada, the UK and the Maghreb countries, in order to reduce undesirable dependencies in supply chains.**

The AIIV advises the Dutch government to make it clear to its European partners, in so far as necessary, that strategic autonomy is not synonymous with autarky. In many cases, the Union will only be able to reduce its dependence on China and Russia, in particular, in cooperation with other countries. Even in times of geopolitical tension, economic interdependence can dampen conflicts. Multilateral industrial partnerships, which on issues such as climate change also include China, transcend regional blocs and therefore remain valuable. For this reason, too, international coordination, for example in the framework of the EU-US Trade and Technology Council, is no less important in building industrial ecosystems than policies aimed at 'reshoring' in Europe. When it comes to international cooperation, however, it is vital to preserve symmetry between the Union and its partners, for example in the area of data traffic. In other words, it is important to make targeted use of one's own strengths and equally be aware of the 'choke points' in supply chains that others

control. In view of Europe's heavy dependence on the US in security matters, it makes sense to also seek closer relations with other global industrial partners in the G7 and G20 and, for example, the Maghreb countries (e.g. Morocco with regard to hydrogen).



### ***Modifying the Netherlands' position on EU industrial policy***

#### ▶ Recommendation 8

#### **Demonstrate greater urgency and ambition in respect of EU measures that strengthen specific industrial ecosystems.**

While the Netherlands supports or has actively helped shape recent proposals for 'defensive' new trade and industrial policy, it remains reluctant to support specific ecosystems at EU level. However, the fifth-largest EU economy with a strong position in various strategic sectors may be expected to do more than piggyback on the efforts of other member states. Taking new initiatives, the Netherlands would not only boost the strategic resilience of the Union as a whole but also increase prosperity and employment domestically. In order to safeguard its strong position in the hydrogen ecosystem, for example, the Netherlands could play a more active, leading role in the EU and examine whether its national industrial policy ambitions in this area are sufficiently compatible with those of the EU. The same applies to the recently proposed European Chips Act.

#### ▶ Recommendation 9

#### **Guarantee the ability to exercise strategic judgment through better integrated national and European decision-making.**

Effective decision-making requires a closer strategic link between the security and economic dimensions of public policy, both in the national capitals and within the EU institutions. In Brussels, the Dutch government could propose, for example, to make either the president or a coordinating vice-president of the European Commission responsible for strategic resilience from 2024 onwards (following the example of the two current executive vice-presidents for the European Green Deal and A Europe Fit for the Digital Age). In The Hague, the aim should be to include the EU industrial policy dimension in its government-wide Security Strategy which is expected in the autumn.



#### ▶ Recommendation 10

#### **Take clearer responsibility in the national public arena for major industrial policy decisions.**

In the coming period, the Dutch government should translate the direction and goals of its industrial policy into a political strategy and encourage ministers to articulate and account for the government's policy in public debate. Proper democratic scrutiny is only possible on the basis of clearly defined and articulated public goals.



# Introduction



Until recently, the idea of industrial policy – and EU industrial policy in particular – chiefly set off alarm bells among policymakers in The Hague. Is government intervention in the economy not tantamount to protectionism, at the expense of the European single market and Dutch trade interests? And does the ambition to create ‘European champions’ not make life harder for the manufacturing industry in smaller member states, given that in practice these champions tend to be primarily French and German? Additional concerns that have recently arisen include potential resentment, on the part of international partners such as the US, of the EU’s pursuit of ‘strategic autonomy’.

However, a change is discernible. Doubts and reticence have not disappeared, but at the same time there is a growing awareness in the Netherlands and elsewhere that the lack of EU industrial policy also entails significant economic, social and geostrategic risks. Doing nothing also comes at a cost. Are the Netherlands and the EU partners falling behind in the global race for technological superiority between the US and China due to insufficient investment? Is Russian aggression jeopardising our energy security? As a result, are we at risk of losing high-quality jobs, control over our data or, more generally, the ability to protect and develop the European way of life? And, once these risks have been recognised, how can the Netherlands and the EU develop modern industrial policy that steers clear of obvious objections and old pitfalls?

## The request for advice

Given the Dutch economy’s integration in the European single market and currency union, the government is aware that the Netherlands needs to answer most of these questions in an EU context. The Social and Economic Council (SER) draws a similar conclusion in a recent, economically oriented advisory report on ‘reshoring’ that it prepared for the government and Parliament.<sup>1</sup> The Dutch government recognises that industrial policy choices also have a European and foreign policy dimension. In this light, the Advisory Council on International Affairs (AIV) received a request for advice on EU industrial policy from the Minister of Foreign Affairs on 17 May 2021 (see annexe I).<sup>2</sup>

In his letter, the minister outlines the state of the EU debate on this issue and how it relates to the Netherlands’ position. He also links this discussion to the debate on ‘strategic autonomy’ and the EU’s geopolitical task.<sup>3</sup> Against this background, the minister presents the AIV with three key questions:

- 1 How can the Netherlands best position itself in the debate on industrial policy in the EU, and what are the most appropriate messages, member-state coalitions and ‘industrial alliances’ in this regard?
- 2 What should the Netherlands’ stance be towards international partners outside the EU in this debate, given that some of them interpret the pursuit of ‘strategic autonomy’ as a move towards greater protectionism?
- 3 Based on the above considerations, does the AIV advise the government to adjust its position on EU industrial policy? If so, which elements and individual areas should it modify its position on?

In the present advisory report, the AIV answers these questions based on an analysis that is followed by ten recommendations. These recommendations are based on a survey of recent EU initiatives and debates on industrial policy and a study of the European and international constellation of forces in this area.

## Definitions

It is useful to clarify from the outset what this report means by ‘industry’ and ‘industrial policy’. A glance at the literature shows how much definitions can vary based on the relevant period, language or economic doctrine.<sup>4</sup>

The AIV defines ‘industry’ as all companies, from multinationals to small- and medium-sized enterprises (SMEs), that are involved in the manufacture of physical products, including components, semi-manufactured products and finished products. The term thus encompasses the basic, processing and manufacturing industries. This definition also reflects the contemporary interconnectedness of the manufacturing industry and other economic sectors (e.g. mining) and draws attention to entire value chains encompassing industrial production, the provision of services and knowledge institutions.

In recognition of this new reality, reference is increasingly made to industrial ‘ecosystems’, a term also used by the European Commission in recent communications on industrial policy.<sup>5</sup> Ecosystems comprise a multitude of public (e.g. universities and knowledge institutions) and private actors, ranging from large companies to smaller producers. Supply chains can be long and complex and connect businesses and organisations from all over the world. At the same time, geographical proximity promotes innovation and competitiveness and increases the resilience of ecosystems. Such geographical concentrations of interconnected actors are referred to as clusters or valleys.

When it comes to industrial *policy*, the main distinction is between ‘vertical’ (or specific) and ‘horizontal’ (or general) approaches.<sup>6</sup> In both cases, such policy is grounded in industry-related – and politically defined – goals. However, while vertical industrial policy defines these goals more strictly and concretely, for example in relation to a specific ecosystem, a particular technology (such as semiconductors or quantum computing) or even certain companies, horizontal industrial policy sets more general goals. In principle, these horizontal goals affect and encompass almost all sectors and companies. Examples include the pursuit of jobs and growth, promoting the investment climate, reducing CO<sub>2</sub> emissions and the promoting the digital economy. The distinction between vertical and horizontal policy largely overlaps with the distinction between governments that pursue a ‘dirigiste’ approach and those that merely seek to create favourable conditions.

The AIV is aware that these are not neutral terms. In fact, ‘horizontal’ industrial policy, the supposedly market-neutral and hands-off approach favoured in the Netherlands, can also have ‘vertical’ effects by favouring specific sectors. Consider, for example, the benefits that the transport and banking sectors would derive from the general removal of obstacles to the free movement of goods or capital. In spite of this, the distinction between horizontal and vertical industrial policy offers a useful classification system.

A second distinction that can be made in the debate on industrial policy is the one between direct and indirect effects. In this context, innovation policy is a form of *indirect* horizontal policy, since it extends state aid directly to research institutions such as universities rather than to private companies. In contrast, measures designed to lower dividend tax rates or energy prices, which apply to all companies, can be regarded as a form of *direct* horizontal policy. However, this distinction is becoming less significant in the current debate, especially in Europe. Industrial policy increasingly focuses on supporting entire industrial ecosystems and value chains through a wide range of interventions targeting a large number of actors. These interventions range from funding for public or private research and specific business activities to public-private partnerships and measures to protect against foreign takeovers and the introduction of sector-specific legislation. Traditional vertical state aid, which directly supports one or more companies in a very specific manner, is increasingly the exception: the distinction between direct and indirect is disappearing.

### Not an economic analysis

The government has not asked the AIV to provide an economic analysis of Dutch industry. That is more of a task for the SER, the Scientific Council for Government Policy (WRR) or the Netherlands Bureau for Economic Policy Analysis (CPB). In accordance with the request for advice, this report focuses on the Dutch position in the debate on EU industrial policy. Nevertheless, it is important to keep a few points in mind. The Netherlands has long been active in a number of key industries, including food, pharmaceuticals, chemicals, engineering and the semiconductor industry. This activity mostly takes place in regional clusters, such as the high-tech ecosystem in Eindhoven, the medical ecosystem in Leiden, the basic industry clusters in Rotterdam/Rijnmond, the North Sea Canal area, Limburg and Zeeland, and the agrifood valley in Wageningen. Dutch multinationals and SMEs within these clusters also occupy a strong position on the international market.<sup>7</sup>

Depending on the definition used, Dutch industry directly accounts for at least 12% of the Netherlands' GDP.<sup>8</sup> Other sectors, such as the logistics sector, also reap substantial benefits from industry. If this indirect effect is included, the total share of industry in the economy lies between 16% and 20%, depending on the calculation method.<sup>9</sup> Industry also accounted for 740,000 jobs in 2019, or slightly less than 10% of overall employment according to Statistics Netherlands.<sup>10</sup> It is therefore an important pillar of the national economy. In addition, the Netherlands occupies a strong position in a number of industrial ecosystems that are high on the European agenda. The outcome of the EU debate on this issue will thus potentially have a direct impact on growth and employment in the Netherlands. In light of the above, the AIV advises the government to examine the future viability of Dutch industry in the appropriate forums. Developing and refining the Netherlands' view on the position and future of *Dutch* industry, and thus on Dutch industrial policy, is the best preparation for adopting an optimal position in the debate on *EU* industrial policy.

### Structure of the report

Against this background, the AIV has opted to structure the report as follows. Chapter 1 summarises the history of industrial policy in the Netherlands and Europe. Chapter 2 examines the major shocks that have brought about the recent change in industrial policy, in particular the financial crisis and the geopolitical shock resulting from the rise of China. Chapter 3 takes stock of recent European initiatives and debates, the majority of which have been driven by the European Commission, but also by Germany and France. Chapter 4 analyses the political forces shaping industrial policy within the EU and identifies four fault lines, three of which are internal and one geopolitical. The consequences of the UK's departure from the EU are also briefly discussed.<sup>11</sup> In chapter 5, the AIV develops an assessment framework to help the Netherlands position itself on EU industrial initiatives, and applies it to two concrete cases: the semiconductor and hydrogen ecosystems. Chapter 6 concludes with a few observations on the nature of the institutional and political task that lies ahead.

### Urgency

This report comes at a time of European reorientation. In the coalition agreement on which it was founded, the fourth Rutte government formulates ambitions for greening the economy and supporting the manufacturing industry, and advocates pursuing 'smart industrial policy' at EU level, especially in the areas of the digital transition and technology. France, a member state that wants to galvanise the industrial debate, will hold the Presidency of the Council of the EU in the first half of 2022. At the same time, a new government with a robust agenda on the green and digital transitions has taken office in Germany. Meanwhile, the war in Ukraine has brought the issue of energy security to the fore.

In this constellation, it is important for the Netherlands to quickly adopt a position so as not to be confronted with *faits accomplis*. The European Commission is developing new initiatives, such as the European Chips Act and a carbon import tax known as the Carbon Border Adjustment Mechanism (CBAM). Member states and companies are entering into industrial alliances. There is a growing

awareness that Europe is rapidly losing ground on the economic, industrial and technological fronts, both to the US and to China and various other Asian countries. Now that the situation is in flux, the new Dutch government has an opportunity, by adopting an active approach, to bring its own views and interests to bear on the European policy agenda. This is a matter of urgency.

At the same time, it is clear that the issue of industrial policy will not disappear in the coming years and that new dilemmas will arise whenever a decision is adopted, for example, on semiconductors or hydrogen. The AIV therefore hopes that, based on its up-to-date analysis and an assessment framework that aspires to a long shelf life, the present report will contribute to the quality of debate and decision-making on the Dutch position vis-à-vis EU industrial policy not only in the short term but also in the medium term.



# History of Dutch and European industrial policy

## ► 1.1 Back on the political agenda

Industrial policy is back on the political agenda. In the EU, the US and the UK, under the Conservative government of Boris Johnson, the idea is gaining traction that the state should intervene in the industrial economy and in market processes in a more direct, deeper and more dirigiste manner than was common until fairly recently.

In fact, for the past forty years, industrial policy appeared to have been renounced for good. Around 1980, a consensus emerged among policymakers in western Europe and the US that the state's economic role was a limited one. The idea was that the state should adopt a regulatory and facilitative approach rather than guiding and steering the economy in pursuit of public interests. Market forces, if properly regulated, would not only bring greater prosperity but would also produce socially desirable outcomes. Governments therefore had to focus on safeguarding the political, legal and social conditions for the optimal functioning of the market, for example through regulation and competition policy. The state only entered the picture in the event of a market failure. In practice, the situation was obviously not always so clear-cut, and the pendulum did not swing quite so far in all countries. Nevertheless, this was the dominant discourse in Europe and the US.

There are various reasons for this policy turnaround from 1980 onwards. First, the state's steering abilities, predictive powers and capacity to shape the economy and society turned out to be more limited than expected. In the first decades after the war, when Europe addressed itself to the task of reconstruction, the need for a state-led policy of *grands projets* spoke for itself. In the 1970s and 1980s, however, this was no longer the case. The Netherlands experienced the debacle surrounding the collapse of the Dutch shipbuilding company Rijn-Schelde-Verolme (RSV) (see section 1.2). Elsewhere in Europe, too, the strategy of 'picking winners', i.e. creating and subsidising national champions, all too often proved to be an exercise in 'backing losers', with losses running into billions. In 1975, for example, the grand plan of Harold Wilson's Labour government to consolidate the UK's national automotive industry ended in the infamous bankruptcy of British Leyland. Other high-profile initiatives, such as the Anglo-French Concorde project, also ended in failure.

Second, this period also saw the rise of the idea that western Europe's future lay in the service and knowledge economies. Objections to the deindustrialisation of the continent were played down. In the context of economic globalisation, the relocation of certain industries to Asia, for example, was thus a logical, inevitable or even desirable form of outsourcing and specialisation. The transfer of industrial production to low-wage countries was therefore not to be resisted through defensive mechanisms and protectionism. Instead, it was to be seen as an opportunity and an incentive, a 'win-win' proposition for the world as a whole. Less prosperous countries would have the opportunity to develop economically, while the European economy would occupy a higher position in the value chain by virtue of its superiority in the fields of technology and knowledge. This would lead to the creation of new, higher-paid and also cleaner 'knowledge jobs'.

A series of major global shocks over the past decade or more has transformed thinking about the state and industry (see Chapter 2). This change has affected all Western economies, but in policy terms the break with tradition has been more pronounced in The Hague and the EU ('Brussels') than in Washington, Paris or Berlin. This is because the EU's approach to economic integration has been based on horizontal market regulation ever since the late 1950s, while vertical, dirigiste interventions have been viewed with suspicion (section 1.3). The Netherlands has an even older economic tradition that favours market liberalisation over support for specific industrial sectors (section 1.2). The current situation therefore constitutes a major practical and intellectual challenge for policymakers in The Hague and Brussels.

► 1.2 Dutch industrial policy: an overview

The economic policy of the Netherlands is characterised by a commitment to the free market. As a rule, government intervention in the economy is only defended in times of, or shortly after, a political and/or economic crisis, such as the world wars. Even then, it was often limited to providing general support to companies and creating the necessary conditions for economic growth, for example in the field of infrastructure and innovation. Sector-specific measures of the sort common elsewhere in Europe and around the world usually met with considerable resistance in the Netherlands.<sup>12</sup>

This free trade discourse can be traced back to the Netherlands' historical strength in the areas of trade and shipping. Industrialisation only came to the Netherlands later on in the 19th century, after it had already taken hold in the UK, Belgium and Germany. That is why the industrial sector, which developed in such areas as Brabant, Twente and South Limburg, remained relatively small in the rest of the country. In terms of political weight, it could not compete with trade and shipping interests, especially in Rotterdam and Amsterdam. While the industrialists sought protection against foreign competition, the free traders concentrated in west of the country saw protectionism as a threat to national prosperity. The free traders carried the day, even in the face of rising protectionism in neighbouring countries at the end of the 19th century.

The First World War briefly changed matters. The collapse of international trade and a shortage of raw materials forced the state to develop its own industry, including the steelworks Koninklijke Nederlandse Hoogovens en Staalfabrieken (1918). By this time, state mines had already been opened in South Limburg. However, at the urging of the liberal free trade lobby and denominational proponents of a small state, the government retreated to its traditional position after the war. The Great Depression of the 1930s gave rise to another round of economic intervention. The government restricted the import of many products by means of quotas, and also adopted other decisions to protect employment and the profits of Dutch business. However, these measures were temporary and did not lead to the development of a genuine industrial policy.

The government's role in industry nevertheless expanded after the Second World War. The CPB was founded in 1945, and the first policy documents on industry – eight in total – were published between 1949 and 1963. Although the Dutch government was breaking new ground by formulating an industrial strategy, it continued to limit its own role in this area. The policy was aimed at preserving existing industrial sectors in order to promote employment. The focus was on creating the necessary conditions for economic growth, for example by building roads and power plants, and on providing investment grants.

Perhaps the most important economic initiative of the Dutch government in these post-war years was to advocate the establishment of a European common market, for which the Treaty of Rome laid the foundations in 1957. The internal market that the Netherlands entered into with Belgium, Germany, France, Italy and Luxembourg served the interests of the Dutch transport and agricultural sectors.

It also allowed the port of Rotterdam to develop into a central transshipment point for imports to and exports from the German industrial hinterland. The Dutch banking and insurance sector also benefited.

Domestically, the Netherlands embarked on a process of deindustrialisation in the 1960s. Although early industrial policy led to the temporary growth of the industrial sector, it could not prevent the decline of the textile and shipbuilding industries. Production increasingly moved to low-wage countries. Generous support packages for unprofitable companies, launched in the 1970s in order to save jobs, failed to prevent bankruptcies. This increased political aversion to state aid in The Hague.

The debacle involving the RSV shipbuilding company was a key moment in this regard. The product of a merger in the late 1960s, the company was supported financially by the government for many years. But this could not save it from bankruptcy in 1983. Industrial policy was not only unsuccessful, according to the subsequent parliamentary inquiry, but also suffered from a fatal lack of democratic oversight. Political, official and business interests had become inextricably entangled. The inquiry exposed false optimism concerning a company, or even an entire sector, that was in truth no longer viable due to an economic crisis and fierce competition, but had to be propped up at all costs. The trauma of RSV's failure left the political establishment in The Hague with an aversion to misplaced state aid to 'losers'.

Following this debacle, instead of supporting shrinking industrial sectors, as other European countries did in response to increased competition from emerging industrial and low-wage countries, especially in Asia, the Netherlands began to focus increasingly on *innovation*. This 'offensive' policy was meant to preserve the competitiveness of existing companies through innovative technologies and create room for new companies and technologies. It was inspired by a key advisory report by the WRR on the future of Dutch industry that was published in 1980.<sup>19</sup> In this report, the WRR acknowledged that the Netherlands' domestic industry was thoroughly outdated and advocated the development of sector-specific and innovation-driven policy. The government embraced the WRR's focus on innovation but a sector-specific approach was not adopted.

Based on this national preference for general industrial policy, the Netherlands realigned itself with European initiatives during the 1980s. Philips CEO Wisse Dekker played a key role within the European Round Table of Industrialists, which in 1983 called for a deepening of the internal market. In 1987, at the proposal of Commission President Jacques Delors, the heads of state and government of the European Economic Community decided to embark on this path. At European level, Prime Minister Ruud Lubbers (1982-1994) was a key proponent of a large single market; the same was true of his successor Wim Kok (1994-2002). Dutch Commissioners Frits Bolkestein (Internal Market, 1999-2004) and Neelie Kroes (Competition, 2004-2009) held key positions in the EU's legislative and regulatory mechanisms that underpin the single market.

The Dutch government has thus long been guided by industrial policy that creates the necessary conditions for economic growth. In the past, however, it has been anything but averse to providing financial support to specific sectors and companies, although this chiefly occurred during political or economic crises and often as a result of corporate lobbying. The nature and scope of the support provided to the banking sector during the financial crisis of 2007-2011 is a typical example of this. Only recently have strategic and sector-specific initiatives been taken to develop a long-term strategy for Dutch industry (see section 2.3).

### ▶ 1.3 EU industrial policy as a form of market regulation



In its earliest years, European cooperation was still imbued with the spirit of planned industrial policy.<sup>14</sup> This spirit permeated the European Coal and Steel Community (ECSC), the EU's most distant predecessor, which was established in 1951. The European Atomic Energy Community (Euratom), set up at the insistence of France in 1957, also remained consistent with the familiar post-war philosophy of sectoral policy. It was the four freedoms introduced by the Treaty establishing the European Economic Community, which was concluded simultaneously in Rome in 1957, that truly advanced the European project economically and politically. From that point onwards, European economic policy was horizontal.<sup>15</sup>

This horizontal shift explains why industrial policy in Brussels became an ideologically charged concept that continues to evoke emotion, suspicion and resistance today. The Europe of the internal market and cross-border trade was born in diametric opposition to post-war industrial policy, which by definition appeared to be national. The decline of industrial policy (and state aid) in western Europe was accompanied by the deepening of the internal market. As the European Court of Justice clarified on multiple occasions, including in its famous *Cassis de Dijon* judgment of 1979, any effort to favour or shield national markets – by granting direct state aid or imposing market-distorting legal restrictions – essentially amounted to a violation of the European treaties, which guaranteed the free movement of goods, services, persons and capital, as well as free competition.

As a result, regulating member-state support to domestic industries became one of Brussels's core tasks and a key element in the narrative of the European Commission in particular. Other forms of industrial policy that could distort competition within the market were also targeted. The Commission's competition and internal market departments became the most powerful bodies within the Brussels bureaucracy. Unlike anywhere else in the world, state aid in Europe was subjected to a legally binding framework of rules, case law and an – in principle – apolitical regulator. The smaller member states in particular supported this agenda, which granted their producers access to a larger, pan-European market for goods and services. They also understood that they would inevitably lose out to their wealthier neighbours in a subsidy race.

As in the case of the Netherlands, however, industrial policy did not disappear completely from European policy practice, although at EU level the term was increasingly used in a purely horizontal sense, in which goals were defined in very broad terms. Industrial policy was thus stripped of its historical sensitivity in Brussels, and could continue to exist along with its very own directorate-general (DG). The industrial sector had to deal with rules and policy on the internal market, state aid, the environment, competition and, later, climate change. In this manner, industrial policy lost much its specific content.

The famous Lisbon Strategy is a good example of horizontal industrial policy at EU level. Launched in 2000, it aimed to make Europe 'the most competitive and dynamic knowledge-based economy in the world'. However, a key feature of this strategy was its focus on deepening the internal market, which provided European industry with a vital increase in scale. The proposed Digital Markets Act (DMA), which combats the abuse of economic power by so-called gatekeepers in digital markets, is also a form of horizontal industrial policy.<sup>16</sup>

Only in recent years has vertical industrial policy seen a revival at EU level – as happened previously in the US, the UK, Germany and France – giving rise to the beginning of a joint response of the 27 member states to major strategic challenges. Within the scope of present advisory report, this is where the key issues are located.



# Watershed moments: economic and geopolitical shocks since 2008

In the AIV's view, the impulses and changes that are putting vertical industrial policy on the agenda in Brussels will continue to have a major impact on the political climate in the EU in the coming years. The instability and crises that have characterised European politics for over a decade – including, most recently, the COVID-19 crisis – have each in their own way intensified the call for a governing authority, at both national and EU level, that not only regulates but also takes action and develops initiatives. In this context, it is useful to distinguish between two major shocks that have occurred; each one constitutes a watershed moment.

## ► 2.1 Economic policy: the Lehman shock and the climate crisis

The first major shock was the banking and credit crisis that erupted in 2007, and the broader economic downturn that followed. According to many observers, these events demonstrated that governments could no longer refrain from intervening in the economy. The European public looked on in dismay as the financial sector managed to survive only thanks to massive government subsidies. On the other hand, Washington's *failure* to intervene in the case of Lehman Brothers led to the unfolding of a global financial disaster from September 2008. In a number of high-profile cases (e.g. ABN AMRO and the Royal Bank of Scotland), European banks even had to be nationalised.

This spectacular market failure was a reminder that the state formed a floor beneath the market. This helped revive the idea that the *public sector* should play a guiding and incentivising role in economic life, for example by kick-starting the economy during a recession by means of investments and cofinancing in promising industrial sectors. This idea was only accepted when it became apparent that efforts to reduce government debt – which Brussels had continued to emphasise for several years after 2008 at the insistence of the Netherlands and other countries – would not automatically lead to growth and jobs, especially in times of crisis. Investment gradually became the new watchword, coupled with a stronger government role.

In the aftermath of the banking crisis, moreover, it was pointed out in academic circles that industrial policy had not always led to failure in the past. In *The Entrepreneurial State* (2013), for example, economist Mariana Mazzucato highlighted that the development of digital technology and the internet in the US had required large-scale government investment.<sup>17</sup> This investment had been channelled through various bodies, including the famous Defense Advanced Research Projects Agency (DARPA), which had been established in 1958 – a year after the launch of Sputnik – to provide a geopolitical response to the success of Soviet technology. Without US government support, there would be no International Business Machines Corporation (IBM), no Apple, no Google and even no Tesla. This view goes against the prevailing political narrative of the US as a champion of the free market and small government.

Furthermore, following the financial crisis it was increasingly recognised that the role of safeguarding certain *public interests* could not be left to the market. This was and remains all the more true when national governments are dealing with large multinationals, such as in the area of Big Tech. Renowned economists such as Joseph Stiglitz and Dani Rodrik, who before the crisis had already identified the consequences of poorly regulated economic globalisation – such as increasing inequality, climate change, instability and conflict – and democratic erosion, found a wider audience. The Washington Consensus among policymakers, which holds that economic growth automatically ‘trickles down’ to society as a whole, began to lose credit. For example, there was a growing awareness that governments need to play a guiding role in order to safeguard public interests and facilitate vital social transitions.



### ***Climate policy***

In recent years, this new relationship between the state and the market has found consummate expression in the area of climate policy. The EU member states recognise that their climate ambitions will require both regulation and incentives at government level. This stimulus for EU industrial policy has since resulted in the adoption of the European Green Deal and the objective of making Europe a climate-neutral continent by 2050.

The Brussels climate agenda is in some ways an extension of the EU’s horizontal regulatory policy. In this case, it is about using new rules and emission standards to encourage the actors in the relevant market – entrepreneurs, investors and ultimately consumers – to reduce their emissions of carbon and other harmful substances. Examples include the EU Emissions Trading System (EU ETS), the EU Taxonomy Regulation, which establishes a framework to facilitate sustainable investment, and the Carbon Border Adjustment Mechanism (CBAM) recently proposed by the Commission, which aims to protect European industry against the damaging effects of these climate ambitions on competition.

At the same time, the aforementioned climate goals provide a clear reason to actively and directly promote certain sustainable technologies and green business sectors, that is, to pursue vertical industrial policy. This relates to public tenders, subsidies and investments in such areas as wind turbines, battery technology and hydrogen. To this end, for example, the EU has announced a new innovation fund financed by revenues from emissions trading, which will raise around €20 billion for research into and the development of sustainable technologies.<sup>18</sup> More vertical initiatives can be expected in the climate field in the coming years, due in part to the new geopolitical constellation in which the European continent finds itself.



## ► 2.2 Geopolitics: the China shock and the pandemic

The second major impetus for the revival of industrial policy can be found in new geopolitical conflicts, in particular the rise of China and the US and Europe’s response to this development. This geopolitical shock – not to say earthquake – surpasses that of the financial crisis. While the Lehman shock ended a 30- to 40-year period of neoliberal consensus, China’s emergence as a rival superpower to the US marks the end of a historical era that began in 1945. It therefore constitutes a more profound watershed moment.

This shock cannot be traced back to a single moment in time. The financial crisis accelerated existing global power shifts at the expense of the US and Europe. After the chaotic fall of Lehman Brothers, Beijing’s political leadership lost their respect for Western economic ingenuity. A few months later, at the end of 2008, the G20 started meeting at the level of heads of state or government, alongside the summits of the more established G8 Western industrialised nations. The emergence of this new high-level forum showed that the global economic depression could not be subdued without the cooperation of China, which in addition to being the biggest newcomer by some distance soon surpassed Japan as the world’s second largest economy.

Even more significant was the appointment of Xi Jinping as Communist party leader (2012) and president of China (2013). Whereas all his predecessors since Deng Xiaoping (1978-1989) had strived to discreetly embed China in the international economy with a view to increasing domestic prosperity, Xi engages in an assertive brand of power politics. His ambition to combine geopolitics and industry is taking shape, inter alia, through the Belt and Road Initiative (BRI) (since 2013) and the Made in China 2025 strategy (since 2015). The latter is the epitome of massive, centralised industrial policy, aiming as it does to make China the leading superpower in such strategic areas as robotics, space flight, artificial intelligence and telecommunications within the next ten years.

While the BRI initially seemed to affect mainly countries in Asia and Africa and the less affluent eastern and southern parts of Europe, Made in China 2025 also impacts on the US and western European high-tech industries. The realisation that Beijing is serious about its technological ambitions finally took hold in 2016, when Chinese company Midea acquired an industrial crown jewel in the form of German robotics company Kuka. Following this wake-up call, Berlin, together with Paris and Rome, urged the EU to improve its screening of foreign takeovers. US companies simultaneously came to a similar conclusion, namely that China was no longer the ‘workshop of the world’ of the 1990s and 2000s, exporting cheap consumer goods in exchange for Western machines, cars and luxury goods, but rather an industrial competitor of the highest order.

During the Trump presidency (2017-2021), a consensus emerged among Republicans and Democrats in the US that China ultimately posed the greatest threat to America’s status as the world’s number-one power. At the beginning of his presidency, Donald Trump focused mainly on unfair Chinese competition, ushering in a period of tumultuous trade disputes. Already in the summer of 2018, the US passed a law authorising the use of all means, including economic and military measures, to maintain its geopolitical primacy over China.

The all-pervading consequences of this struggle between superpowers – from territorial tensions in the Pacific to the paralysis of multilateral organisations such as the World Trade Organization (WTO) – do not need to be discussed in depth for the purposes of this advisory report. In terms of industrial policy, what matters is that this battle for global supremacy is increasingly being waged over access to raw materials, technology, data, connectivity (5G), knowledge, innovation and industrial capacity. In both Beijing and Washington, industrial policy is becoming a weapon in a geopolitical struggle.

This geopolitical conflict also has repercussions for the countries of Europe, some of which go beyond the economic risk of falling prey to Chinese industrial ambitions. This is because the superpower dynamic also poses new threats to the EU’s security and prosperity. This is especially true in situations where Europe is dependent on one or both superpowers, for example in the field of Big Tech. In cases where the superpowers each impose their own demands, Europe risks getting caught between the two of them. For example, US restrictions on exports to the Chinese market could also harm EU exports to China – and thus employment in Europe.

At the same time, on security grounds, many in Europe have become wary of allowing Chinese companies – state-owned and otherwise – to invest, acquire interests in or take over European companies in strategic and knowledge-intensive sectors, for example in the fields of artificial intelligence (AI), technological infrastructure (such as 5G networks) and semiconductors. The perception is that Europe, which has long lagged behind the US in the fields of technology and the digital transition, is now also in danger of being surpassed by China, with ultimately devastating political and economic consequences. This fear of ending up at the bottom of the value chain, unintentionally dependent and vulnerable and faced with non-European standards, serves as a powerful incentive to find an appropriate response that seeks to preserve, protect and promote Europe’s own technology and knowledge industry.

It is important to note that Beijing and Washington will continue to frame this fundamental economic policy shift within a narrative of geostrategic rivalry that will last for decades. Within the Biden administration (2021-), this link between economic doctrine and a geopolitical ‘grand strategy’ has been elaborated into a theory by Jake Sullivan, who has served as President Biden’s National Security Advisor since the beginning of 2021.

Sullivan readily admits that, at various times over the past few centuries, an economic theory that suited the strategic needs of the moment came into vogue in the US.<sup>19</sup> For example, the young republic opted for the free trade doctrine of Adam Smith and David Ricardo in part because it realised that it could not compete with the mercantilist practices (e.g. export incentives and protectionism) of the superpowers of the day, namely the UK and France. Likewise, because of its emphasis on employment and wealth distribution, the Keynesian response to the Great Depression of the 1930s was well-suited to the global (propaganda) struggle with the Soviet Union after the Second World War. In the heyday of globalisation, leading American politicians also saw China’s accession to the WTO (completed in 2001) as a way of convincing the country’s population of the benefits of individual freedoms, positing globalisation as a driver of regime change. At present, the battle for supremacy with China is forcing the US to thoroughly reposition itself both strategically and ideologically.

This perspective explains why, of all the forces driving new industrial policy, the China shock has been the most substantial. While political positions and ideas started shifting at the time of the 2008 financial crisis, China’s rise is changing the playing field that has developed since 1945, especially for the US. The Netherlands also needs to realise this.

#### *The pandemic and the experience of strategic dependence*

The COVID-19 pandemic has accelerated these troubling geopolitical trends. This was clearly visible in the divide-and-conquer approach to the acquisition of medical protective equipment at international level and the further disruption of multilateral cooperation by US-Chinese discord, now even in the field of public health, which ended up paralysing the World Health Organization (WHO). In the context of this advisory report, it is highly relevant that the US, EU and China – the world’s three largest economic blocs – each came to the same conclusion, namely that it was time to reduce their strategic dependence on others. In the EU, this ambition evolved into the concept of ‘strategic autonomy’ (October 2020). In a similar vein, the US refers to ‘supply chain security’ (July 2020), while China henceforth intends to treat players in the domestic market differently from those operating internationally, under the banner of ‘dual circulation’ (May 2020).

In China, President Xi personally introduced this new economic doctrine a few months after the first COVID-19 outbreak. ‘Dual circulation’ forms a departure from the theory of ‘great international circulation’ under which China had focused on open participation in globalisation since the days of Deng Xiaoping. However, Xi does not envisage a return to autarky or a closed economy. ‘Dual circulation’ encompasses two distinct economic spheres characterised by differing levels of control and government influence. While domestically operating companies must submit to the discipline of robust competition, Beijing wishes to afford companies that are in contact with foreign markets, interests or competitors the full support of the Chinese state.<sup>20</sup>

The policy reversal in the US is equally important and surprising. Here, too, it initially emerged as an urgent response to the pandemic that was presented by President Biden during his candidacy and implemented after his election.<sup>21</sup> However, the scope of Biden’s plan from July 2020 was broader than merely preventing new medical and pharmaceutical shortages. He was concerned about America’s strategic vulnerabilities in relation to energy sources and networks, semiconductors, electronics, telecommunications and raw materials. Much like China, the ultimate goal of the US is not self-sufficiency but ‘strategic resilience’. To this end, Biden also wishes to ‘work with allies to protect their supply chains and to open new markets to U.S. exports.’

In October 2020, the EU drew the same initial lesson from the pandemic. Policymakers in Brussels also started by examining the bloc's dependence on the import of medical and pharmaceutical products, such as vaccines, face masks and ventilators. As elsewhere, the scope of the EU's response soon broadened. The COVID-19 crisis undermined confidence in global markets, and the relocation of EU industries to other parts of the world turned out to be less straightforward than previously believed. Strengthening economic resilience thus swiftly became a key theme of the EU industrial debate.

Against this background, the 27 heads of state and government, at a meeting of the European Council in October 2020, endorsed open strategic autonomy and geostrategic resilience as a key objective of the Union for the first time. The concept of 'strategic autonomy' had been circulating in European defence circles for years, but traditionally encountered resistance from the Netherlands and other Atlanticist EU member states, mainly due to the implied disengagement from the US. As a result of the pandemic, however, the term has moved from a strictly military context to the broader context of economic and industrial security.

The experience of strategic dependence and the pursuit of geostrategic resilience have taken on additional significance in light of the recent escalation of tensions with Russia, which is a major gas supplier to Europe. The potential weaponisation of economic (inter)dependence in the context of reciprocal economic sanctions has added momentum to the drive to reduce vulnerabilities relating to raw materials and strategic supply chains. As noted in the request for advice, the best way to achieve this objective is still disputed. This issue is addressed in subsequent chapters of this advisory report.

### ► 2.3 The genesis of the Dutch response

The severe shocks that have occurred since 2008 have resulted in numerous measures, decisions and revisions of existing national and EU frameworks. Many positions have already been adjusted, including in The Hague, but the paradigm shift that is currently taking place has still not been widely acknowledged in the Netherlands. This applies in particular to the geopolitical shock, despite the fact that it has prompted a lot of innovation, including in the European debate.

The Dutch government's clearest and most detailed industrial policy response to date focuses on the challenge of climate change. The best example of this is a two-part government strategy on the future of Dutch industry that was articulated in two letters issued by the Minister of Economic Affairs and Climate Policy in May and October 2020.<sup>22</sup> It is striking how this vision for the country's future establishes a new balance between horizontal and vertical industrial policy. That balance also seems to have been embraced by the Rutte IV government, which explicitly refers to 'green' and/or 'smart' industrial policy in the coalition agreement.<sup>23</sup>

The government has previously taken initiatives in this area, for example in its Key Areas Policy (2003-2010) and the subsequent Top Sector Policy (2011), which was renamed the Mission-driven Top Sector and Innovation Policy in 2018 and is still being implemented. However, based on the aforementioned letters from 2020 and the current administration's ambitions in the field of 'smart' industrial policy, it appears that the Dutch government is now taking more explicit control and opening the door to a sector-specific, vertical approach. It goes without saying that it will continue to devote attention to horizontal policy in order to solve coordination problems and create the necessary conditions for economic growth, for example in the field of innovation and infrastructure, by means of legislation. In addition, the government prefers to use its own capital as 'collateral' for larger investments from industry players, in particular through public-private partnerships. At the same time, it is taking on a more active role than before and committing the necessary financial resources. In the 2021-2025 coalition agreement, for example, in addition to the existing National Growth Fund and schemes for

sustainable energy production, such as the Stimulation of Sustainable Energy Production and Climate Transition (SDE++) scheme, the government has pledged to put in place a €35 billion Climate and Transition Fund for the next 10 years to support green industrial policy.

Determining the position the Netherlands should adopt in the EU debate on industrial policy requires a similar degree of open-mindedness and reorientation. It is not only the climate agenda that throws into stark relief the need to define and safeguard public goals and interests: the geopolitical dynamics of the China shock do so just as well. The domestic and foreign spheres are inseparable in this regard. If China blocks our path on the technological front, certain digital and/or green targets will be compromised. The AIV wishes to emphasise this connection in the present report.

As a final observation, it is not just the two major shocks that have occurred since 2008 that are forcing Dutch policymakers to rethink industrial policy: the character of the Dutch economy itself has changed. Precisely because of the European economic integration so actively pursued and accelerated by the Netherlands, our country is no longer the 'small, open economy' it has seen itself as for the past two or three centuries and on which all its frameworks are based. In 2022, the Netherlands is effectively an integral part of a large, increasingly relatively closed economy, namely that of the EU as a whole, in the context of the global economy.<sup>24</sup> This calls for a different strategy, a different perspective on the opportunities and threats faced by our country.



# Recent EU initiatives

## ▶ 3.1 The Commission's new industrial strategy

The unexpected developments and shocks of the past decade and a half, as described in chapter 2, have inevitably prompted a response, including at EU level. A cautious shift in Brussels's thinking on industrial policy has been perceptible since 2014.<sup>25</sup> Turbulence in the area of international trade policy following President Trump's inauguration and new concerns about Chinese economic activity in Europe accelerated this shift from 2016 onwards. Since taking office, the current von der Leyen Commission has made industrial policy a priority. As early as the spring of 2020, under the guidance of French Internal Market Commissioner Thierry Breton, a new industrial strategy was launched. It was further refined one year later in light of the lessons of the COVID-19 crisis.<sup>26</sup>

Although horizontal (or general) policy remains an important pillar, the emphasis in the new industrial strategy is shifting towards a vertical (or sector-specific) approach. On the one hand, the Commission is looking for new ways to actively support particular ecosystems and value chains within the territory of the EU, for example through government subsidies. On the other hand, the EU is developing new defensive initiatives to protect strategically important value chains, where necessary, from unfair foreign competition or political influence, for example through stricter regulation of foreign direct investment.

Several political considerations or objectives are driving this new industrial strategy. To start with, there are the twin – green and digital – transitions. The first concerns the ambition to transform Europe into a climate-neutral continent by 2050 in the framework of the European Green Deal.<sup>27</sup> The second concerns the digital transformation of the European economy, which should keep pace with other leading economies such as China and the US and foster their adoption of European standards. These two major social transitions are embedded in the COVID recovery fund that the EU set up in 2020. To claim their share of this €750 billion in new EU funding, national governments must submit plans that devote 37% of their allocation to climate and the green transition and 20% to the digital transformation and new technology.

At the same time, the Commission is increasingly placing this new industrial policy in a geopolitical context, especially since the experience of the pandemic. In this context, it is looking for ways to respond to the erosion of the international rules-based order and the danger of new vulnerabilities in strategic value chains, for example as a result of the rivalry between the US and China and/or between China and the EU itself. Based on empirical research, the Commission has now identified 34 strategic value chains in which the EU appears to be highly dependent on imports from third countries.<sup>28</sup> Especially for these ecosystems and value chains – such as those for semiconductors, pharmaceuticals, and cloud and edge technologies – the Commission is deploying targeted industrial policies. In areas where such geopolitical vulnerabilities are less apparent, Brussels is less active. It speaks for itself that the EU regards the climate and digital transitions – and now also public health – as objectives in their own right to which industrial policy can contribute. In the EU's view, the development of industrial policy is most urgent precisely in those areas where these objectives are threatened by supply chain vulnerabilities. Examples of such areas include the mining and processing of rare earth elements, which are needed for wind turbines and for which Europe is almost entirely dependent on China, and the manufacture of semiconductors, as addressed in the European Chips Act recently announced by the Commission.

In many ways, this new industrial policy can thus be understood as a form of foreign and security policy. The mapping of geopolitical vulnerabilities is one of the first key tasks that the European Commission has undertaken in this regard. In addition, Brussels is looking for new ways to mitigate these strategic vulnerabilities, for example by means of policies aimed at supply chain diversification, product substitution and stockpiling and by building up and safeguarding Europe's existing knowledge and strategic production capacity. In this context, a number of proposals and instruments are occupying an increasingly prominent place on the European agenda.

Before answering the strategic and other questions from the request for advice, the AIV believes it would be useful to take stock of the most important recent initiatives and proposals to emerge from Brussels. For this purpose, it has classified the abundance of recent or pending legislative proposals, measures, plans and initiatives into three categories: *supportive* measures, which are designed to reinforce specific industrial ecosystems within the EU (section 3.2); *defensive* measures, which reflect a new awareness of the need to protect strategic sectors against foreign competitors and/or systemic rivals (section 3.3); and *offensive* measures, in which the single market is assertively deployed at international level to improve Europe's economic resilience (section 3.4).

### ▶ 3.2 Supportive measures: alliances, subsidies and champions

#### ***Industrial alliances***

Industrial alliances are partnerships initiated by the European Commission between companies, research and knowledge institutions, EU institutions such as the European Investment Bank (EIB), national and regional governments, and other parties within a particular ecosystem such as NGOs. The Commission often plays an agenda-setting, coordinating and facilitating role within these alliances. It also formulates the desired public goal, such as developing a hydrogen infrastructure within the territory of the EU or building European cloud and data centres that meet the highest security requirements.

The first industrial alliance, which focused on batteries, was launched by the Commission in 2017. The goal was to create sustainable and innovative production capacity for the manufacture of batteries on European soil. Batteries are very important not only in connection with EU climate targets but also for the future of the European car industry. More than 200, mainly private, organisations are currently involved in the battery alliance. They are working towards a common goal in various parts of the value chain – from the supply of raw materials to the construction of production lines and battery recycling. The Commission, the member states and the EIB are supporting these actors through legislation, research and innovation funding, as well as loans for investments in production capacity. Based on the expectation that private capital will be forthcoming, a number of member states have jointly made several billion euros available for a similar pan-European battery ecosystem.

Due to its success, the battery alliance has become the blueprint for alliances in other areas, including recycled plastics, raw materials and clean hydrogen. The clean hydrogen alliance, which is discussed in more detail in chapter 6, aims to scale up the European hydrogen value chain.<sup>30</sup> The raw materials alliance aims to reduce the vulnerability of supply chains, which in some cases run through just one country.<sup>31</sup> The Commission devotes a lot of attention to rare earth elements, which are essential for the development of magnets for wind turbines and electric cars, for example.<sup>32</sup> The focus is not only on supply chain diversification and closer international cooperation – for example with Canada – but also on the development of an autonomous European extraction capacity in Sweden and Greenland.<sup>33</sup>

As part of the EU's renewed industrial strategy, the Commission recently announced two new industrial alliances, namely for processors and semiconductors (see chapter 6) and industrial data, cloud and edge technologies. Both alliances aim to strengthen Europe's technological sovereignty and security. More industrial clusters are on the horizon. For example, the Commission is considering setting up an alliance in the area of sustainable aviation. Other ideas include the development of an autonomous launch capability for satellites and other commercial space technologies. This includes plans for a European network of low-orbit satellites that would facilitate secure and reliable internet communications within the EU in the future.<sup>34</sup> As in the case of Europe's Galileo satellite navigation system, the aim is to avoid becoming dependent on non-European communications networks, such as Elon Musk's Starlink.<sup>35</sup>

### ***Important Projects of Common European Interest (IPCEIs)***

Although not all industrial alliances receive government subsidies, it is critical that they operate in the context of EU state aid rules, which ensure that such subsidies do not distort the single market's level playing field by selectively favouring certain companies. In order to strike the right balance between industrial policy and fair competition rules, the EU increasingly uses the guidelines for Important Projects of Common European Interest (IPCEIs).<sup>36</sup> These guidelines allow for a broader interpretation of state aid rules. Thus, for example, the Commission has already approved two IPCEIs for the development of new battery technologies, with Germany taking the lead.<sup>37</sup> There are also two IPCEIs in the field of microelectronics. Initiatives relating to hydrogen and cloud computing, encouraged by France, are now being prepared. The number of applications is expected to increase.

In order to receive the green light for increased funding of a particular ecosystem, IPCEI projects must satisfy a number of conditions. First, member states may only fund *joint* projects aimed at supporting industrial ecosystems with a pan-European, cross-border character. The participation of at least four member states is a key condition. A second requirement is that IPCEI projects contribute to an EU interest or goal, such as sustainability, the digital transition or resilience. While the member states need to take the initiative, the EU sets the targets. A third requirement, finally, is that IPCEI projects promote new technologies and production methods, as opposed to artificially prolonging the life of existing industrial capacity and national 'losers'.

In general, the member states welcome the IPCEI regime, even if its operation is sometimes perceived as needlessly constrictive and cumbersome. Germany and France, in particular, are urging Brussels to adopt a more flexible approach and allow national governments more freedom to initiate new projects. It has also been suggested that the instrument should be deployed more frequently to boost the EU's resilience and strategic autonomy. This particular interest continues to be neglected in the IPCEI guidelines. In contrast, other member states, including the Netherlands, warn against a potential proliferation of IPCEIs.<sup>38</sup> Another criticism is that IPCEIs are not very accessible for SMEs.<sup>39</sup> Although the IPCEI system has existed since 2014, the number of projects remains conspicuously limited.<sup>40</sup> It often takes years for a project to become operational. The requirement that several member states participate makes coordination difficult. One member state must take the lead. In practice, this responsibility usually falls on Berlin and Paris, which feel constrained by the participation of smaller member states.

In the future, it will remain a challenge for the EU to strike a balance between promoting greater flexibility and speeding up IPCEI projects in response to urgent supply chain vulnerabilities, on the one hand, and preventing disproportionate market distortions, which often hampered industrial policy in the past, on the other.

### ***Mission-driven innovation policy***

The Commission aims to better connect the EU's Horizon Europe research and innovation programme to its industrial policy and integrate it into other EU priorities. That is why part of this extensive programme has recently been designed to follow a 'mission-driven' approach. Instead

of funding research that scientists consider important, the EU wants to commission research that it considers important. Like when it creates industrial alliances, the Commission wants to lead and guide the process by formulating concrete goals and ‘missions’ and embedding them in the framework of the Horizon Programme from the outset. Researchers will then be able to receive funding for research that contributes to achieving these goals.

There are currently ‘missions’ in several areas, including smart cities, climate adaptation and the fight against cancer. This ‘mission-driven’ approach, which for the time being only applies to a small part of the Horizon Europe programme, is expected to grow in importance.<sup>41</sup> As in the case of industrial policy, what we are witnessing here is a shift from a horizontal, general approach to a vertical, sector-specific approach.<sup>42</sup> As a result, public interests will be given greater priority in the EU’s innovation policy. On the other hand, the EU will be obliged to make clear and responsible choices.

### ***EU merger rules and European champions***

One area of discussion is the possible relaxation of merger policy. The idea is that the EU needs European industrial ‘champions’ that are capable of competing against US corporate heavyweights and vast Chinese state-owned enterprises in the global market. Whereas a large number of global players were still based in Europe – including the UK – until a few years ago, that number has since shrunk dramatically.<sup>43</sup> This is partly explained by the rise of Chinese state-owned enterprises, but it is worth noting that the US has nevertheless managed to increase its industrial dominance, mainly due to the success of the internet economy.

The question is obviously whether this decline in the number of large industrial companies in Europe is really so bad if there are still enough *successful* industrial companies. Indeed, it is often argued that SMEs (the German *Mittelstand* for example) form the backbone of the European economy. However, size and economies of scale can be of decisive competitive importance in sectors that require huge investment and demand enormous effort, and where the risks are high, such as AI and communications networks. If European industrial actors do not grow in stature, there is a risk that they will eventually lose out to their competitors in the global market – or even disappear completely – especially if those competitors occupy a protected position in their home markets.

The Commission’s decision in February 2019 to put an end to the Paris- and Berlin-backed merger plans of Alstom and Siemens continues to spark debate over EU merger rules. The amalgamation of these two companies would have created a major global player in the area of rail transport and construction. However, the Commission insisted that this would create an undesirable monopoly in the European high-speed train market, resulting in higher prices. Proponents of the merger plans argued that the largely saturated European market was only of limited importance. The global market was the main locus of future growth, and the Chinese state-owned monopoly, the China Railway Construction Company, would provide more than enough competition. In fact, if the European rail industry wished to survive the battle with China’s high-speed rail champion, joining forces was not merely logical but actually essential.

France and Germany, in particular, criticised the Commission’s decision, arguing that it was dogmatic and did not take account of the fact that European companies had to compete with state-subsidised competitors. This led to calls to evaluate the state of competition in both the European market and the global market in the context of merger decisions. European industrial interests should be promoted in the global market. This position has proved very controversial. The Commission, supported by a number of smaller member states including the Netherlands, appears to have rejected the arguments of France and Germany. The interests of European consumers thus remain the touchstone for merger decisions. Industrial policy interests, such as strengthening European champions in the global market, are not taken into consideration, and it currently does not appear that the Commission will deviate from this doctrine.<sup>44</sup> Finally, it is worth noting that, within two

weeks of the Alstom-Siemens decision, the economic affairs ministers of France and Germany, Bruno Le Maire and Peter Altmaier, published a Franco-German manifesto on European industrial policy that was designed to stimulate debate on this issue.<sup>45</sup>



### ▶ 3.3 Defensive measures: reciprocity and FDI screening

At the initiative of the Netherlands and other countries, the Commission has recently also taken action on takeovers in the European market by foreign state-owned enterprises or private companies that benefit from state aid.<sup>46</sup> Under Commission proposals from 2021, such entities must first notify Brussels of their takeover plans of European companies and submit them for approval. The Commission will then examine whether the state ownership or subsidies in question have the effect of distorting the market, and decide whether the takeover can go ahead and, if so, under what conditions. China is not mentioned by name, but it is an open secret that the proposal is primarily a response to the country's strategic investments in Europe. According to the Commission's proposals, a similar approach should be employed in the case of public tenders with a contract value above €250 million. Here, too, bidders are required to report state aid received from foreign governments to the Commission, which will determine whether this aid has the effect of distorting competition. If this proves to be the case, the Commission may exclude these bidders from participating in the tender. In addition, the Commission would be able to launch investigations at its own initiative.

This proposal is a recent example in a series of *defensive* protective measures that have been taken or proposed in recent years. Step by step, the Commission is responding to the view of many European companies that they are currently competing on an uneven playing field with state-subsidised Chinese competitors. The European fear is that these companies will seek – at the urging of the Chinese state or otherwise – to siphon off European technological knowhow through targeted investments and takeovers. This European expertise would then immediately be translated into increased Chinese production capacity.

This Chinese policy of siphoning off knowhow is allegedly driven by the Made in China 2025 strategy, which aims to move China's industrial base higher up the value chain in the coming years (see also chapter 2). Beijing intends to reduce its reliance on low wages, where it is gradually being superseded by countries such as Vietnam, as a source of competitive advantage. Instead, it is concentrating on knowledge, technology and innovative strength. As a result, China has become a direct industrial-economic competitor of Europe and the US.<sup>47</sup> Much like Brussels, Berlin and Paris, Beijing is focusing its ambitions on sectors and value chains in the field of electric vehicles, sustainable technology, semiconductors, artificial intelligence, robotics, biotechnology and internet technology.

The fundamental question is whether Europe needs better protective barriers to block such knowledge transfers. The EU has traditionally attached great value to the free international movement of capital enshrined in the Treaty on the Functioning of the European Union. Instead of raising barriers to protect its own industry, the EU explicitly decided to discourage others from employing protectionist measures by adopting a principled stance itself. This position has now been largely overturned. It goes without saying that promoting a rules-based, open trade regime remains an important EU goal. However, in areas where the playing field is effectively not level, and unlikely to become so in the short term, the idea that Europe should lead the way by pursuing a principled and open approach is now widely regarded as naive.

Other defensive measures are also being considered, such as the recent Commission proposal for a new instrument to counter the use of economic coercion by third countries (also known as the 'anti-coercion instrument').<sup>48</sup> The reciprocity principle is gaining ground in Brussels and in the field of trade policy in general. For a long time, this principle was ideologically taboo in EU circles. In the



European single market, the ‘eye for an eye’ approach had made way for a legal order guaranteed by the Court of Justice of the European Union. It was hoped that a similar breakthrough would be achieved with the help of the WTO. Instead, ongoing pessimism regarding the state of the international rules-based order and the precarious position of the WTO are leading the EU to adopt a more pragmatic approach. In the field of public procurement, it appears that reciprocity will soon become the basic premise of EU trade policy: if European companies are not allowed to compete for government contracts in other countries, companies from those countries should equally not be allowed to do so in the EU. This approach has also gained ground in discussions about market access.<sup>49</sup> If European communications companies do not have access to the Chinese market, why should the European market be open to Huawei? As a matter of fact, the reciprocity requirement provides EU trading partners with a concrete motive to open up their own markets.

Incidentally, Europe’s aforementioned geopolitical and strategic interests increasingly play an autonomous role in this discussion. The idea is that, in addition to the importance of ensuring a level playing field in the global market and insisting on reciprocity, there are industrial sectors in which Europe would in any case be better off controlling its own destiny. This could be for reasons of national security or to avoid one-sided strategic dependencies that could be exploited by the EU’s systemic rivals. Many member states have tightened up and expanded national legislation so as to better monitor foreign investment and takeovers within strategic sectors and potentially prohibit them or subject them to certain conditions. In the decision whether or not to allow Huawei to build 5G communications networks, for example, security considerations currently seem to be playing a more important role than actual trade policy in a strict sense.

Regulating the strategic and geopolitical aspects of Foreign Direct Investment (FDI) remains a competence of the EU member states, although the EU’s role in this area is growing. Unlike in the US, where the Committee on Foreign Investment in the United States (CFIUS) has reviewed foreign investment in the light of national security for the past 40 years, this type of assessment has long played only a minor role in many EU member states. In traditional free-trade countries such as the Netherlands, in particular, it was seen as a covert form of protectionism. The emphasis was mainly on attracting FDI. Just a few years ago, David Cameron’s Conservative government positioned the UK as the gateway to the West for Chinese investment, including for the construction of nuclear power plants.<sup>50</sup> The Commission also preferred to see itself as the guardian of an open investment climate and open borders rather than as an FDI watchdog. The trend in Europe (and the UK) is now moving in the opposite direction, as apparent from the opposition to the involvement of China’s Huawei in the construction of 5G networks.

The EU has recently adopted legislation that subjects the member states’ national FDI screening procedures to a number of organising EU rules and principles. In particular, the Commission appears to be pushing for better coordination and information sharing between member states. This is because decisions in one member state may affect the strategic and security interests of another member state, as well as the interests of the Union as a whole. Coordination can also help prevent isolated EU member states from coming under intense pressure from China. It remains to be seen how this new system will work out in practice. Perhaps not all, but certainly more member states are expected to further develop their national screening regimes.

Another issue that arises in the context of defensive measures, finally, is the participation of non-EU actors in EU projects. For example, a debate recently erupted within the Commission and between member states regarding the participation of non-EU actors in industrial alliances. Is such participation desirable? If these alliances are really meant to promote the EU’s strategic autonomy, it is debatable whether it is appropriate to open them up to foreign companies. On the one hand, there is the ‘narrow’ view that such participation is undesirable and that it should only be allowed if there is no other option, for example because a foreign actor contributes resources that are crucial to

the realisation of the alliance's goals (e.g. the involvement of US company Intel in the construction of a new European chip factory). On the other hand, there is the 'broad' view that these alliances should in theory be open to everyone, unless there are concrete and specific grounds for exception, such as security interests. In each sector, a choice needs to be made between these two approaches. Moreover, as became apparent during the global struggle for vaccines during the COVID-19 crisis, it is particularly important for Europe's strategic resilience that industrial capacity is located on European territory and within the EU's jurisdiction.



### ▶ 3.4 Offensive initiatives and the single market

The single market remains very important for European industry and provides the scale needed to compete at international level. The Commission is not expected to come up with ground-breaking proposals to further deepen the single market. Rather, the emphasis is on improving compliance with current rules, for example in the service economy, and taking modest but targeted additional steps.

Because the single market came under severe pressure at the beginning of the COVID-19 crisis, especially the trade in pharmaceuticals, the Commission is currently devoting a lot of attention to making the single market crisis-proof. Outwardly defensive measures such as returning production to EU territory presuppose that supply chains *within* the EU will continue to function and borders between member states will remain open – even in emergencies. However, if nothing is done to guarantee this, every member state will start acting in its own national interest (like at the beginning of the pandemic). In order to prevent this from happening, the Commission has announced the development of a new emergency instrument for the single market.<sup>51</sup> It is also considering the option of granting the EU emergency powers to restrict the export of certain goods, as discussed during the COVID-19 crisis.

A final form of offensive industrial policy consists of enshrining industrial and technological 'standards' more firmly in the rules governing the European single market, for example in the context of the European Green Deal. Such standards – often developed at the request of the Commission by industrial parties in mutual consultation within standardisation bodies – play a key role in international markets, which are sometimes characterised by multiple competing standards. When Europe is able to enforce its own standards at international level, as in the old example of the Global System for Mobile Communications (GSM) or the more recent EU taxonomy for sustainable investments, European industry potentially gains a major strategic advantage.

The ascendancy of European standards enables the EU to promote the political goals, interests and values enshrined in its legislation at international level. This is also known as the *Brussels effect*.<sup>52</sup> At the same time, it provides European industry with opportunities to expand its presence in the global market. Placing EU market rules front and centre, for example in the field of climate policy, encourages European companies to invest in sustainable technology. The Commission expects this effect to show up in other areas too. For example, the recent proposal for a regulation establishing harmonised rules for specific uses of AI within the single market may encourage European actors to develop what is commonly referred to as 'ethical AI'.

In this context, it is also worth mentioning the proposal for a European carbon border tax known as the Carbon Border Adjustment Mechanism (CBAM), which would apply to the import of goods such as steel, aluminium and electricity. The aim of this mechanism, whose basic principle the Netherlands supports, is to prevent carbon-intensive production 'leaking away' from the EU, where carbon emissions are subject to a price mechanism. Carbon leakage has so far been prevented by granting free emission allowances to European industry, but under the Commission's proposals this type of subsidy would be phased out as the new carbon tax system takes effect. In this way, the EU will not

only protect its own industry but also offensively enforce its climate objectives and standards at international level, by virtue of the size of the single market.

With these measures, the EU currently has a range of initiatives and instruments at its disposal that are changing the face of industrial policy. In addition to pursuing a traditional horizontal approach, these initiatives and instruments, which are being deployed in a supportive, defensive and offensive manner, are increasingly vertical or ecosystem-specific in character. Together, they make up the EU's necessary response to the unexpected economic and geopolitical developments that have occurred since 2007. This response is clearly not yet 'finished'. New plans and proposals will be put forward. Industrial policy continues to develop and remains the subject of political debate and conflict, which is something even the Netherlands cannot escape. The next chapter describes how this debate is changing and dividing the constellation of political forces between the European member states.



# The constellation of political forces

In order to gain insight into the constellation of political forces in the field of industrial policy and the potential coalitions available to the Netherlands, both within the EU and internationally, this chapter first identifies three fault lines within the EU that are caused mainly by internal European factors (section 4.1). The next section examines how the geopolitical rivalry between China and the US affects the European constellation of forces, creating a fourth fault line (section 4.2). The following section takes a brief look at the position of the UK, whose departure from the EU has not only changed the Union's internal political balance (not least for the Netherlands) but has also had repercussions on the international balance of power (section 4.3). The chapter concludes with a few observations regarding the Netherlands' potential position (section 4.4).

## ► 4.1 Three internal fault lines

When it comes to industrial policy, the interests and views of the 27 EU member states clearly differ. The clash between these interests and views is a daily reality in Brussels politics. The positions of the EU member states in this debate are often linked to fluctuating circumstances, such as party-political constellations, the ambitions of particular ministers or the interests of one specific company. At the same time, there is also a lot of continuity. It therefore makes sense to describe the positions of the member states in relation to three established fault lines: (1) the differing financial strength of the member states; (2) the importance of industry in the national economy; and (3) the prevailing national view on the desirability of European integration.

### **Financial strength**

It is now clear that vertical industrial policy promotes targeted public investment in and the provision of state aid to specific industries and ecosystems. Because this type of support has a strong financial component, member states with significant financial strength will be more inclined to develop national industrial policy and embrace EU support measures in this area than member states with fewer financial resources. The first and still most important fault line in the European constellation of forces thus runs along the traditional divide between the larger and smaller member states. Smaller member states want to curb the financial strength of national governments in the economy by means of EU rules, while larger member states have an interest in preserving the freedom to exploit this strength to the fullest.

This goes a long way towards explaining the renewed call for vertical industrial policy emanating from Paris and Berlin, in particular. The deliberate restriction by means of EU state aid rules of the state's capacity to act is a form of self-limitation that is hard to understand for member states that possess this capacity in principle. Moreover, the feeling that this straitjacket undermines their own interests only increases as other powerful states around the world are able to fully exploit their financial assets. The success of China's state capitalism, in particular, is increasing the desire of the larger member states to break the Brussels taboo on the capacity to act and introduce a more relaxed competition regime. That is why frustration at the Commission's prohibition of the Alstom-Siemens rail merger in 2019 ran so high in Paris and Berlin.

In contrast, the smaller EU member states have little to lose by limiting the state's capacity to act because their own capacity to do so is already limited. They know that they can only compete on an equal footing with the larger member states and safeguard their economic interests in the single market by neutralising the financial strength of *all* countries. The development of vertical industrial policy thus touches an old nerve, perhaps especially in the Benelux countries, which were already aware of the danger of Franco-German industrial dominance at the time of the EU's establishment. On this issue at least, member states such as Denmark, Sweden, Ireland, Slovakia, the Czech Republic, Finland and the Baltic states have a shared interest. This has given rise to political pushback, also clearly in evidence at the Commission, which is seeking to protect the status quo.

The question is how member states such as Italy, Spain and Poland, which cannot easily be classified as 'large' or 'small', will position themselves in this debate. Although their financial strength seems rather limited, especially since the banking crisis, it is difficult to predict how this 'middle group' of countries will define its own interests in the long run. The EU recovery fund, which increases the financial capacity of Italy and Spain, may also play a low-profile role in this context. Although Poland currently appears to oppose the liberalisation of competition policy, it previously backed the Franco-German reform plans. Italy, for its part, seems to be shifting steadily towards the position of Berlin and especially Paris, while in Spain the current government is urging restraint. The Netherlands also needs to decide once and for all whether it is one of the smaller countries, part of the above-mentioned middle group or on the same level as Germany and France. In March 2021, for example, the Netherlands and Spain jointly wrote a non-paper on strategic autonomy, which they transformed into the now standard 'strategic autonomy while preserving an open economy', which is regarded 'not [as] an end in itself' but as a 'means' to increase the EU's resilience.<sup>53</sup> The middle group is sometimes characterised by a certain ambivalence. The task of balancing the various interests is less straightforward there, and the final verdict can go either way depending on the circumstances.

#### **Importance of industry in the national economy**

Industrial capacity in Europe is unevenly distributed among member states. According to the EU's statistical office, Eurostat, over three-quarters of total industrial production in 2020 was generated by only six countries: Germany accounted for 29%, Italy for 18%, France for 12%, Spain for 9%, Poland for 5% and the Netherlands for 3%.<sup>54</sup> It is not surprising that this distribution of production capacity across the EU member states further encourages Germany and France – and to a lesser extent also Italy – to develop national and European industrial policies.

Perhaps even more important than the general distribution of industrial production is the participation of member states in advanced ecosystems that Brussels designates as being of strategic importance. After all, it is mainly these industrial ecosystems that will be eligible for public support and investment. This applies in particular to anything that has to do with the digital transition, technology and the transition to a low-carbon economy.

Participation in strategic ecosystems – or at the very least the existence of the economic conditions to build towards such participation – thus constitutes the second fault line. Member states with a share in the European space and satellite industry, for example, such as France and Luxembourg, have a greater interest in EU industrial policy than countries that are not involved in this ecosystem. The same applies to member states with actors that are involved in the development of semiconductors and nanotechnology, such as Germany and Italy, as well as the Netherlands and Belgium. Finland and Sweden are strong in the field of 6G technology. While the EU encourages all member states to invest in strategic ecosystems, for example through its Recovery and Resilience Facility (RRF), not all of them will benefit to the same extent.

### Views on European integration and national sovereignty

Member states tend to have different views on whether Brussels should engage in a particular policy area or activity. In the case of asylum and migration policy, for example, the AIV noted in a recent advisory report that sensitivity over national sovereignty was a key factor in explaining the reluctance of member states to grant the EU a powerful role at the EU's common external borders. For the time being, this dimension plays a less significant role in EU industrial policy.

More EU industrial policy does not directly translate into 'more Europe'. In fact, the trend currently points in the opposite direction, namely the relaxation of EU regulatory frameworks – which is to say 'less Europe' in a sense – in order to increase the member states' room for manoeuvre. Whereas the member states' policy choices were until recently constrained by market rules, the EU now grants them more leeway to exploit *their own* financial strength in certain areas. Even so, it provides political guidance. This is because Brussels wants these new freedoms in the field of national industrial policy to be harnessed in the service of common interests. Where this does not happen, the EU will once more tighten the reins.

While the Commission thus tries to set priorities and is a key player when it comes to making industrial policy choices, the financing and implementation of industrial policy remains largely in the hands of the member states. Calls to also grant the EU the means to fund industrial policy remain limited. EU industrial policy thus emerges from the interplay between the EU (which provides common guidance) and the member states (which have the capacity to act). In practice, as described in chapter 3, it is often the member states, especially Germany and France, that take the initiative. For example, the two countries recently announced the establishment of bilateral working groups to examine and expedite common industrial projects in the field of battery technology and hydrogen and in other cross-border value chains.<sup>55</sup>

However, the balance between the EU and the member states may change in the future. This could happen if industrial policy starts receiving more EU funding. The RRF, which already provides such funding, may set a precedent in this regard. Centralised funding can be attractive to certain member states. It allays the fears of mostly smaller member states concerning the untamed financial strength of larger member states. When industrial policy is paid for from common resources, the EU can ensure that its benefits are distributed fairly.

There is a choice here. On the one hand, a greater capacity for state action – which feels increasingly necessary in the light of geopolitical developments in Europe – can be achieved by relaxing the EU's market regulatory frameworks, which is something that Paris and Berlin are currently pushing for. The alternative option is to imbue the EU *itself* with additional commercial and financial strength. In line with their position in EU budgetary debates, it is likely that the southern and eastern member states, in particular, will favour this alternative.

However, it is still unclear exactly where this European fault line lies, in part because the issue has not yet come to a head. The Netherlands, along with several other member states including Denmark, Austria, Sweden and Finland, is generally quite hesitant about Brussels-based plans for new or larger EU budgets, as in the case of the COVID recovery fund. However, if these member states also reject the relaxation of EU market rules, it remains unclear how the EU *can* strengthen its capacity to act in the areas of industry and technology. After all, if the EU does not act, the member states will. A third option is to have *no* industrial policy and therefore *no* additional capacity to act. In that scenario, however, the EU would remain highly vulnerable to external shocks and the geopolitical and geoeconomic strategies of global powers that are not averse to exploiting their *own* state capacity to act.

For the time being, Germany and France appear to favour the relaxation of market rules. Particularly for Germany – but also for France – investing directly in one’s own national industry is more attractive than transferring national resources to Brussels, which then deploys those resources elsewhere too. Moreover, the COVID recovery fund supported by Paris and Berlin has already set a precedent for simultaneously increasing the EU’s long-term strength. Italy, Spain and several other southern and eastern European countries, which have less deep pockets, would rather increase the EU’s capacity to act. For example, Spain, Portugal and Romania have already spoken out against the relaxation of competition rules promoted by Paris and Berlin. Member states that advocate strict market rules but at the same time support increasing the EU’s financial strength – such as Ireland, Belgium and Poland – may also belong on this side of the fault line. Less obvious, finally, is the position of the group of member states that rejects the relaxation of market rules but also opposes granting the EU new resources and powers. The geopolitical pressure to create a capacity for state action *somewhere* presents these member states, which include Denmark, Sweden and the Netherlands, with a dilemma. At some point, concessions will have to be made.

#### ▶ 4.2 The geopolitical fault line

The fourth fault line in the debate on EU industrial policy arises from the geopolitical situation, which is reflected in the attitudes of the EU member states towards the US, China and the rivalry between these two superpowers, as well as in their relationship with Russia.

As the AIV noted in a previous advisory report, the EU member states have differing views on China.<sup>56</sup> These differences also have an impact on industrial policy. When monitoring foreign takeovers and foreign participation in strategic ecosystems, some member states are less open to China than others. For example, not all member states view the role of Huawei in the construction of strategically important 5G networks in the same way. Concerns about unfair competition and corporate espionage by Chinese state-owned enterprises are high in member states whose own industries are threatened by such practices. This explains the plea from Germany and France – both highly industrialised countries – for less strict policies on mergers and state aid. On the other hand, consumer countries without national industries fear that such a relaxation would chiefly result in higher prices for them, for example for high-speed trains.

Over the past decade, however, a number of member states, including Greece, Poland, Croatia and Hungary, have actually welcomed Chinese investment, including in strategic infrastructure such as ports, energy networks and railways. In addition to a substantial number of eastern member states, both Portugal (2018) and Italy (2019) signed memorandums of understanding with China in the framework of Xi Jinping’s BRI. Earlier, the 17+1 group, a constellation of bilateral partnerships between China and a number of Eastern and South-Eastern European countries, was established in Warsaw (Poland) in 2012.<sup>57</sup> The countries in question hoped that China would start making large-scale investments there. However, Paris, Berlin and other European capitals were suspicious of this initiative, as was the Commission. The 17+1 group thus appeared to split the EU into two camps: a Franco-German camp that wanted to serve as a geoeconomic counterweight to Beijing by pursuing an active industrial policy and a Greek-Hungarian camp that, in exchange for acquiescence on such issues as trade policy and human rights, hoped to receive Chinese money.

This fault line nevertheless seems to be disappearing. The Franco-German camp, which also includes the Netherlands, has clearly gained ground. The EU now openly describes China as a ‘systemic rival’. Following human rights violations in the Xinjiang region, the EU imposed sanctions on China in 2021. The Greek-Hungarian camp is in danger of falling apart. In the spring of 2021, Lithuania, which is also a loyal ally of the US, announced that it was leaving the 17+1 group. More recently, it has come into conflict with Beijing over Taiwan. Despite the success of Beijing’s ‘mask diplomacy’, the

anticipated investments have largely failed to materialise. Particularly in the current geopolitical context, US pressure to sever ties with China is most apparent in eastern Europe, where the fear of Russia outweighs the (in reality underwhelming) benefits of an economic partnership with China.



As a result, the issue of China is not as divisive as it could be in industrial policy negotiations at EU level. As the AIV previously noted in 2019, a convergence is taking place: eastern member states have become disappointed with China's promises of prosperity, the largest (highly industrialised) member states – Germany and France – have recognised that they are losing out to Beijing at bilateral level and need to act within an EU framework, and northwestern free trade countries are no longer fundamentally opposed to all forms of protection. All recognise that the leadership role claimed by Beijing in the field of technology has implications for European interests and therefore merits an industrial policy response. Finally, while some EU member states warn against over-subsidising industrial ecosystems, they also regard one-sided reliance on China in strategic supply chains as problematic.

At the same time, another geopolitical fault line appears to be developing around the question of the extent to which the EU should align its industrial policy response to China with that of the other superpower: the US. As noted in chapter 2, the US frames its industrial policy in direct response to China's rise as a global power. The race for technological supremacy is an important aspect of the struggle between these two rivals. Even so, US industrial policy corresponds only partly to the European approach. Much like the EU, the US wishes to reduce geopolitical vulnerabilities in strategic value chains. Based on its so-called Entity List, however, the US is also taking offensive steps by banning the supply of key US technology to certain Chinese companies. For example, Huawei needs Google software for its smartphones, but Google is no longer allowed to sell this software to this Chinese technology company, which has accordingly experienced a dramatic drop in turnover. Similar supply restrictions apply to the chip technology of US company Qualcomm. Washington is well aware that it can exploit foreign reliance on US technology for geopolitical purposes. Thanks to various large tech companies, in particular, it has access to a powerful geopolitical weapon, often to the despair of those companies themselves.



In addition, the Biden administration wants European companies that develop and use advanced technology to do the same, including when supplying microchip technology to China. For example, the US insists that Dutch high-tech company ASML not sell its most advanced EUV chip machines to Chinese companies. To this end, it demands that the Netherlands refuse to grant ASML the necessary export licence, a requirement that the government has so far complied with. In this way, the US hopes to keep China in a permanent state of disadvantage, which it regards as a vital national interest. However, the Dutch company pays a hefty price for this.

The key underlying question is whether the geopolitical interests of the EU member states and the US will continue to overlap as much as they do now. This question is creating a new political fault line between the member states. What is certain is that the technologically most advanced member states manage their entity lists a lot more carefully than the US has done under Trump and Biden. Compared to the US, Europe is less convinced that it is engaged in a zero-sum game with China for global supremacy. In spite of this, the view that Europe should fall into line with US policy on China has many adherents. It is based on the idea that the Western liberal order and its democratic values require collective defence, just like during the Cold War. And if European companies, including ASML, have to pay a price for this higher purpose, then so be it. An alternative view is that, if the EU wishes to be able to further develop its own high-tech industry, it would be better off charting its own course vis-à-vis China. This course will often run parallel to that of the US, and cooperation with Washington will generally be the most sensible option. However, if the price is unreasonably high, the EU will have to move in a different direction.

This dilemma is felt in all member states and is discussed in government and diplomatic circles. However, it is clear that not all member states draw the same conclusion. As before, France is a key advocate of European sovereignty, that is, the EU's capacity to always make its own decisions. For Paris, the AUKUS fiasco of September 2021 (in which the US and UK snatched a lucrative submarine contract with the Australian government from under France's nose) proves that European interests do not carry any weight even with a Democratic US president. European sovereignty is a concept that divides German politics (which boasts a strong Atlanticist tradition), but when it comes to Europe's industrial sovereignty Berlin's position is not far removed from that of France. Unlike the US, Germany has a trade surplus with China. No other EU country exports as much to China as it does. This explains why the Union concluded a new Comprehensive Agreement on Investment (CAI) with Beijing, under the de facto presidency of German Chancellor Angela Merkel, at the end of 2020. This touched a nerve with the newly elected US president, Joe Biden. For Merkel, Germany's own industrial interests outweighed the US desire to cut off China from the global market. In addition, as the European Commission noted, the US had itself concluded a similar trade deal with China.

On the other hand, the US occupies a different position on the EU's eastern border than it does in Paris, Brussels or Berlin. For obvious reasons, Europe's dependence on US hard power is particularly pronounced there, as demonstrated in dramatic fashion by the war in Ukraine. Prior to that, countries such as Poland, Estonia and Latvia had already decided – at the strong insistence of the US – to completely exclude Huawei from the construction of national 5G networks.<sup>58</sup> These member states are wary of the risk of political estrangement between the EU, on the one hand, and the US and NATO, on the other. The same goes for member states with strong ties to the US or an Atlanticist foreign policy orientation, such as Ireland, Denmark and the Netherlands. Although they may not always oppose EU industrial policy, it is important to them that, in so far as China is concerned, this policy does not deviate too much from Washington's political preferences.

▶ 4.3 The new neighbour: the UK

Finally, the UK's departure from the EU has implications for the Union's internal balance of power. For a long time, the British served as a natural counterweight to the Franco-German industrial lobby, which chafed at EU market rules and sometimes found it hard to resist the temptations of protectionism. With its accession in 1973, the economically liberal UK gave a decisive boost to the realisation of the single market, along with a robust EU competition policy and an open trade policy. Even under its French president Jacques Delors (1985-1995), the Commission largely adopted this 'British' agenda. The smaller member states, in particular, benefited from this development. London became their mouthpiece at meetings in Brussels. The traditional threat of Franco-German dominance, which had always been lurking, was thus removed in one fell swoop.

Brexit has upset this internal balance. As the largest member state in the 'free trade' group, the Netherlands is sometimes assigned the UK's former role, for example in the grouping dubbed the 'New Hanseatic League', which also includes Denmark, Sweden, Ireland, Finland and the three Baltic states. However, the Netherlands obviously lacks the UK's political weight, and Germany and France are increasingly setting the tone in the Council. A much-heard complaint within the Commission and the European Parliament, once regarded as the guardians of the smaller member states, is that Germany's influence has become palpably stronger in recent years. At the same time, however, the Dutch position within this new constellation of forces also creates opportunities. More than before, Berlin and Paris are involving the Dutch government in preliminary consultations on sensitive EU decisions. This is partly due to the good relationship of long-serving Dutch prime minister Mark Rutte with Chancellor Merkel (2005-2021) and President Emmanuel Macron of France (2017-).

In addition to the empty chair the UK has left behind, the EU now needs to contend with the new neighbour it has acquired. A key question is whether the EU and the UK can cooperate on industrial policy, for example when it comes to strengthening Europe's resilience. The UK is also experiencing a shift in thinking about strategic value chains. Brexit has increased its dependence on foreign powers. For example, it no longer participates in the EU's Galileo satellite navigation system. The question London now faces is whether it should build a system of its own. Given the interconnectedness of the UK and EU economies, it might make sense to coordinate such a large-scale public investment.

Two obstacles should be briefly mentioned in this context. First, the political tensions and irritations between the UK and the EU are in danger of becoming endemic under the Johnson government's European policy. Any attempt to coordinate industrial policy – as the EU does with the US in the framework of the EU-US Trade and Technology Council (TTC) – will have to wait until trust is restored. For the time being, the necessary will is lacking, especially in London. Political initiatives in this area are therefore premature. Second, the possibility of EU-UK cooperation on industrial policy is inextricably linked to the UK's broader position on foreign policy and the rivalry between the US and China in particular. With its largely symbolic participation in the AUKUS alliance, London has indicated that it is charting a different course from the EU and – especially – Paris. This limits the scope for cooperation on industrial policy.

#### ► 4.4 Positioning

Looking at the European political landscape, it is clear that the traditional fault line between the larger and smaller member states is still the most visible. While this could change, the other fault lines – both internal and external – currently play a less prominent role. When it comes to EU competition and other market rules, which are often still the focal point of debates on EU industrial policy, it is mainly Germany and France that want to deviate from the orthodoxy – frequently with the support of Italy.

On the opposite side we find a loose and often changing coalition of mostly smaller and in any case less prosperous countries that acts mainly as a brake on Franco-German plans. These countries, which traditionally promote a level playing field in the European and global markets, include such countries as Sweden, Denmark, Finland, Ireland, Spain, Poland, the Baltic states, Portugal, Malta and Slovakia, in addition to the Netherlands. Since the UK's departure from the EU, the Netherlands is often regarded as leader of this coalition of free traders.

The Commission sits between the two camps in this debate. This is partly due to the fact that it is divided on this issue, much like the member states themselves. On one side, French industry commissioner Thierry Breton is resolutely pushing for change. On the other, Danish Executive Vice-President of the Commission Margrethe Vestager, who is responsible for competition and digital policy, and Latvian Executive Vice-President of the Commission Valdis Dombrovskis, who is responsible for trade policy, are preaching restraint. However, another key factor is that the development and enforcement of EU rules is deeply embedded in the Commission's organisational culture. In its traditional role as the 'guardian of the treaties' and the custodian of the EU's international trade obligations, according to its critics, the Commission would rather point out what is legally impossible than contribute ideas on how to tackle contemporary geopolitical and other challenges.

The Commission definitely does not reject all Franco-German proposals. Its main motto seems to be 'slow down and adapt'. Apart from being politically impossible, blocking change is also fundamentally unwise. Since 2016 – the year of Brexit, Trump's election victory and a series of Chinese takeovers – shifts in the way governments think about industrial policy are also visible within the coalition of smaller member states. Trade policy principles, once stubbornly defended around Brussels conference tables, have given way to a policy of pragmatism, inspired by a history and a reality that are at odds with European ideals and doctrines.

The Franco-German wish list will likely be renewed and increase in length in the coming years. It is therefore strategically important for the Netherlands to reflect on how it can best position itself within the constellation of forces in the EU. Can it take advantage of the growing importance attributed to the Netherlands in Brussels, Paris and Berlin since Brexit? Which aspects of EU industrial policy should it 'slow down and adapt'? Does EU industrial policy present the Netherlands with opportunities as well as confronting it with dangers? And, if so, what can the Netherlands do to capitalise on these opportunities? In order to answer these questions, we first need to create an assessment framework that unites the various perspectives. This is dealt with in chapter 5. In its recommendations, the AIV uses this framework to formulate specific conclusions regarding the Netherlands' position.



# Assessment framework

## ► 5.1 Political choices

Industrial policy involves making clear political choices. While horizontal industrial policy theoretically avoids such choices – even if this is not always the case in practice – making conscious trade-offs is part of the essence of vertical industrial policy. After all, any decision to invest public resources in a particular ecosystem, for example semiconductors, is simultaneously also a decision *not* to make those resources available to other ecosystems. In the European context, moreover, such a decision on the allocation of resources swiftly acquires a sensitive, national and political dimension.

This raises the question how the EU and its member states make (or ought to make) these kinds of political choices, both substantively and institutionally. Who makes those choices and on what basis? What interests must the EU weigh up? How should the Dutch government determine its position on issues relating to EU industry? Since vertical industrial policy at EU level is a relatively new phenomenon, a clear, narrowly defined and politically neutral assessment and decision-making framework is not yet readily available. However, its contours are becoming more discernible in Brussels-based debates and decision-making practice, albeit mainly within a small circle of European and national policymakers and industrial actors. Isolated fragments of a substantive assessment framework can also be found in policy documents issued by the Commission, such as the IPCEI guidelines, or by national ministries of economic affairs and finance.<sup>59</sup>

Based on these fragments, the present chapter develops the foundations of a substantive assessment framework. The institutional framework will be explored in chapter 6. The substantive framework serves various purposes. First and foremost, it provides an insight into the divergent interests that the EU must weigh up, thereby explaining *why* certain choices are (or are not) made. This not only strengthens the legitimacy of industrial policy but also helps improve the quality of decision-making. If embraced at EU level, such a framework would also provide an instrument for rejecting the pursuit of narrow national interests and private interest groups on the basis of shared arguments. For the Netherlands, in particular, it will provide the government with the means to adopt a constructive and up-to-date position in Brussels while simultaneously reining in the feared excesses of EU industrial policy.

## ► 5.2 Starting point: public goals and the strategic resilience test

An effective European framework for assessing industrial policy choices comprises various steps and perspectives. To begin with, industrial policy is not desirable if politicians do not define certain social and economic *goals*. The question whether the EU and the member states should invest public resources in a particular industrial ecosystem depends on these goals. The central idea in the work of US-Italian economist Mariana Mazzucato is that industrial policy should be driven by clear and concrete goals.<sup>60</sup> In this context, she uses the terms ‘mission’ and ‘mission-oriented’ policy. As we have seen, the Commission has now explicitly embraced this concept in its innovation policy.

The most famous success story in the field of mission-oriented policy is the Apollo space programme, which not only enabled the US to put the first man on the moon in 1969 but also triggered a flurry of technological innovation. In words familiar to every American at the time, President John F. Kennedy

had first explained the mission seven years earlier: ‘We choose to go to the moon in this decade and do the other things, not because they are easy, but because they are hard.’ Kennedy understood the political and democratic importance of a narrative. The US public also needed to be rallied behind this mission. Through massive public investments directed by the federal government, the US was able to turn its technological inferiority vis-à-vis the Soviet Union in the field of space exploration into a decisive lead, which had been Kennedy’s true political goal.<sup>61</sup>

As apparent from this example, politicians are the ones who set goals and allocate public resources to achieve them. Based on these goals, the government subsequently creates or supports alliances of public and private organisations. The aim is never to assist the actors in those ecosystems – companies, scientists, entrepreneurs and research institutes – to realise their own *private* interests. The key consideration is: what can these actors do for the country, or in this case the EU, when it comes to securing certain *public* interests?<sup>62</sup>

Industrial policy is definitely not always driven by goals that are as clearly defined as the US ambitions in the context of the Apollo programme – namely beating the Soviet Union in the space race – or by events that necessitate a partial switch to a medical ‘war economy’, as in the case of the COVID-19 pandemic. On the other hand, industrial policy goals should certainly not be formulated so broadly that they lose all specificity. The decision to selectively invest in a specific industrial ecosystem – or to shield company A but not company B from foreign takeover – must be based on that ecosystem’s contribution to a particular public goal. If such choices cannot be justified on the basis of a clear ‘mission’, the best remaining option is horizontal industrial policy, which should in principle benefit everyone.

As previously noted, the EU’s recent industrial policy is chiefly linked to the goals of the twin – green and digital – transitions. The AIV endorses the view that these are two vital public interests that rightly guide the EU’s new industrial policy. However, they are by no means the only goals that can play this role. As the COVID-19 crisis has shown, public health is another public interest that can require a common industrial policy. Economic security, especially in the field of strategic infrastructure such as energy and communications networks (5G), is another goal that the EU could seize upon to actively support certain industrial ecosystems. Many more examples could be given.

However, the AIV does not consider it useful to draw up a permanent and exhaustive list of public goals. Industrial policy is chiefly a response to challenges and circumstances that can change rapidly, as clearly demonstrated – once again – by the pandemic. Even in a stable situation, preferences or majorities may shift in the democratic debate. It is therefore very much a task for politicians, including at EU level, to continually determine which public goals the EU should – or should want – to achieve through its industrial policy.

When it comes to industrial policy currently emanating from Brussels, one particular public goal appears to trump all other interests. That goal is to strengthen the EU’s economic resilience (i.e. to reduce dependence, especially in strategic supply chains). Geopolitical – or rather geoeconomic – threats are proving to be the main driving force behind the EU’s new commitment to industrial policy. Just when other major public interests – digital transition, climate, public health and energy security – are being threatened by geopolitical vulnerabilities in international supply chains, industrial policy may be able to provide a solution. In the AIV’s view, this intersection between economic resilience and other public goals is the ideal place to deploy industrial policy. In this regard, the AIV agrees with the Dutch government that strategic autonomy is not ‘an end in itself’ but rather a ‘means’ to achieve other public goals.<sup>63</sup>

The starting point of the assessment framework for EU industrial policy, as proposed by the AIV, is therefore the question whether the achievement of a particular public goal is being jeopardised by the EU's geopolitical vulnerabilities. This is the initial strategic resilience test.

This test is already being carried out in Brussels. Empirical research mapping the EU's international dependencies in strategic supply chains is proving to be a very useful tool for accurately defining and narrowing down the specific aims or 'missions' of industrial policy. This will help prevent a proliferation of industrial policy initiatives. As described in chapter 3, the Commission has carried out important work in this area since 2020. It is expected to continue this research in 2022 and increase its understanding of the most pressing bottlenecks and dependencies in the EU's strategic supply chains. This will help clarify which industrial sectors or value chains – or parts thereof – the EU should focus on.

### ► 5.3 Four definitional criteria

Taken by itself, however, this strategic resilience test does not constitute an adequate basis for deciding to adopt industrial policy. This is because such policy will not always increase economic resilience and may also have disadvantages that outweigh its benefits in this area. Broader interests and restrictive norms, such as the need to maintain a level playing field within the single market and ensure fair competition, may also necessitate restraint. The AIV believes that the government must be able to explain in clear terms in Brussels how the EU should approach this decision and why industrial policy is sometimes, but not always, the appropriate solution. The ability to make this distinction – to simultaneously take account of old and new public interests – lies at the heart of 'smart' industrial policy.

This section discusses four additional criteria that, together with the strategic resilience test, form the basis of a coherent framework for assessing EU industrial policy. To illustrate their application, two detailed case studies on the semiconductor industry and hydrogen applications are also presented. The first criterion is how effectively specific industrial policy contributes to reducing geopolitical dependencies in critical value chains. The next two criteria concern the level playing field in the single market and the distribution of the costs and benefits of industrial policy among member states. The final criterion relates to the importance of international trade and the free movement of capital within the multilateral order.



#### **Effectiveness**

The first criterion is whether industrial policy offers an effective solution. Dependencies within strategic supply chains can often be reduced through targeted industrial policy, but there are limits to what is economically possible, for example given the limited presence of certain minerals and raw materials in Europe. Restrictions of a political and historical nature are possibly even more significant. Europe's mining industry has almost entirely disappeared. This historical fact, which cannot be easily undone, is currently making it hard for the EU to secure an independent supply of rare earth elements, although it is urgently looking for alternatives. To name another example, the geographical centre of the data and internet industry has been located on the US west coast for more than half a century. This is the birthplace of tech giants such as Google, Apple, Microsoft and Facebook. Pumping money into European counterparts in an attempt to compete with these US platform companies on all fronts would thus be an exercise in futility.

On the other hand, it might be feasible and prudent for the EU – especially for reasons of security and privacy – to invest in the establishment of a European data storage infrastructure, as Germany and France are already doing in the framework of the Gaia-X project. Entrenched historical legacies and other constraints force the EU to be selective and focus on market segments where Europe

has economic and technological capabilities and advantages, where major security interests are at stake and where the chance of success is high. This requires a level-headed, fact-based economic assessment that utilises clear and measurable criteria of feasibility and success.



Fortunately, industrial policy is not a matter of all or nothing: a choice between self-sufficiency or total dependence on foreign countries. Besides developing autonomous industrial ecosystems within the EU, there are other means and tactics that can be used to strengthen the EU's resilience. In the political arena, the discussion will focus on finding the best possible combination of reshoring and such alternative strategies.

One alternative to reshoring is diversification, especially in value chains where the EU is dependent on one or only a few suppliers, such as China (for certain rare earth elements) or Taiwan (for semiconductors). It is worth examining whether the geographical distribution of such supply chains could be improved, preferably involving countries that are not expected to exploit dependencies for geopolitical purposes. This would enable the EU to absorb potential disruptions in the supply chain. On the one hand, it could decide to extract rare earth elements in Europe, for example in Sweden. On the other hand, importing rare earth elements from Canada or Australia, two countries with a strong mining industry, would provide a faster and easier solution. Building European capacity may well be the safest option, but it is not always the best or only one.

A second tactic is to foster *mutual* dependence in international value chains. The underlying idea is that economic dependence, for example on China or Russia, generally leads to political vulnerability when it is one-sided or strongly asymmetrical. On the other hand, if two or more countries depend on each other in roughly equal measure, the result is a natural balance of power between them. If one country threatens to turn off the supply of specific raw materials, technology or products, it essentially shoots itself in the foot. Instead of focusing exclusively on the European reshoring of entire value chains, the EU could therefore also focus on strengthening and developing its own position in one or more carefully selected parts of the value chain. While investment in a vertical industrial policy characterised by top-down steering remains necessary in this scenario, the underlying political choice is made not only between but also *within* specific value chains. This can be attractive, for example, in cases where certain parts of a given ecosystem do not create high-quality jobs. Such a fine-grained approach would also enable Europe to invest in a more targeted and effective manner in those market segments and technologies where it already enjoys an advantage. It is vital for Europe to actively keep ahead of other major international actors within these specific segments and thus remain indispensable. Maintaining such an advantage is the only way to avoid critical strategic vulnerabilities.



The third tactic can be described as 'co-shoring' or 'near-shoring', where the word 'near' refers not only to geographical but also to political proximity. Like-minded Western and democratic countries often struggle with the same kind of economic vulnerabilities as the EU. This common dependence facilitates a search for common solutions. At the urging of the US and other countries, this is a key item on the agenda of the relatively new EU-US Trade and Technology Council (TTC). The basic idea is that the EU and the US both invest in the same strategic value chains while adhering to a division of labour. In effect, the value chain is chopped into pieces and divided between the partners, thus spreading and reducing the financial burden. A similar division of labour is possible with other friendly countries, such as Canada, Japan, South Korea, India, Australia and the UK. When using this outsourcing tactic, however, the EU will have to carefully consider which technologies and market segments it is willing to leave to other countries. The US, in particular, seems to want to keep the most advanced technology (e.g. in the field of microelectronics) on US soil, and shift less innovative production onto its allies in Europe and elsewhere. The question is how the EU should respond to this strategy. Co-shoring may be cost-effective, but its objective is certainly not to perpetuate Europe's technological deficit. In addition, the EU should carefully assess whether the geopolitical

and strategic interests of the countries with which it enters into co-shoring alliances are sufficiently compatible with Europe's own interests.



In any case, the above-mentioned tactics provide the EU with options that can be analysed in the framework of each new decision-making process in order to determine the extent to which they promote strategic resilience and other objectives while also being feasible, effective and efficient. In cases where reshoring specific ecosystems or technologies proves to be unfeasible or needlessly costly, the EU thus has other strategies – diversification, mutual dependence and co-shoring – at its disposal.

Finally, it is worth noting that these 'lighter' instruments also have strategic limitations and that they are not always a suitable substitute for a more ambitious form of reshoring. For example, an increasingly large part of the European economy – and even society itself – is based on a data infrastructure that, in addition to being physically located mainly in the US, is controlled by a foreign power. The US thus finds itself in a unique position of power vis-à-vis the EU that, if worst comes to worst, includes the ability to cut Europe off from its own data. Partly at the request of the EU, US internet companies such as Microsoft and Google are therefore building cloud and data centre facilities on European soil.<sup>64</sup> However, even those facilities risk falling under the jurisdiction of the US, which under the Clarifying Lawful Overseas Use of Data (CLOUD) Act of 2018 can compel its own internet companies to grant access to data centres outside the US as well.<sup>65</sup> Despite the high costs involved, building a European cloud infrastructure that would remain in European hands might nevertheless be the most suitable alternative.

### Single market

The second criterion is whether industrial policy leads to disproportionate distortions of the single market, which remains of critical value for European industry and the economy, especially in so far as the Netherlands is concerned. In a deteriorating international trade environment in which trade with non-EU countries runs into obstacles and the WTO is in crisis, this value will only increase. The single market provides Dutch and European companies with the necessary scale to make major investments, for example in the field of digital technology, and do battle with US, Chinese and other foreign competitors. At the same time, strengthening Europe's economic resilience against geopolitical and other external shocks presupposes a properly functioning single market in which such shocks in principle rarely if ever occur. Without the single market, member states would have to ensure their own economic resilience at national level. That seems like an impossible task not only for the Netherlands but also for the larger member states.



For a long time, the EU has regulated and imposed restrictions on the provision of state aid and the implementation of other national measures designed to protect companies. As already mentioned, the political pressure to interpret these frameworks more leniently and relax regulatory oversight has risen sharply thanks to various events and global developments. The AIV believes that such a relaxation of EU market rules might be appropriate in certain cases. The EU – and the Netherlands – will not be able to meet the current geopolitical challenge while stubbornly clinging to the entire EU *acquis* in the field of competition policy. However, the fact remains that the erosion of the EU single market needs to be prevented and that limits must be imposed on how far the core rules of the EU and the single market can be stretched.

This is the unavoidable tension underlying the situation which EU industrial policy must now negotiate and in which different and often conflicting interests need to be carefully considered over and over again. On the one hand, the EU increasingly recognises the need to make public investments in certain ecosystems and take protective measures. On the other hand, it continues to attach importance to ensuring a level playing field and enforcing the rules of the single market – factors that guarantee that the EU's internal borders can remain open.

The IPCEI guidelines drawn up by the Commission play an important guiding role in this area. One of these guidelines provides that state aid should only be granted in the event of market failure. According to the Commission, the main purpose of public money is to cultivate areas that would remain fallow in the absence of government incentives. A classic problem in the field of industrial policy is that public money can ‘crowd out’ private investment. Through its IPCEI policy, the Commission aims to achieve the opposite effect, namely to ‘crowd in’ or attract private capital for socially desirable investments and innovation projects that market players themselves consider too risky. By deploying public resources in this way, the EU can lower the threshold for additional private investment.

### **Distribution of benefits**

The third definitional criterion for the assessment of EU industrial policy initiatives is whether their benefits accrue to multiple member states. When the EU relaxes state aid rules, for example, the social costs and the social and economic relations within and between member states must always be taken into account. As noted in Chapter 4, larger EU countries such as Germany and France, in particular, have the capacity to invest public money and thus develop their own industries. During the first year or so of the COVID-19 crisis, for example, the Commission approved a total of EUR 3.1 trillion (EUR 3,100 billion) in national emergency aid for companies across the EU. More than half of this amount (51%) was German money earmarked for companies based in Germany.<sup>66</sup> In practice, only a limited portion of the approved German aid was paid out, but this staggering number says a lot about the vast differences in capacity to develop active industrial policy.

Wealthy member states will extract the most benefit from the extra leeway created by Brussels, as they can boost the competitiveness of their own national industries through public investment. These member states will also be more successful in attracting knowledge-intensive and innovative industrial production capacity, for example in the field of hydrogen, in order to create new jobs and increase prosperity on their own soil. Member states with smaller budgets will lose out in a direct subsidy race. When EU industrial policy is implemented, there is even a risk that they will lose industrial and technological strength and that knowledge, capital and jobs will not flow to China but rather to Germany and France. That might be a lesser evil for the EU as a whole, but it would nevertheless be undesirable within an EU context.

The EU and the Netherlands both have an interest in preventing such an undesirable distributional effect and ensuring that EU industrial policy is indeed European and serves the interests of all member states. However, their opportunities to do so will obviously remain limited as long as industrial policy is funded mainly by the member states themselves and not centrally by Brussels. Germany and France cannot reasonably be required to spend national industrial policy budgets on projects and facilities in other EU countries. EU industrial policy should nonetheless be all-embracing, that is to say, it should focus on developing extensive, preferably EU-wide industrial ecosystems, alliances and value chains involving not one but several member states. A good example of this is a Swedish factory that produces batteries for German cars. The contributions of the member states will differ, but what matters most is the cross-border nature of industrial policy initiatives. Several member states should contribute to at least one of the sections of the value chain so that, rather than creating national value and supply chains, the result is an integrated European industrial economy in which all countries add value.

If this proves impossible, it could be examined whether member states that do not participate can share in the benefits in other ways, for example by gaining access to knowledge and new technologies. This could play a key role in increasing support for industrial policy within the EU.

The Commission's existing IPCEI policy, which has turned cooperation between several member states into a binding standard, also provides guidance in this area.<sup>67</sup> However, the communal nature of this policy also comes at a price. The coordination of national agendas inevitably leads to delays. This is much less of a problem in China and the US. The Franco-German desire to cut red tape and pursue a bolder industrial policy, which is making itself felt in Brussels, is quite understandable in this context. Nevertheless, this desire must always be carefully weighed against the interest of enabling several member states – or as many of them as possible – to share in the benefits of industrial policy.

### Multilateral order

The final definitional criterion is whether industrial policy places an unnecessary burden on the multilateral order. Industrial policy initiatives should be weighed against the EU's obligations towards its international trading partners and the WTO and in the light of their consequences for low- and middle-income countries. The addition of the word 'open' to the objective of strategic autonomy, which the Netherlands has actively promoted in recent years, is indicative of its ambition to avert the imminent threat of a global spiral of protectionism and keep pushing for multilateral cooperation wherever possible.

These two ambitions are clearly at odds with each other. On the one hand, the changing geopolitical climate – and the US-China rivalry in particular – has repercussions on international markets and the regulatory system. A growing awareness, prompted in part by the pandemic and the war in Ukraine, that international supply chains and critical raw materials are in danger of becoming instruments in a geopolitical game between the superpowers is pushing the issue of strategic resilience higher and higher up the European agenda. On the other hand, there is still an awareness within the EU that our current prosperity is inextricably linked to the existence of relatively unrestricted and properly regulated global trade and capital flows. A comprehensive unravelling of globalisation would undoubtedly have harmful consequences for Europe's economy.

It is therefore important that the EU – and the Netherlands in particular – continue to actively promote the international rules-based order and unrestricted global trade. This is not possible if the EU is unwilling to abide by the rules and be accountable to its trading partners. However, any form of naivety must be shunned. The EU has long presented itself as a moral guide for the international rules-based order and the doctrine of free trade. It has always refused to apply the principle of reciprocity, despite long-standing French demands to this effect. The idea was that, by always setting a good example, the EU would eventually cause other countries, such as China, to see the error of their ways. This has not proved to be the case. Under President Trump, the US disowned the WTO, and President Biden thus far does not seem to want to change tack. China also takes little notice of European protests, for example against the subsidies that enable Chinese state-owned enterprises to operate in the global market. Since its accession to the WTO in 2001, the promised market economic reforms have not materialised. Against this background, the EU has no choice but to sharpen its game and protect the 'European way of life' strategically in accordance with the motto 'open where possible, protective where necessary'.<sup>68</sup>

The EU needs to chart a course between past naivety and the risk of delegitimising the international rules-based order to safeguard its own industrial and technological interests. With the Commission's proposed carbon import tax (CBAM) and a series of other proposals, the EU is trying hard to strike the right balance. The AIV applauds this. Clearly Brussels considers the risk that such a tax might exceed the limits of what is permissible under WTO rules to be politically acceptable. In addition, as mentioned in chapter 3, the Commission has introduced a widely supported legislative proposal that imposes restrictions on takeovers by foreign state-owned enterprises and private companies that benefit from state aid. In the future, Chinese state-owned enterprises will find it more difficult to take over European companies. The fact that the EU is now also turning on the subsidy tap, for example in support of the microchip industry, is also consistent with this policy. Every time it wishes to adopt such an initiative, however, the EU will have to assess whether it risks harming the international rules-based order.

► Case study 1: The semiconductor industry



Semiconductors, also known as microchips, are a strategic technology par excellence. Due in part to the current global shortage in this area, as well as Europe's existing dependence on a few foreign companies, guaranteeing a reliable supply of semiconductors is increasingly regarded as a public interest that governments should actively seek to protect.

The Netherlands is an important and strategic participant in the global semiconductor value chain, not least because of the role of ASML. This Veldhoven-based company is the only company in the world that is able to manufacture extreme ultraviolet (EUV) machines, which are used to mass-produce advanced microchips in semiconductor fabrication plants (fabs). ASML is a critical supplier for semiconductor manufacturers, which are nowadays located mostly in Asia. Dutch companies such as NXP and Besi also play a key role in European chip production, while Dutch knowledge institutions, such as the technical universities of Delft and Eindhoven, occupy a strong position internationally.<sup>69</sup>

It is thanks to these assets that Brussels sometimes looks to the Netherlands – and to the Eindhoven region in particular – to shape policy in the field of semiconductors. In spite of this, the Netherlands did not join the first IPCEI for microelectronics in 2018,<sup>70</sup> although it is participating in the plans for a second IPCEI for microelectronics that were submitted to the Commission by Berlin in December 2021. That being said, the Netherlands has still not assumed a leading role in this area. In similar fashion, its initial reaction to the European Chips Act was largely one of concern and caution.<sup>71</sup>

This caution appears to be linked to the Netherlands' traditional fear of the Franco-German call to strengthen the capacity for state action in the economic sphere. However, it is debatable whether this attitude is still appropriate. According to the AIV, the key role of microchip technology in the Dutch economy and the substantial interest of the US and China in Dutch chip companies are compelling grounds for a reassessment.



**Is a public or geopolitical interest at stake?**

There are two reasons why microchips give rise to a public or geopolitical interest. First, they constitute an essential building block of the digital transition and are already a vital component in a wide range of products. Washing machines, driver-assistance technology, solar panels, medical devices and of course smartphones cannot function without semiconductors. Elon Musk describes his Teslas as 'sophisticated computers on wheels'. The second reason is that semiconductors have become the focus of fierce geopolitical rivalry as a result of their strategic importance. They are now a matter of national security for both the US and China. Each superpower wants to reduce its own vulnerability within this value chain and where possible increase that of its rival.

After occupying first place for decades, the US has lost its leading position in this market to Asia. Under the banner of protect and promote, Washington is therefore investing heavily in bringing chip production back to US soil, including by means of subsidies. US company Intel has already pledged to build two new fabs in Arizona. Samsung (South Korea) and TSMC (Taiwan) also have billion-dollar plans to expand their production capacity in the US. China similarly wishes to catch up in the field of semiconductors. To this end, it established the China Advanced Semiconductor Industry Innovation Alliance (CASA) in 2015. In addition, Beijing offers huge tax breaks to researchers and manufacturers in the field of microprocessors and operates a semiconductor investment fund that is able to finance the acquisition of foreign technology players.<sup>72</sup>

The EU is also aware of its vulnerabilities in this supply chain. The current shortage of semiconductors, which has been caused by an unforeseen rise in demand, is more of a side effect in this regard. A more serious problem is the risk that strategic supply chains can be exploited to exercise

diplomatic pressure or engage in blackmail, as happened with face masks at the start of the pandemic and could now also happen with the supply of Russian natural gas. Taiwan and South Korea, which are both key players in the semiconductor value chain, are on the front line between the US and China. In addition, US export restrictions are already having painful consequences for the European economy.

### **Does industrial policy provide an effective solution?**

In light of the above, EU industrial policy aimed at strengthening and protecting digital sovereignty would therefore seem appropriate. However, such policy needs to satisfy certain criteria. First of all, it must be feasible and effective. Due to international dependencies and specialisations in sub-areas (e.g. research and innovation, raw materials, production and packaging), it is inconceivable that countries will be able to do everything themselves. Even the US appears to understand this. The production of semiconductors is a very complex jigsaw puzzle that is being worked on worldwide. Attempts to move the entire supply chain to Europe would therefore not be effective.

It would be wiser to focus selectively on strengthening Europe's position in a limited number of areas. Much attention is being devoted to the Commission's plans to emulate the US by establishing fabs to produce microchips on European soil, including by means of government subsidies. Attracting production capacity strengthens supply security. However, since international dependence will remain inevitable in the future, it is important to ensure that such dependence remains mutual.<sup>73</sup> After all, the ability of other countries to use their control over certain choke points in the supply chain as leverage against the EU will be reduced if the EU is able to retaliate in similar fashion.

The key issue is therefore which choke points in the semiconductor supply chain Europe can control. Mutual dependence can only be truly mutual if the EU has certain technologies at its disposal that other states do not. Such choke points will most likely *not* be located within the highly advanced fabs that the EU intends to build on its own soil, as other states possess similar facilities. A better example is ASML's EUV technology, which the US explicitly refers to as a choke point. It is important for the Netherlands and for Europe to maintain control over this bottleneck. This can only be achieved by continuing to invest in innovation and research and providing protection against foreign takeovers.

Better cooperation with trading partners may also provide an answer. This issue is being addressed in discussions between the EU and the US in the framework of the EU-US Trade and Technology Council (TTC). At this time, however, the EU is unlikely to accept US suggestions that Europe would be better off focusing on the production of less advanced semiconductors, such as those used in the European car industry. In fact, Europe's ambitions currently reach further and include the production of highly advanced 2-nanometre chips. In this way, the EU hopes to prepare itself for the technological requirements of the future.

### **Can serious market distortions be avoided?**

Another key criterion is that market distortions are avoided. The granting of government subsidies, for example to established microchip players such as Intel, Samsung and TSMC for the construction of fabs on EU soil, should not harm or 'crowd out' existing companies or research institutions. On the contrary, these actors should also benefit from the additional scope for public investment. In any case it is important to prevent member states from stealing a march on each other by means of subsidies.

It therefore speaks for itself that IPCEIs and other forms of government support should be limited to previously untapped areas, which in this case appear to be abundant. Market analysts predict that the semiconductor industry will continue to grow. Without significant government support, however, the production of advanced semiconductors on EU soil will be slow to take off, despite the EU's strategic vulnerability in this area. In principle, there thus appears to be scope for public investment. In this context, the Commission's task is to accurately map the European semiconductor market and exclude distortive effects.

After that, much depends on decisions taken at national level. As previously noted, the EU's main contribution in respect of industrial policy lies in its ability to expand the playing field available to the member states. However, the money and the initiative generally lie with the national governments, and it is up to them to exploit the new, expanded opportunities created by the EU. The Netherlands is also under pressure to come up with plans and government initiatives, for example in the field of research. If it does not do so, or if it approaches this opportunity too frugally, cautiously or nonchalantly, other member states will take our place in this arena.

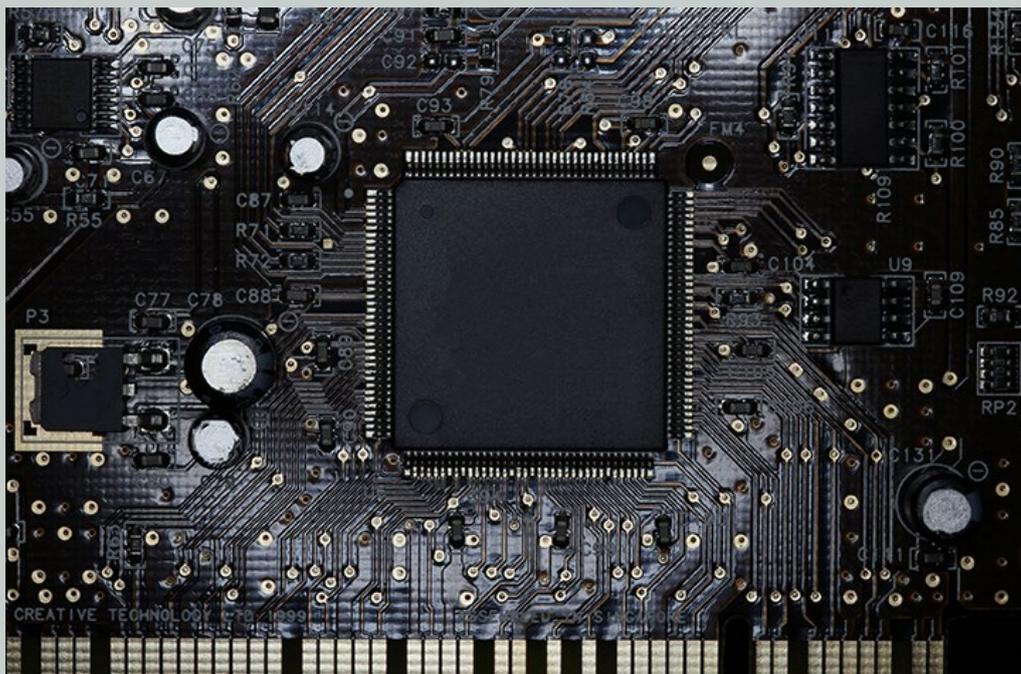
**Do the benefits of the policy accrue to several member states?**

The semiconductor ecosystem has a strong pan-European character. No fewer than 20 member states, including the Netherlands, are participating in the aforementioned second IPCEI round for microchips.<sup>74</sup> Together they propose to finance more than 90 projects to strengthen Europe's position in the supply chain, including research and innovation. Germany's participation in this IPCEI round is the largest, encompassing 32 projects and a total investment volume of more than EUR 10 billion.<sup>75</sup> For the time being, the Netherlands has set aside EUR 230 million for this IPCEI round.<sup>76</sup> Despite the differences, the vast majority of member states appear to see potential benefits in this area.

**Does the policy place an unnecessary burden on the multilateral order?**

There appears to be sufficient scope for an EU industrial approach in the field of semiconductors. Foreign investment oversight and subsidies for operators in the semiconductor industry that wish to set up shop in the EU will not run into major international objections. Globally speaking, government control is the norm in the semiconductor supply chain. Moreover, the EU's aim is not so much to protect its own industry, which was often the case with older variants of industrial policy, as to attract new production capacity to its own territory in order to guarantee future supplies. To this end, Europe is mainly talking to *foreign* companies, such as Intel, Samsung and TSMC.

The biggest threat to the international trade order in this area is currently the US, which wants to restrict European and Asian trade with China. For example, the US Department of Commerce only allows companies such as TSMC and Samsung to import essential production materials from the US on condition that they no longer do business with Huawei. As is well known, ASML has to contend with similar US power politics. The rules-based trade order is making way for an order based on power and *realpolitik* in this area. A principled stance on the EU's part will not prevent this transition.



### Conclusions for the Netherlands

The greater latitude that the EU intends to grant member states to invest in the European semiconductor ecosystem also seems attractive for the Netherlands. While the Netherlands has traditionally emphasised the *risks* associated with such latitude, it would make sense to shift the emphasis to the plentiful *opportunities* that appear to await the Netherlands in this area. If the EU makes the right political choices, important and risk-reducing conditions can be satisfied. Moreover, the fact that ASML occupies a central place in this debate will enable The Hague to play a more active and guiding role in Brussels, in tandem with Berlin and Paris.

Given its strong position in this value chain and the potentially huge impact on employment, the Netherlands' EUR 230 million commitment to the IPCEI for semiconductors attests to a much lower level of economic and leadership ambition than might have been expected. At the same time, it is important for the Netherlands to develop its own national industrial policy, especially in the field of chip technology, that is properly aligned with the EU's plans. The latitude granted by the EU will certainly be utilised, if not by the Netherlands then by other member states.



► Case study 2: Hydrogen applications



Hydrogen is considered essential for achieving the EU's climate goals. It has a role to play in the storage of renewable energy, as a sustainable natural resource for industry and agriculture, as fuel for heavy road transport and aviation, and in the heating of homes and buildings. In addition, hydrogen will boost Europe's energy resilience. Given the need to reduce its dependence on Russian gas – which has become even more pressing of late – Europe increasingly regards hydrogen as a geostrategic priority.

Roughly speaking, there are three types of hydrogen: grey, blue and green.<sup>77</sup> Grey hydrogen, which remains the most widely used type of hydrogen in industry, is the least sustainable variant. It is produced from natural gas, resulting in the release of CO<sub>2</sub>. When this CO<sub>2</sub> is captured and stored, the hydrogen is referred to as blue hydrogen. Although blue hydrogen contributes to the decarbonisation of industry in the short term, CO<sub>2</sub> storage does not provide a long-term solution. Green hydrogen is produced using sustainable energy sources, such as wind or solar power. In this scenario, water is split into hydrogen and oxygen by means of electrolysis. Green hydrogen is renewable, and its production does not release any CO<sub>2</sub>. Of the three main types of hydrogen, it thus contributes most to the green energy transition.

The European hydrogen ecosystem is still in its infancy. Although many initiatives have been developed in recent years, it is a relatively new value chain in which much remains to be done not only when it comes to understanding and upscaling electrolysis technologies, transport and storage but also in terms of adopting legislation. The Netherlands is regarded as a key player within this chain. In the North Sea, offshore solar and wind farms can generate sustainable energy on a large scale. Hydrogen can be imported and transported to other countries via Dutch ports, in particular Rotterdam.<sup>78</sup> As the host of several sizeable industrial and agrifood clusters, the Netherlands has expertise in the field of gas and electrolysis technology. In addition, it has considerable storage capacity at its disposal.

At the same time, it is worth noting that the Netherlands lags behind other member states in terms of its financial efforts at EU level (see below). The Netherlands previously announced the launch of a national hydrogen programme in the National Climate Agreement of 2019.<sup>79</sup> In its hydrogen strategy adopted at the beginning of 2020,<sup>80</sup> the government assigned itself a coordinating role in the development of a sustainable hydrogen chain, in part by granting a role to Gasunie, the state-owned energy network operator.<sup>81</sup> On paper, this strategy is closely aligned with the European Commission's hydrogen strategy, as presented in the summer of 2020 in the framework of the European Green Deal and the EU's industrial strategy.<sup>82</sup> The Commission wants to ensure that the EU has a substantial market for green hydrogen by 2030, for example by imposing binding targets for its use in various sectors. EU strategy in this area also encompasses the recently launched European Clean Hydrogen Alliance,<sup>83</sup> which includes several Dutch companies, and an IPCEI for hydrogen, which counts the Netherlands among its participants.<sup>84</sup>

It goes without saying that other member states are also seeking to identify where opportunities might lie. Developments in Germany are particularly relevant for the Netherlands. This is because a substantial share of the German demand for green hydrogen will have to be shipped through Dutch ports. Germany also presented a hydrogen strategy in the summer of 2020. It consists of 38 concrete measures, including a commitment of EUR 9 billion.<sup>85</sup>

Although the Dutch and EU policy frameworks are still being developed, there has been a clear shift towards vertical, sector-oriented industrial policy, with a strong preference for hydrogen in this case. The present advisory report contends that such a change necessitates a detailed political assessment of the interests at stake.



### **Is a public or geopolitical interest at stake?**

A policy that focuses on hydrogen serves a dual public interest. First, green (and to a lesser extent blue) hydrogen plays a key role in the pursuit of climate goals. While blue hydrogen contributes to CO<sub>2</sub> reduction in the short term, the green variant offers a long-term and sustainable alternative to fossil fuels, especially in sectors where electric alternatives are not (yet) feasible, such as road transport, aviation, industry and agrifood. Second, hydrogen also serves a clear geopolitical interest. The EU still obtains 40% of its natural gas from Russia. The Nord Stream 2 project, a set of pipelines designed to transport Russian gas to Germany via the Baltic Sea, has been shelved in response to the escalation of the conflict in Ukraine. In the future, green hydrogen will enable the EU to reduce its dependence on Russian gas and increase its energy resilience.

### **Does industrial policy provide an effective solution?**

A key definitional criterion is whether the initiatives proposed by the EU are actually effective in increasing its energy resilience. On the one hand, there is a growing consensus that Europe needs to board the hydrogen train. On the other hand, it does not necessarily make sense to build the entire infrastructure for hydrogen production on European soil. Even in the long term, it is difficult to imagine that Europe will become self-sufficient in hydrogen. Given its geographical location and climate, it is simply difficult for Europe to consistently produce sufficient sustainable energy. Diversification seems to be the most effective strategy to increase the EU's energy resilience. This will require close cooperation with international trading partners, such as Morocco and other countries in the Maghreb and the rest of Africa, as well as elsewhere. As in the case of the semiconductor industry, the question is not so much *whether* the EU should invest but which parts of the supply chain it ought to focus on.

### **Can serious market distortions be avoided?**

When it comes to hydrogen, the risk of market distortions as a result of government intervention still appears to be small. This is a relatively new ecosystem that still needs to be 'filled'. The hydrogen market is not (yet) functioning in an optimal manner. Although the cost of hydrogen will come down as a result of upscaling, the applications are relatively expensive and as yet unprofitable. Without financial support or government commitments, companies will not rush to adopt green hydrogen. Against this background, there appears to be a lot of scope for government support, for example under the IPCEI instrument. It is important for member states, including the Netherlands, to ensure that initiatives comply with existing national and EU legislation, for example when it comes to tenders. Where regulatory frameworks are still lacking, as in the case of certification, they must be developed.

### **Do the benefits of the policy accrue to several member states?**

A further criterion is that support for the hydrogen ecosystem should not provide certain member states with a disproportionate advantage. For the time being, it appears that this criterion is being satisfied. No fewer than 23 countries (22 EU member states and Norway) signed a manifesto launching the first IPCEI round for hydrogen in December 2020.<sup>86</sup> As noted above, however, the investments made by these countries vary considerably. This is obviously partly related to the ambitions of the member states themselves.

### **Does the policy place an unnecessary burden on the multilateral order?**

In the case of hydrogen, a serious burden does not appear to have been placed on the multilateral order. This is because the global hydrogen economy is still in the early stages of development. A substantial number of countries are developing activities in this area, especially those with a surplus of wind and solar energy. For example, Saudi Arabia has indicated that it wants to become the world's largest hydrogen exporter. At the same time, hydrogen also enables countries such as Morocco, Chile and Namibia to participate in the global energy market.<sup>87</sup> Although the EU is committed to producing hydrogen using its own sustainable energy sources, it will remain dependent on imports. Both the EU and the Netherlands are currently conducting feasibility studies. Research is also being conducted



into what governments need to do to kick-start the global hydrogen trade.<sup>88</sup> It seems unlikely that subsidies for European hydrogen companies will run into resistance at international level. For the time being, the EU mainly hopes to facilitate the creation of a global hydrogen economy, something that will also benefit Europe's trading partners.

### Conclusions for the Netherlands

Industrial policy in the field of hydrogen applications creates many opportunities for the Netherlands given its geographical location, relevant expertise and transport and storage infrastructure. However, the Netherlands still needs to capitalise on this favourable starting position. Although it has joined the first IPCEI round for hydrogen, its ambitions in this area have so far been fairly limited. The previous government set aside EUR 35 million for projects in the framework of the IPCEI for hydrogen. This is much less than Germany (EUR 8 billion) and France (EUR 1.5 billion).<sup>90</sup> Flanders alone (including the port of Antwerp) is investing EUR 100 million in IPCEI hydrogen projects.<sup>91</sup> In order to safeguard its strong position in the hydrogen ecosystem, the Netherlands would be well advised to quickly seek a more active, leading role in making the choices that the EU will face in the coming years. At the same time, the government should reexamine whether its national ambitions in the field of hydrogen are still sufficiently in line with the EU's industrial policy ambitions.



## ▶ 5.4 Verdicts



The thinking on ‘dirigiste’ industrial policy is changing in Brussels. For years a principled and unconditional ‘no’ set the tone. This response is now making way for a critical but flexible ‘sometimes yes, sometimes no’. The AIV believes that this basic attitude is the only correct one in response to recent geopolitical changes. At the same time, the pendulum should not be allowed to swing all the way towards an unconditional ‘yes’. That too would not benefit Europe’s resilience. There are good reasons for developing EU industrial policy for industrial ecosystems such as semiconductors and hydrogen. In order to demonstrate this, the two case studies in this chapter navigate the various steps of the assessment framework. In other cases, the application of the framework may result in a negative verdict. Separating the wheat from the chaff is the core task of any assessment framework. In addition to producing a green light, the framework must also be able to trigger a red – or even amber – one.

The assessment framework starts by clearly defining public interests – such as climate, the digital transition, public health and energy security – in a geopolitical context in which they are demonstrably threatened by dependencies in strategic supply chains. Ecosystems that have no strategic importance are not eligible for support. For example, although it is obviously very important for the EU economy and employment, the tourism sector has no bearing on strategic resilience. At most, it can make a limited contribution to the green and digital transitions. An industrial policy geared to tourism – which has been alluded to in Brussels for years under pressure from the sector and some member states – should not be implemented now or in the future.

The criterion of effectiveness introduces a sense of reality and focus. Ambitions for an autarkic Europe – for example in the field of semiconductors – are rightly criticised. Self-sufficiency is not an end but a means: the EU’s security and prosperity are the goal. Rather than engaging in an all-encompassing but ineffective attempt to fully reshore highly complex industrial ecosystems, the EU will in many cases have to focus on strengthening technological dominance in specific parts of such value chains. Less is more, as the saying goes. International dependencies cannot be eliminated. In many cases, including situations characterised by major tensions, cooperation with other countries – not only with partners such as the US, South Korea and Australia but also with China, Turkey and Russia – is unavoidable, not to mention the fact that it remains necessary and desirable to realise other global goals (such as nuclear non-proliferation, climate action and sustainable development). Industrial policy can however help find and protect balances of power within these relationships.

The single market criterion will also frequently trigger a red light. In contrast to tourism, the ecosystem surrounding biotechnology and agrifood, for example, intersects with the EU’s priorities and goals in many ways. In spite of this, the scope for specific industrial policy remains limited here, as the market thus far appears to be doing a good job. The EU is a global leader in this area. The agrifood industry is flourishing in the Netherlands and is one of the national economy’s main assets. Given the success of this ecosystem, industrial policy is more likely to have the effect of distorting the market.<sup>92</sup>

The distribution of benefits is likewise an important definitional criterion. The Commission recently announced a new industrial alliance to strengthen Europe’s autonomous capacity to launch satellites into space.<sup>93</sup> In its view, the importance of space will significantly increase in the coming years, especially in the areas of the digital transition and security. However, the light triggered by the distribution criterion is more amber than green in this case. While it is certainly sensible that Brussels has come up with plans, there appears to be limited scope for exorbitant government subsidies and IPCEIs.<sup>94</sup> The European space industry largely coincides with the French space industry. Industrial conglomerates such as Thales and Airbus call the shots, alongside French companies such as Ariane and Eutelsat. Apart from a few smaller players, there is no pan-European supply chain. Against this



background, the EU needs to clarify how other member states could share in the benefits of industrial policy in this area.

'Smart' industrial policy is also not a licence for protectionism, although it recognises that Europe has certain geopolitical interests that may conflict with the interests of free trade. The distinction between strategic and non-strategic interests is once again of crucial importance. Just as the US and China are not afraid to protect strategic technologies and actors, the EU should not hesitate to do so either. In addition to advanced technologies, this often applies to network industries, raw materials and, more recently, the pharmaceutical industry. However, if no strategic interests are at stake, protective barriers are prohibited. Furthermore, the scope of the term 'strategic' should not be endlessly extended. Under President Trump, the US linked its import tariffs on European steel and aluminium to national security. In 2021, France made a similar questionable decision to block a Canadian investment in the Carrefour supermarket chain. According to Paris, this takeover would threaten the country's 'food sovereignty'. On the one hand, food security is indeed a public interest, especially in view of the expected grain shortages resulting from the war in Ukraine. At the same time, it is not plausible that a Canadian investment in a supermarket chain would actually endanger French food security. That being said, the multilateral order criterion would still trigger a red light in such cases.



# An institutional and political task

## ► 6.1 A time for consolidation

The present advisory report analyses the driving forces, substantive positions and political fault lines in the broad field of EU industrial policy. On the basis of this analysis, the AIV can answer the questions posed in the request for advice and provide the government with specific recommendations. At the same time, it is clear that this field is still very much in flux. Parts of the substantive assessment framework are still being formulated. The same applies to the institutional framework.

The fact that the substantive and institutional frameworks are lagging behind events and adapting to them in fits and starts is hardly surprising. This is not the first time in history that politicians have been initially confronted by disruptive shocks and events (as examined in chapter 2) and have subsequently adopted a series of measures, initiatives and legislative proposals – some in keeping with existing policy, some of a more impromptu or *ad hoc* nature – to address them (as described in chapter 3). Political disagreements between participating actors and states are also part of the mix (as discussed in chapter 4). Only later, when the structural nature of the changes is beyond dispute, arguments are set aside, and the realisation that a paradigm shift is taking place has finally taken hold, do the underlying frameworks become visible.

The AIV believes that, following a period characterised by *ad hoc* decisions, the time has now come to consolidate EU industrial policy at the institutional level. It therefore calls for the creation of a detailed European assessment framework to enable the EU to avoid old pitfalls and resist the temptation of political arbitrariness. Chapter 5 provides the initial foundations for such a smart assessment framework – a compass for a new era. The present and final chapter examines *who* makes (or should make) these substantive assessments, or in other words *where* these assessments are (or should be) located from an institutional perspective. Finally, and closely related to this, it draws attention to the tasks imposed by this new industrial policy in terms of parliamentary and public accountability and debate – both at EU level and within the Netherlands.

## ► 6.2 Strategic linkage

Industrial policy debates are irremediably political. They give rise to clashes between different ministries, perspectives and sectoral interests concerning market and competition policy, trade policy, technology and innovation policy, climate and environmental policy and, last but not least, foreign and security policy, which focuses on the EU's strategic interests, including resilience and strategic autonomy. The criteria from the assessment framework clearly reveal this multitude of perspectives.

When it comes to these kinds of decisions, there is rarely just one unequivocally and fundamentally correct answer. Politics is based on judgment, historical awareness, a sense of fairness, and a belief in distributive justice and proportionality. These factors will ultimately be decisive. It is therefore important to conclude with some observations on the institutional frameworks that are most conducive to effective industrial policy.

The most important institutional change in Brussels necessitated by industrial policy is improved *strategic linkage*, first and foremost between the security and economic dimensions. Industrial policy is increasingly akin to foreign policy – and vice versa. This linkage needs to take shape in several places, both in the capitals and within the EU institutions, and in the latter case both within the Commission and within the Council (and the European Parliament).

The focus should initially be on the Commission. The geostrategic and security aspects of market regulation and climate, digital and trade policy – the core Community tasks the Commission is historically equipped to perform – are becoming increasingly important. However, during the long years that vertical industrial policy was politically taboo, the Commission’s institutional structure was obviously not geared to this. Since 2009, the Commission’s apparatus has even lacked a separate channel for foreign and security policy. The institution previously included a Directorate-General for External Relations (RELEX), but this was subsumed into the European External Action Service (EEAS) following the entry into force of the Lisbon Treaty. As a result, the Commission currently has less foreign policy expertise at its disposal than it did in 2008.<sup>95</sup>

An examination of the locations within the Commission where the criteria identified by the AIV’s assessment framework are applied in practice consequently reveals an imbalance. The departments with the knowledge needed to apply these ‘definitional’ criteria, in particular the Directorates-General for Competition (which evaluates IPCEIs) and Trade, have traditionally occupied a strong position on policy and institutional matters. On the other hand, expertise in the field of strategic resilience, which is currently being developed within the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW), is still at an early stage and strongly dependent on the drive of the relevant Commissioner. Moreover, as previously noted, there is no institutional link to expertise and the ability to exercise judgment in the field of foreign policy, which is indispensable, for example, when deciding between reshoring or co-shoring. As a result, strategic industrial policy decisions cannot be clearly articulated or replicated and thus risk retaining their ad hoc character. This problem could be overcome by assigning responsibilities in a more open manner. Another option would be to appoint an Executive Vice-President of the Commission from 2024 onwards to coordinate the various policy strands, as the von der Leyen Commission has done for the key issues of climate and the digital transition, or to assign this task directly to the President of the Commission. This is becoming an urgent matter.<sup>96</sup>

The Council of the European Union also lacks a clear link between security and the economy. Although it meets in ten different configurations, including the Foreign Affairs Council and ECOFIN, it does not have an economy and security configuration. In theory, internal and external perspectives come together at the summits of the 27 heads of state or government. This enables the European Council to make decisions in times of crisis (as it did recently regarding sanctions against Russia). Given its nature as a political ‘pressure cooker’, however, the European Council in practice has neither the time nor the attention span to carry out the kind of frequent, thorough and simultaneously strategic and technical assessments that industrial policy requires. This omission is partly rectified at the level of the 27 EU ambassadors, although strategic links (e.g. between COREPER II and the Political and Security Committee) could be articulated more explicitly here too.

### ► 6.3 Public messaging

Institutional frameworks that facilitate strategic linkage are only part of the story. Smart industrial policy also requires public messaging. As long as there is no visible political guidance, such policy will remain a mostly technocratic and bureaucratic affair. Citizens and other observers will only see an inextricable tangle of threads. Likewise, experts and political insiders in Brussels often appear to have only a limited understanding of what is going on in this area. Industrial alliances and IPCEIs sometimes seem to pop up randomly, only to take on a life of their own away from public view.

Those responsible for industrial policy in the capitals and in Brussels have so far failed to adequately recognise the importance of articulating a wider framing narrative that contextualises things and gives them meaning, which is one of the main tasks of politicians. This need will become all the more acute as industrial policy evolves, as might be expected, and increasingly lays claim to public funds.

Visibility is a precondition for parliamentary and public accountability. In the absence of a clear link between different perspectives and interests and without an overarching political narrative, democratic control and accountability will be swiftly undermined. In the context of the major industrial policy decisions facing the Netherlands and other European societies, the first question is what public goal they are meant to serve. The mission must be propagated widely and clearly vis-à-vis parliaments and the public so that it finds tangible expression. This is the only way to capture the kind of public and media attention that makes democratic debate possible. It is about more than just the ‘narrative’. Only critical public debate can provide an accurate picture of the ‘winners’ and potential ‘losers’ of such policy, why it is acceptable for there to be losers and what negative effects, for example in the field of employment, are cushioned or compensated for.

In addition, once the mission has been adopted in parliament, it can and should be translated very carefully into concrete goals. This is the only way to measure success and – crucially – determine whether *public* funds are actually being spent in the public interest. In the past, industrial policy has often failed as a result of state capture and/or murky entanglements with private interests and lobbies, as in the aforementioned case of Dutch shipbuilding company RSV. The public transparency needed to mitigate this risk is still lacking.

#### ▶ 6.4 The task for the Netherlands

Of these two major political tasks – strategic linkage and public messaging – the Netherlands has thus far taken on the first. Due in large part to the challenge posed by China, the link between security and the economy in The Hague has improved since 2019. One example of this is the establishment of a Ministerial Economy and Security Committee (MCEV), where matters such as Huawei’s access to the national 5G network and the export of dual-use goods are decided.<sup>97</sup>

Building on the theme of strategic linkage, the coalition agreement underpinning the Rutte IV government notes that ‘national and international security are increasingly interwoven’.<sup>98</sup> The government therefore advocates the establishment of a national security council. According to the AIV, it is important to place national and EU industrial policy high on the agenda of this yet to be established security council and devote substantial attention to it in the forthcoming National Security Strategy. As this advisory report argues, the principal argument for strengthening industrial policy lies in Europe’s – and thus the Netherlands’ – growing strategic and geopolitical vulnerability.<sup>99</sup>

On the other hand, the implementation of the second major task, the public dissemination of a strong narrative, which in turn facilitates democratic control, is still in its infancy. The careful transition to a more activist industrial policy that The Hague has been implementing since 2020 (see section 2.3) is taking place in relative silence. Although these decisions affect the Netherlands’ future prosperity and security, negotiations on the allocation of funds to certain ecosystems take place in closed administrative circles rather than in public. Aside from the face mask issue at the start of the pandemic, the task of translating geopolitical vulnerability into a push for new industrial policy has barely begun. That is why, in addition to working on strategic linkage, there is still substantial work to be done in the area of public messaging, preferably by the responsible ministers in the framework of parliamentary and public debate.

These two political tasks – strategic linkage and public messaging – are closely related. Only when they are both discharged more effectively in Brussels *and* The Hague can appropriate political assessments be made and translated into a guiding narrative that is open to public criticism. In this manner, public accountability and democratic control can be shaped in a way that reflects the enormous importance of industrial policy for Europe’s future security, prosperity and way of life.





# Endnotes



- <sup>1</sup> Social and Economic Council (2021), *Reshoring: Made in Europe*, advisory report no. 21/01, February 2021 (in Dutch).
- <sup>2</sup> AIV (2021), *Request for advice on EU industrial policy*, 17 May 2021.
- <sup>3</sup> For a discussion of the concept of ‘strategic autonomy’, see the report of the Netherlands Institute for International Relations ‘Clingendael’ (2021), *Unpacking Open Strategic Autonomy: From Concept to Practice*, November 2021.
- <sup>4</sup> With regard to industry, there are narrower definitions that focus mainly on the traditional manufacturing industry, i.e. the secondary sector, as distinct from the primary sector (agriculture and mining) and the tertiary sector (services), and broader definitions that classify almost all forms of economic activity as industry, i.e. including tourism and the financial sector.
- <sup>5</sup> European Commission (2021), *Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe’s recovery*, 5 May 2021.
- <sup>6</sup> Nils Redeker (2021), *Go Big or Go Home: How to Make European Industrial Policy Work*, policy paper, Jacques Delors Centre, 25 May 2021. See also Normal Loayza (2017), *Industrial Policies versus Public Goods to Spur Growth*, Brookings, 29 June 2017.
- <sup>7</sup> Ministry of Economic Affairs and Climate Policy (2020), *Letter from the Minister of Economic Affairs and Climate Policy on the future of Dutch industry*, Parliamentary Paper 29 696-124, 30 October 2020, p. 5 (in Dutch).
- <sup>8</sup> Ibid., p.4.
- <sup>9</sup> Ibid.
- <sup>10</sup> Statistics Netherlands (2019), *Employment by region* (in Dutch).
- <sup>11</sup> AIV (2018), *Forming Coalitions in the EU after Brexit*, advisory report no. 108, July 2018.
- <sup>12</sup> The following historical overview is based on Ben Dankbaar and Evert-Jan Velzing (2013), ‘Industriebeleid in Nederland – Industrialisatie, de-industrialisatie, reïndustrialisatie’ [Industrial policy in the Netherlands – industrialisation, deindustrialisation, reindustrialisation], in VNO-NCW and MKB-Nederland, *Plaats en toekomst van industrie(beleid) voor een nieuw industrieel elan*, Bundel ter gelegenheid van het afscheid van Jan Klaver van VNO-NCW en MKB-Nederland op 13 april 2013 [The place and future of industry and industrial policy in support of a new industrial spirit, Collection on the occasion of the departure of Jan Klaver from VNO-NCW and MKB-Nederland on 13 April 2013], pp. 7-25. See also Jan Luiten van Zanden (1997), *Een klein land in de 20ste eeuw: Economische geschiedenis van Nederland 1914-1995* [A small country in the 20th century: economic history of the Netherlands 1914-1995], Spectrum, p. 191 et seq.
- <sup>13</sup> Scientific Council for Government Policy (1980), *Industry in the Netherlands: Its Place and Future*, Staatsuitgeverij, The Hague, 21 May 1980.
- <sup>14</sup> The architect of the ECSC, Jean Monnet, served as the first Commissioner-General of the French National Planning Board from the end of 1945 until his appointment as the President of the ECSC’s High Authority in 1952.
- <sup>15</sup> To be more exact, in the early days of the EEC, the dominant idea was that mergers of European companies should be promoted so that these new European champions could compete with their larger rivals from the US and Japan. See Y. De Vries and E.M.R.H. Vancraybex (2020), ‘Concentratietoezicht en industriebeleid: tussen protectionisme en mededingingstoezicht’ [Merger control and industrial policy: between protectionism and competition law], *Nederlands Tijdschrift voor Europees Recht* [Netherlands journal of European law], issue 1-2, February 28, 2020.
- <sup>16</sup> The Netherlands has left its mark on the DMA. For example, in a [non-paper](#) published in May 2021 along with France and Germany, it argued that all mergers and takeovers by large digital platforms that act as gatekeepers should be assessed by EU regulators.



- <sup>17</sup> Mariana Mazzucato (2013), *The Entrepreneurial State: Debunking Private vs. Public Sector Myths*, Penguin Random House, UK.
- <sup>18</sup> European Commission (2019), *Towards A Climate-Neutral Europe: EU Invests Over €10bn In Innovative Clean Technologies*, press release 26 February 2019.
- <sup>19</sup> Jennifer Harris and Jack Sullivan (2020), ‘America Needs a New Economic Philosophy. Foreign Policy Experts Can Help.’, *Foreign Policy*, 7 February 2020.
- <sup>20</sup> For more on ‘dual circulation’, see e.g. Bruno Macaes (2021), *Geopolitics for the End Time: From the Pandemic to the Climate Crisis*, C. Hurst & Co. Publishers, Ltd, pp. 98-109.
- <sup>21</sup> *The Biden Plan to Rebuild U.S. Supply Chains and Ensure the U.S. Does Not Face Future Shortages of Critical Equipment*.
- <sup>22</sup> Ministry of Economic Affairs and Climate Policy (2020), *Letter from the Minister of Economic Affairs and Climate Policy on the future of Dutch basic industry*, Parliamentary Paper 29 696-15, 15 May 2020 (in Dutch). Ministry of Economic Affairs and Climate Policy (2020), *Letter from the Minister of Economic Affairs and Climate Policy on the future of Dutch industry*, Parliamentary Paper 29 696-124, 30 October 2020 (in Dutch).
- <sup>23</sup> *Looking Out for Each Other, Looking Ahead to the Future*, 2021-2025 Coalition Agreement between the People’s Party for Freedom and Democracy (VVD), the Christian Democratic Alliance (CDA), Democrats ‘66 (D66) and the Christian Union (CU), 15 December 2021.
- <sup>24</sup> This can be inferred from the aforementioned *government strategy* on the future of Dutch industry (p. 15) and the recent *framework policy* (2022) presented by the Ministry of Economic Affairs and Climate Policy (both in Dutch).
- <sup>25</sup> In 2014, the Commission introduced its IPCEI policy, which has since become an important part of EU industrial policy. European Commission (2014), *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*, 20 June 2014.
- <sup>26</sup> European Commission (2021), *Communication from the Commission – Updating the 2020 New Industrial Strategy: Building a Stronger Single Market for Europe’s Recovery*, 5 May 2021.
- <sup>27</sup> This ambition was adopted by the European Council at the end of 2019.
- <sup>28</sup> For this research, the Commission examined some 5,000 products. Special attention was devoted to products that play a role in the decarbonisation of the economy, public health, security and technology, and digital markets. Within those areas, the Commission identified 137 products for which the EU is highly dependent on imports from third countries. Of those 137 products, 99 relate to raw materials and chemicals. A second important group, comprising 14 products, includes pharmaceutical ingredients and other products that are important for public health, such as antibiotics. The EU is also dependent on foreign imports for 17 products that, in addition to raw materials, are important for the green and digital transitions. In 51% of cases, the EU’s dependence is on China, and for 34 products this dependence leads to significant vulnerabilities, in part because the options for diversification are limited for these products. This category comprises various rare earth elements, pharmaceutical ingredients, cloud and edge technologies, hydrogen technology, battery technology, high performance computing, AI and semiconductors. The Commission is now working on a follow-up study that will map dependencies in other value chains. See European Commission (2021), *Strategic dependencies and capacities, accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe’s recovery*, 5 May 2021.
- <sup>29</sup> This advisory report does not discuss EU initiatives relating to the defence industry. While it is true that this industry is very capital intensive, that it is currently receiving a lot of attention and that there is a great deal of coordination in this area at the instigation of the European Commission (e.g. through the recently launched European Defence Fund) and the European Defence Agency, it also differs in character from other economic sectors. For a start, the main customers of arms manufacturers are states. As a result, the shift from general (or horizontal) to guiding (or vertical) industrial policy that forms the main subject of this report is not taking place



- in the defence industry. Policy in this area has – almost by definition – always been ‘dirigiste’. The AIV examines this issue in its advisory report *European Security: Time for New Steps*, advisory report no. 112, 19 June 2020.
- <sup>30</sup> European Commission (2020), *Communication from the Commission – A hydrogen strategy for a climate-neutral Europe*, 8 July 2020.
- <sup>31</sup> See article presenting research on German companies in *Börsen-Zeitung*: ‘Laut einer Umfrage des Industrieverbands DIHK unter 3.000 deutschen Unternehmen im In- und Ausland bremsen Engpässe und deutliche Preissteigerungen bei einer Vielzahl von Vorprodukten und Rohstoffen die Konjunktur.’ [According to a survey of 3,000 German companies at home and abroad by the Association of German Chambers of Commerce and Industry (DIHK), bottlenecks and substantial price increases on a large number of primary products and raw materials are slowing down the economy.]
- <sup>32</sup> See Reuters (2020), *EU Considers Help for Rare Earth Magnet Production – Sources*, 24 August 2020.
- <sup>33</sup> The fact that no less than 98% of strategically important rare earth elements currently come from China is clearly an important incentive for the EU.
- <sup>34</sup> Thierry Breton (2021), *Speech by Commissioner Thierry Breton at the 13th European Space Conference*, 12 January 2021. [https://ec.europa.eu/commission/commissioners/2019-2024/breton/announcements/speech-commissioner-thierry-breton-13th-european-space-conference\\_en](https://ec.europa.eu/commission/commissioners/2019-2024/breton/announcements/speech-commissioner-thierry-breton-13th-european-space-conference_en)
- <sup>35</sup> For similar reasons, the UK government recently purchased a EUR 400 million share in the company OneWeb, which among other things aims to facilitate mobile internet access in remote areas of the UK. In addition, the UK government is funding the development of a national satellite launch capacity.
- <sup>36</sup> European Commission (2014), *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*, 20 June 2014.
- <sup>37</sup> European Commission (2019), ‘*State aid: Commission approves €3.2 billion public support by seven Member States for a pan-European research and innovation project in all segments of the battery value chain*’, 9 December 2019; European Commission (2021), ‘*State aid: Commission approves €2.9 billion public support by twelve Member States for a second pan-European research and innovation project along the entire battery value chain*’, 26 January 2021.
- <sup>38</sup> See the joint non-paper by the Netherlands, the Czech Republic, Denmark, Finland, Ireland, Latvia, Lithuania, Poland, Slovakia, Spain and Sweden (2021), *Smart and Selective Use of the IPCEI Instrument*, 28 April 2021.
- <sup>39</sup> Niclas Poitiers and Pauline Weil (2022), ‘*Opaque and Ill-defined: The Problems with Europe’s IPCEI Subsidy Framework*’, Bruegel Blog, 26 January 2022.
- <sup>40</sup> Eric van den Abeele (2021), ‘*Towards a New Paradigm in Open Strategic Autonomy?*’, working paper, European Trade Union Institute, March 2021.
- <sup>41</sup> European Commission, *EU Missions in Horizon Europe*.
- <sup>42</sup> This policy shift is due in part to the work of Mariana Mazzucato, who advised the European Commission on this matter. See, for example, Mariana Mazzucato (2021), *Mission Economy: A Moonshot Guide to Changing Capitalism*, Penguin Random House, UK.
- <sup>43</sup> Twenty years ago, according to figures published by *The Economist*, European companies accounted for one-third of the market value of the world’s 1,000 largest companies. That proportion now stands at just one-sixth. Only one European company still features in the global list of the 20 largest companies (by market value).
- <sup>44</sup> European Commission (2021), *Evaluation of the Commission Notice on the definition of relevant market for the purposes of Community competition law of 9 December 1997*, 12 July 2021.
- <sup>45</sup> ‘Despite our best efforts, which we must pursue, there is no regulatory global level playing field. And there won’t be one any time soon. This puts European companies at a massive disadvantage. When some countries heavily subsidize their own companies, how can companies operating mainly in Europe compete fairly? Of course, we must continue to argue for a fairer and more effective global level playing field, but in the meantime, we need to ensure our companies can



- actually grow and compete.’ See *A Franco-German Manifesto for a European Industrial Policy Fit for the 21st Century*, 19 February 2019.
- <sup>46</sup> European Commission (2021), *Proposal for a regulation of the European Parliament and of the Council on foreign subsidies distorting the internal market*, 5 May 2021.
- <sup>47</sup> For a recent study published by the German Economic Institute that corroborates this picture on the basis of market data, see Jürgen Matthes (2021), *Konkurrenzdruck durch China auf dem EU-Markt: Ein tiefer Blick in Außenhandelsstatistik und Industriebranchen* [Competitive pressure from China on the EU market: a deeper look at foreign trade statistics and industrial sectors], 22 August 2021.
- <sup>48</sup> European Commission (2021), *Proposal for a Regulation of the European Parliament and of the Council on the protection of the Union and its Member States from economic coercion by third countries*, 8 December 2021.
- <sup>49</sup> See, for example, the report of the Group of the European People’s Party in the European Parliament: EPP Group (2021), *EU-China Relations - Towards a Fair and Reciprocal Partnership*, 10 March 2021.
- <sup>50</sup> Reuters (2015), *‘China, Britain to Benefit from “Golden Era” in Ties – Cameron’*, 18 October 2015.
- <sup>51</sup> This instrument is expected to be available in the spring of 2022.
- <sup>52</sup> Anu Bradford (2020), *The Brussels Effect: How the European Union Rules the World*, Oxford University Press, Oxford.
- <sup>53</sup> See Dutch central government (2021), *Spain-Netherlands Non-Paper on Strategic Autonomy While Preserving an Open Economy*, 25 March 2021.
- <sup>54</sup> Eurostat (2021), *Industrial Production Statistics*, July 2021.
- <sup>55</sup> Euractiv (2022) *‘France and Germany to work on “common industrial projects”’*, 8 February 2022.
- <sup>56</sup> AIV (2019), *China and the Strategic Tasks for the Netherlands in Europe*, advisory report no. III, June 2019.
- <sup>57</sup> At the outset, 16 European countries were involved, including 11 current or former EU member states: Bulgaria, Croatia (at the time still a candidate country), Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and the Czech Republic. The other five countries were the Balkan states of Albania, Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia, which may join the EU in the future. Greece (the first country not to have been communist, like China, during the Cold War) joined the group in 2019, briefly making it the 17+1 group. Since the departure of Lithuania, it is once again referred to as the 16+1 group.
- <sup>58</sup> Oliver Noyan (2021), *‘EU countries keep different approaches to Huawei on 5G rollout’*, Euractiv, 19 May 2021.
- <sup>59</sup> European Commission (2014) *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*, 20 June 2014; M. Linssen, J. van Dijk, A. Reiding and H.N. Néhémé (2021), *‘Nieuw afwegingskader laat zien wanneer zelfvoorziening nodig is’* [New assessment framework shows when self-sufficiency is required], ESB, 8 April 2021; Dutch central government (2020), *Speelbal of spelverdeler: Concurrentiekracht en nationale veiligheid in een open economie* [Plaything or playmaker: competitiveness and national security in an open economy], 20 April 2020; Dutch central government (2020), *Afwegingskader bij steunverzoeken individuele bedrijven* [Assessment framework for funding requests by individual companies], 1 May 2020.
- <sup>60</sup> Mariana Mazzucato (2013), *The Entrepreneurial State: Debunking Private vs. Public Sector Myths*, Penguin Random House, UK.
- <sup>61</sup> A more recent success story is that of the vaccines against the COVID-19 virus, which were developed in record time and then mass-produced in Europe. It is clear that, in doing so, the governments of Europe and the European Commission have done more than merely enforce market rules and ensure a level playing field.
- <sup>62</sup> To remain with JFK: ‘Ask not what your country can do for you, ask what you can do for your country.’



- <sup>63</sup> See Dutch central government (2021), *Spain-Netherlands Non-Paper on Strategic Autonomy While Preserving an Open Economy*, 25 March 2021; Ministry of Foreign Affairs (2021), Letter from the Minister for Foreign Trade and Development Cooperation concerning the approval of the budget statement on foreign trade and development cooperation (XVII) for 2022, Parliamentary Paper 35 925 XVII, no. 54 (in Dutch).
- <sup>64</sup> Brad Smith (2021), *Answering Europe's Call: Storing and Processing EU Data in the EU*, EU Policy Blog, 6 May 2021 <https://blogs.microsoft.com/eupolicy/2021/05/06/eu-data-boundary/>; Alan Burkitt-Gray (2021), *Thales and Google Cloud to Develop Trusted Cloud Offering in France*, Capacity, 8 October 2021.
- <sup>65</sup> Emmanuelle Mignon (2020) *The CLOUD Act: Unveiling European Powerlessness*, *Le Grand Continent*, 5 September 2020.
- <sup>66</sup> According to the Commission, however, there was a substantial difference between the amount of state aid that was approved and the amount that was actually *disbursed*, especially in Germany. As a result, the functioning of the single market was never under threat. See Reuters (2021), *Massive German state aid to virus-hit firms? Others in EU doing as much or more – Vestager*, 8 February 2021.
- <sup>67</sup> For example, 12 member states are participating in the second IPCEI for batteries, which was approved by the Commission in January 2021. Together they are providing EUR 2.1 billion in funding for 42 projects, organisations and companies spread across the participating countries. A further EUR 9 billion in private investments is expected to be forthcoming.
- <sup>68</sup> See Ministry of Foreign Affairs (2019), *Nederland-China: een nieuwe balans* [The Netherlands and China: a new balance], 15 May 2019.
- <sup>69</sup> In the Quacquarelli Symonds (QS) World University Rankings, Delft University of Technology (TU Delft) and Eindhoven University of Technology (TU/e) both appear in the top 50 in the field of Engineering and Technology. See *TU Delft in Internationale Rankings; TU/e in bovenste 10 procent op QS World University Rankings 2022* [TU/e in top 10% in QS World University Rankings 2022].
- <sup>70</sup> European Commission (2018), *State aid: Commission approves plan by France, Germany, Italy and the UK to give €1.75 billion public support to joint research and innovation project in microelectronics*, press release, 18 December 2018.
- <sup>71</sup> Permanent Representation of the Kingdom of the Netherlands to the EU (2021), *Preliminary Netherlands' input for proposed 'European Chips Act'*, 14 October 2021.
- <sup>72</sup> Netherlands Institute of International Relations 'Clingendael' (2021), *Technologische samenwerking met China. Risico's voor en belangen van Nederland op de terreinen halfgeleiders, fotonica en medicijn-/vaccinontwikkeling* [Technological cooperation with China: Risks for and interests of the Netherlands in the fields of semiconductors, photonics and medicine/vaccine development], 4 November 2021.
- <sup>73</sup> Niclas Frederic Poitiers and Pauline Weil (2021), *A New Direction for the European Union's Half-Hearted Semiconductor Strategy*, Policy Contribution 17/2021, Bruegel.
- <sup>74</sup> European Commission (2020), *Member States join forces for a European initiative on processors and semiconductor technologies*, press release, 7 December 2020.
- <sup>75</sup> Federal Ministry for Economic Affairs and Climate Action (2021), *32 Mikroelektronik-Projekte in den Startlöchern – Habeck: „Wir müssen Produktion von Halbleitern zurück nach Deutschland und Europa holen“* [Thirty-two microelectronics projects in the starting blocks – Habeck: 'We must bring semiconductor production back to Germany and Europe'], 21 December 2021.
- <sup>76</sup> Marc Hijink (2021), *Extra steun voor Nederlandse chipsector* [Extra support for Dutch chip sector], NRC, 17 September 2021; Ministry of Economic Affairs and Climate Policy (2022), *Introductiedossier: kennismaking met inhoudelijke onderwerpen* [Briefing document: introduction to substantive topics], January 2022, p. 69.
- <sup>77</sup> In addition to these three common colours, there are several other types of hydrogen, including turquoise (resulting from the conversion of natural gas into hydrogen and elemental carbon), brown (hydrogen produced from biogas or biomass), purple (hydrogen produced using nuclear energy) and pink (hydrogen produced using surplus energy from nuclear power plants).



- <sup>78</sup> The Port of Rotterdam is already recognised as the main energy port of and for Europe and currently accounts for the import of 13% of Europe's total energy consumption.
- <sup>79</sup> See [National Hydrogen Programme](#) (in Dutch).
- <sup>80</sup> Ministry of Economic Affairs and Climate Policy (2020), [Letter from the Minister of Economic Affairs and Climate Policy on the government's hydrogen strategy](#), Parliamentary Paper 32 813, no. 485, 30 March 2020 (in Dutch).
- <sup>81</sup> Gasunie is part of the NortH2 public-private consortium, together with Shell and other entities, that promotes the large-scale production of hydrogen (through wind farms in the North Sea a a large electrolyser plant in Eemshaven) and the creation of a storage and transmission network in the Netherlands and northwestern Europe.
- <sup>82</sup> European Commission (2019), [A European Green Deal](#). See also Ministry of Foreign Affairs (2020), [BNC Assessment: Communication from the Commission: A hydrogen strategy for a climate-neutral Europe](#) (in Dutch).
- <sup>83</sup> European Commission, [European Clean Hydrogen Alliance](#).
- <sup>84</sup> Participating countries, including the Netherlands, have now completed the national preselection process for projects that may receive state aid. See Netherlands Enterprise Agency (2020), [Interest survey on IPCEI for hydrogen](#) (closed) (in Dutch). The next step is to inform the Commission of integrated IPCEI projects with a common structure, roadmap and programme, which will then be evaluated by the Commission. See European Commission, [IPCEIs on hydrogen](#).
- <sup>85</sup> Netherlands Enterprise Agency (2020), [Duitse waterstofstrategie: Investerings van 7+2 miljard euro](#), [Germany's hydrogen strategy: investments of EUR 7+2 billion], 10 June 2020.
- <sup>86</sup> Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain and Sweden.
- <sup>87</sup> Caitlin Stooker (2021), ['Waterstof zet de machtsverhoudingen op zijn kop'](#) [Hydrogen turns the balance of power upside down], *Het Financieele Dagblad*, 15 October 2021.
- <sup>88</sup> For Europe, Japan can serve as an example of a country that has increased its energy resilience by importing hydrogen. It is largely dependent on other countries for its energy supply and has already developed a strategy to import hydrogen on a large scale. In addition, it plays an important role in the development of related technology, having opened the world's largest hydrogen plant in 2020. At present, Japan obtains the energy carrier primarily from Australia. For example, the 2020 Olympic Games in Tokyo ran on hydrogen from Australia. It is important to note that this was grey hydrogen, as the energy used to produce it was obtained by converting lignite into gas. This high-pressure conversion process releases a large amount of CO<sub>2</sub>.
- <sup>89</sup> Dutch central government (2022), [Budget Memorandum 2022](#) (in Dutch).
- <sup>90</sup> See Federal Ministry for Economic Affairs and Climate Action (2021) [Wir wollen bei Wasserstofftechnologien Nummer 1 in der Welt werden: BMWi und BMVI bringen 62 Wasserstoff-Großprojekte auf den Weg](#), ['We want to become number 1 in the world for hydrogen technologies': BMWi and BMVI launch 62 major hydrogen projects], 28 May 2021; Embassy of the Netherlands in France (2020), ['Industrie, transport, onderzoek: 7 miljard euro voor de ontwikkeling van een duurzame waterstofsector in Frankrijk'](#) [Industry, transport, research: EUR 7 billion to develop a sustainable hydrogen sector in France], *Blog innovatie en infrastructuur* [Innovation and Infrastructure blog], 11 September 2020.
- <sup>91</sup> Hilde Crevits (2021), [Vlaanderen dient 5 waterstofprojecten in bij Europa en tekent een 'Memorandum of Understanding' met de Europese Investeringsbank](#) [Flanders submits five hydrogen projects to Europe and signs a Memorandum of Understanding with the European Investment Bank], press release, 18 October 2021.
- <sup>92</sup> Should the EU wish to strengthen its position in this value chain, it is particularly important for Brussels to acknowledge that its own regulatory framework sometimes stands in the way of further development in the biotechnology sector, in contrast to the situation in the UK, for example. As a matter of fact, Brussels increasingly acknowledges this, for example by drafting a legislative proposal in the field of 'gene editing' and new 'genomic techniques' for plant seeds. See European Commission (2021), [EC Study on New Genomic Techniques](#), 29 April 2021.



- <sup>93</sup> European Commission (2022), *Speech by Commissioner Thierry Breton at the 14th EU Space Conference*, 25 January 2022.
- <sup>94</sup> Industrial alliances are not the same as IPCEI projects, which focus on financing by means of state aid. Alliances can give rise to the launch of IPCEIs but are themselves broader in scope. Their task is to bring together and coordinate an ecosystem of different actors in order to achieve a specific public goal. As part of such alliances, the EU may propose supportive regulatory frameworks.
- <sup>95</sup> Under the Lisbon system, the High Representative of the Union for Foreign Affairs and Security Policy, who is also Vice-President of the Commission, was meant to take on a coordinating role, but due to the sheer scope of the position none of the holders of this office has so far done so successfully.
- <sup>96</sup> In *China and the Strategic Tasks for the Netherlands in Europe* (Advisory Report no. III of June 2019), the AIV already advised the government to pave the way for strategic economic policy at EU level in response to the rise of China. The report's first recommendation reads as follows: 'Develop forums within the EU for the assessment of economic, value-related and security interests that China's rise demands, in the appropriate locations; if this is not successful, take the initiative as a last resort to set up a strategic forum with like-minded member states outside the framework of the EU.' The government has not yet acted on this recommendation, and this has affected the development of EU industrial policy.
- <sup>97</sup> The meetings of this committee, which is similar to a cabinet subcommittee, are prepared by a dedicated committee consisting of civil servants (ACEV).
- <sup>98</sup> *Looking Out for Each Other, Looking Ahead to the Future, 2021-2025 Coalition Agreement* between the People's Party for Freedom and Democracy (VVD), the Christian Democratic Alliance (CDA), Democrats '66 (D66) and the Christian Union (CU), 15 December 2021.
- <sup>99</sup> The present National Security Strategy from 2019 does not explicitly mention industrial policy or its relationship to national security.



# Request for advice



Mr J.G. de Hoop Scheffer  
Chairman of the Advisory Council  
on International Affairs  
P.O. Box 20061  
2500 EB The Hague

Date 17 May 2021  
Re Request for advice on EU industrial policy

Dear Mr De Hoop Scheffer,

The debate on the European Union's strategic autonomy is in full swing, and is taking place against the background of the EU's geopolitical role. The debate concerns political power and influence in a foreign policy context, but equally it centres on the EU's position as an economic and trading power. Another common topic of discussion in this regard is the formulation of EU industrial policy.

In its European Industrial Strategy, published in March 2020, the European Commission explicitly committed to advancing the EU's industrial autonomy and competitiveness. At a meeting in October 2020, the European Council stated that achieving strategic autonomy was a key objective and, at the urging of the Netherlands and other countries, stressed that this should go hand in hand with 'preserving an open economy'. For this reason, the Council coined the concept of 'open strategic autonomy'.

In the government's view, open strategic autonomy should not be an end in itself, but a means of maintaining our ability to protect public interests. It is therefore necessary to identify undesirable dependencies and then determine whether they can be reduced and, if so, what policy is required for this purpose. This debate entails a risk of the EU rashly opting for greater economic protectionism and measures that would threaten the functioning of the open market economy.

It is also important to note that the debate on strategic autonomy and limiting dependencies is being followed closely by partners outside the European Union, particularly (though not exclusively) in the area of international security policy. The government believes that





collaboration with international partners must always be our point of departure, and that by taking more responsibility for its own security the EU will strengthen its relations with NATO and its transatlantic partners.

The government put forward this vision of open strategic autonomy in a joint non-paper drafted together with Spain and signed by both countries' prime ministers.

In a letter to parliament of 30 October 2020 (Parliamentary Papers no. 29826-124), the government set out its vision on the future of industry. The government stated that cooperation within Europe was a condition both for a strong Dutch industrial sector and for Europe to strengthen its position in the world. EU industrial policy should comprise a sensible mix of open markets, promoting fair competition, EU cooperation on technological development and innovation, and protecting public interests. The ambition is to achieve greater strategic autonomy vis-à-vis the rest of the world while preserving an open economy. The government will press for open markets with which we can retain the advantages of international trade, access to global value chains and international competition. In addition, strict competition rules and politically independent supervision of the single market remain necessary. At the same time, the government wishes to strengthen European industry by promoting the right frameworks for sustainable growth, as reflected in the government's response of April 2020 (Parliamentary Papers no. 22112-2862) to the Commission's Communication on a new industrial strategy for Europe. Relevant topics in this regard include strengthening the single market, improving (digital) infrastructure, skills, reducing regulatory pressure, protecting intellectual property, ensuring good access to financing, stimulating innovation, creating markets for clean technologies and ensuring robust and independent competition frameworks. To this end, the government intends to make investments; for example, in the development of key technologies, and through use of European industrial alliances and important projects of common European interest (IPCEI). EU cooperation is needed when it comes to strategic value chains. The EU should use its market power effectively to enforce a level playing field on trade with other countries by means of new and existing instruments. The Commission's White Paper on foreign subsidies (see e.g. Parliamentary Papers no. 22112-2917) has an important role to play in this regard. In order to pursue an effective climate policy, the government favours the principle of a carbon border tax and awaits the Commission's proposal with interest. From a national security perspective the government is alert to the risk of undesirable investment.





Further research is under way on industrial policy. The Social and Economic Council, for example, has published an advisory report on 'reshoring', and is developing a broader advisory report on strengthening the industrial sector (to be published in May 2021).

Other member states are also adopting positions on this issue. On 19 February 2019 France and Germany presented a joint manifesto on the future of European industry.<sup>1</sup> This offered a basis for the debate on the need for European 'champions'. Poland later aligned itself with these countries' position. On 16 February 2021 France and Germany published a new joint non-paper in the context of the publication, expected in April 2021, of an update to the European Industrial Strategy.<sup>2</sup> The above-mentioned Dutch-Spanish non-paper provides a contribution to this debate on European industrial policy.

#### Questions:

In light of the above, the government would appreciate receiving an advisory report from the AIV by October 2021 addressing the following questions:

1. The government requests that the AIV, taking the government's position into account, examine how the Netherlands can best position itself in the debate on industrial policy in the EU. Subsidiary questions could include:
  - a. How can the Dutch position on EU industrial policy best be propagated within the EU?
  - b. What is the appropriate message in this regard?
  - c. Which elements of the Dutch position should be emphasised?
  - d. Which other member states should the Netherlands seek to work with in propagating its position?
  - e. How can we organise successful industrial alliances in strategic fields within the EU?
2. Given that the government has noticed that several international partners outside the EU interpret the debate on strategic autonomy as a move towards more protectionist policies, the government requests that the AIV advise on what the Netherlands' stance should be towards these partners in regard to this debate.

<sup>1</sup> [https://www.bmwi.de/Redaktion/DE/Downloads/F/franco-german-manifesto-for-a-european-industrial-policy.pdf%3F\\_\\_blob%3DpublicationFile%26%3D2](https://www.bmwi.de/Redaktion/DE/Downloads/F/franco-german-manifesto-for-a-european-industrial-policy.pdf%3F__blob%3DpublicationFile%26%3D2)

<sup>2</sup> <https://www.bmwi.de/Redaktion/EN/Pressemitteilungen/2021/02/20210216-germany-and-france-together-for-a-new-and-innovative-european-industrial-strategy.html>



3. The government would also like to know whether, in the AIV's view, the above considerations require an adjustment to the Netherlands' position on European industrial policy and, if so, which elements and individual areas it should modify its position on. In this connection it is not necessary to conduct an economic analysis of European industrial policy; the AIV could base its considerations on existing recommendations by institutions such as the Social and Economic Council.

Yours sincerely,

Stef Blok  
Minister of Foreign Affairs



# List of persons consulted

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- **Winand Quaadvlieg**  
Head of Brussels Office and Permanent Delegate, VNO-NCW



# List of abbreviations

AI	artificial intelligence
AIV	Advisory Council on International Affairs
BRI	Belt and Road Initiative
CAI	Comprehensive Agreement on Investment
CASA	China Advanced Semiconductor Industry Innovation Alliance
CBAM	Carbon Border Adjustment Mechanism
CFIUS	Committee on Foreign Investment in the United States
CPB	Netherlands Bureau for Economic Policy Analysis
DARPA	Defense Advanced Research Projects Agency
DG CONNECT	Directorate-General for Communications Networks, Content and Technology
DG GROW	Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs
DMA	Digital Markets Act
ECOFIN	Economic and Financial Affairs Council
ECSC	European Coal and Steel Community
EIB	European Investment Bank
EU	European Union
EU ETS	EU Emissions Trading System
EURATOM	European Atomic Energy Community
EUV	extreme ultraviolet
FDI	foreign direct investment
IBM	International Business Machines Corporation
IPCEI	Important Project of Common European Interest
NGO	non-governmental organisation
PPE	personal protective equipment
RSV	Rijn-Schelde-Verolme (former Dutch shipbuilding company)
RRF	Recovery and Resilience Facility
SER	Social and Economic Council
SDE++	Stimulation of Sustainable Energy Production and Climate Transition scheme
TTC	EU-US Trade and Technology Council
VNO-NCW	Confederation of Netherlands Industry and Employers
WTO	World Trade Organization





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