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ARTICLE

Deglobalisation and competition policy: the challenge to European economic integration

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In March 2023, the European Commission (EC) announced it would relax its state aid rules so that its Member States would have more leeway to co-invest with private actors in projects that further the green transition and reinforce the EU's industrial independence.[1] A dramatic change from the EC's rejection four years earlier of the Alstom-Siemens merger proposal supported by both the French and German governments.[2]

Over the last years, industrial policy has reemerged as a central policy instrument in both the US and the European Union (EU)[3] with, amongst others: the US Chips and Science Act, the EU's Chips Act, the US Inflation Reduction Act (IRA) and the EU's Net Zero Industry Act (NZIA). We will not discuss here in any detail the costs or the intrinsic limits of such new industrial policies or the extent to which achieving through such policies "strategic autonomy" or "technological sovereignty" is a realistic aim.[4] We rather focus on the extent to which such new industrial policies are compatible with the EU's basic principles of the single market and in particular competition policy, one of the central policy tools of European integration. Opening up the possibility for Member States to provide state aid to strategic industrial sectors within an Economic Union, which consists of Member States of very different sizes and hence very different fiscal intervention power, raises some fundamental questions as to the free trade principles governing economic integration. To what extent do these new industrial policies undermine the internal coherence and consistency of Europe's "single market", now explicitly favoring member states with bigger fiscal firepower -such as the likes of France, Germany, and Italy- to the detriment of smaller countries? Can industrial policy actually be implemented at an extra-territorial level, such as the EU?

The newly introduced industrial policies serve, of course, a rather different purpose than previous industrial policies. It is no longer about strengthening or protecting a nation's industrial competitiveness but about "de-risking" a nation's external dependency on foreign key suppliers of critical high-tech products such as microchips, electric batteries, or rare earth materials while ensuring a country's resilience in the longer run through a focus on a green industrial transformation policy, as in the case of the European Green Deal and the US IRA. In short, the aim is now to increase through such specific "de-risking" strategies a country or region's resilience.

Particularly for an open, free trade zone such as the EU, these new industrial policy aims raise some fundamental competition challenges. We start with the green industrial transformation.

Green industrial transformation as new industrial policy

It is interesting to remember that the EU itself was originally a project primarily focused on energy-intensive industrial production, starting with the production of coal and steel, which was considered strategic at that time. The enlargement of the EU in the 90s further "widened" European industrial value chains towards both the Southern and Eastern parts of Europe. Despite the absence of large fossil fuel reserves in Europe, energy-intensive industrial production became the hallmark of European specialization, not just in industry but also in agriculture. As a result, Europe faces today, probably more than any other region in the world, the most radical structural transformation towards green energy-based sectors. This involves not just the systemic transformation of industrial production and supply chains with heavy investments in new, green energy production sites and new, renewable energy grids but also a possible relocation of industries near more easily accessible renewable green energy sources. At the same time, through the (re-)use of existing materials, as per circular economy principles, a radical shift from well-established global value chains towards local suppliers adds to the potentially substantial internal relocation challenge.

The EC, as responsible authority for the Green Deal, is orchestrating this industrial transformation from a European perspective, but each individual Member State, of course, brings its, potentially conflicting, own national industrial policy interest to the table. One core reason for this is that the cost of producing renewable energy differs substantially from place to place. Locational differences across Europe play a strong role in this. Hydropower production is limited to mountainous locations with low population density. A similar story for energy production originating from wind and sun, the two other major sources of renewable energy production. Wind velocity is highest in offshore windfarms on the North and Baltic

Sea and onshore windfarms along coastal areas.[5] In the case of solar energy, the number of hours of sun in southern Europe dwarfs those in the middle and northern parts of Europe. In the most southern parts of Europe, with an average of 4000 hours of sun a year, there are opportunities for "concentrated solar power" production allowing for thermal and hydrogen storage, providing cheap power up to 24 hours a day. Until recently, the physical presence of sun, wind, water, and geothermal energy was not threatening the dominant fossil-based energy system. However, now that renewable energy technology inventions have evolved into market-based innovations, all major renewable energy sources benefit from lower marginal lifetime costs than fossil-based energy.[6] In short, Europe's future green energy system will be a much more place-based one with substantial differences in the costs of renewable energy production.

Ricardo Hausmann (2021) claimed that this difference in locational costs in the production of renewable energy is likely to remain one of the fundamental characteristics of renewable energy as opposed to energy based on fossil fuels. In his words, coal and oil have: "*a unique feature… they are amazingly energetic per unit of volume and weight. This fact, combined with advances in transportation technologies in the twentieth century, meant that the world became "flat" from an energy point of view… absence of local energy sources was not an obstacle… Yet, as the world weans itself off coal and oil, energy flatness will become a thing of the past. With the exception of nuclear power, all green sources of energy – sun, wind, hydro, and geothermal – are unevenly distributed and costly to transport. Even if firms insist on using fossil fuels together with carbon capture and storage, they will benefit from proximity to geological formations that can store carbon dioxide – and these are not ubiquitous. In a decarbonizing world, therefore, energy-intensive activities will again have to take place near specific locations, just as in the days of waterwheels.*"[7]

As a result, Europe's new renewable energy system is likely to be much more decentralized and location-based, benefitting local creative entrepreneurs. It is here that the intrinsic limits and challenges of a new European industrial policy become strikingly visible, as the green transformation relocation patterns across Europe do not fit the current industrial locations in Europe. Many of those regions[8] became, over the earlier part of the previous century, areas with a strong industrial concentration, benefiting from what Hausmann called a "flat energy world".

As such, there will be a national policy tendency to prioritize infrastructural grid investments linking the new locations of green energy production to the old industrial concentration areas. In short, national interests will attempt to keep the old "flat energy world" with investments in primarily the domestic, new renewable energy grid infrastructure to enable the smooth energy transformation of their own industrial zones. However, from an overall European perspective, such national

industrial policies aimed at transforming existing industry's competitiveness into a sustainable one will be particularly costly. It will, as Hausmann suggests, undermine Europe's overall "sustainable competitiveness" in some of the heavy, energy-intensive industrial sectors while at the same time miss new, location-based energy production opportunities. In this sense, the Europe's green energy transformation requires a rather different industrial policy: one that fully recognizes differences in renewable energy production cost across the full territory of the EU.

De-risking external strategic dependencies

Both the European and US Chips Act focus on the production of chips, which requires particularly heavy capital investment. Both Europe, and to a lesser extent, the US have become "dependent" on foreign imports, in particular from Taiwan. The aim of the European Chips Act is to double the production of chips in Europe (now approximately 10% of world production), the production on European soil of 2-nanometer generation chips, and the general quest for Europe to become technologically "sovereign" in chips production and development. The old "naivety" of European policymaking, which Commissioner Thierry Breton referred to (as quoted above in footnote 1), was quickly replaced with rapidly growing "realism" in authorizing exemptions to the prohibition of state aid. Since the beginning of the year, the EC approved a €292.5 million subsidy from the Italian government for the construction of a STMicroelectronics silicon carbide substrate manufacturing plant in Sicily, a €2.9 billion in state aid from the French government for STMicroelectronics and Global Foundries in Crolles and, as yet still to be formally approved by the EC, a €5 billion state aid from the federal German government into a new €10 billion TSMC (the Taiwanese Semiconductor Manufacturing Company) microchips plant in Dresden (with participation of the European companies Bosch, Infineon, and NXP, each with a 10% stake), and finally another €10 billion subsidy pledge to Intel for an even larger €30 billion microchips production plant in Saxony-Anhalt, the German region which likes to present itself today as Silicon Saxony.

So, most of the Chips Act induced semiconductor investments are taking place in Germany, which has earmarked a €20 billion budget for state aid to the semiconductor industry. As Mathieu Duchâtel, Director of International Studies at French think-tank *Institut Montaigne*, observes, while these new investments in semiconductor production in Europe would undoubtedly never have seen the light without the Chips Act and the enabling provision for European state aid, its is rather striking that TSMC, the only company in the world capable of producing "2-nanometer generation technologies" will actually not be doing so in Dresden but rather respond to the call coming from the automotive sector for mature chips technologies, keeping its technological lead closely guarded in Taiwan where the

company will be mass-producing 2-nanometers at the Hsinchu Science Park and will only begin 4-nanometer production at its first western-based TSMC plant in the US in 2026. Between the political vision of achieving "strategic autonomy" in critical technologies, such as chip production and its commercial viability, there is the "strategic autonomy" of the company itself, in this case, TSMC with, in the background, the Taiwanese state. TSMC is effectively "*surfing on the revival of industrial policy in the G7 economies, simultaneously building fabs in the USA, Germany and Japan, where state aid packages reduce the production cost gaps with Taiwan... This new strategic shift will not, however, change the fact that TSMC is deeply rooted in Taiwan's unique industrial ecosystem... and intends to keep the majority of its production volume in Taiwan*". Interestingly, TSMC will not be bringing its own network of Taiwanese suppliers to Germany who find the margins insufficient for doing so, given the relatively low margins for mature chips required for the automotive industry. TSMC will thus have to use a network of European suppliers, hence the joint venture with European companies. In short, and as a side effect, the European Chips Act is now contributing to the emergence of a semiconductor industrial cluster in Germany . As pointed out by Duchâtel: "*the Commission will have authorised precisely what European competition law sought to prevent by prohibiting industrial subsidies: concentration in countries with sufficient budgetary leeway to support large-scale projects.*"[9]

In Europe, and even more so than in the US, the new notion of "economic security" and of "strategic autonomy", on which the Chips Act became based, emerged in the slipstream of the financial and health crises of the last decade and the fossil fuel energy crisis following the Russian invasion of Ukraine. Each of these crises brought to the fore the external dependency of specific European Member States, whether in terms of capital imbalances as in the case of the financial crisis, of global value chains as in the case of COVID-19, and most recently of Russian oil and gas supplies, each one of which translated itself into an increase in the overall EU vulnerability. Particularly the external dependency on Russian gas and oil, but also its huge dependency on foreign, primarily Chinese rare earth materials, essential medical goods and equipment, microchips, cloud computing, and other technologically advanced equipment contribute to this.

The decline in the belief in the benefits of international trade, particularly in Europe, underscoring the notion of "economic security" and "strategic autonomy" is, of course, striking. It raises questions as to the coherence between the "liberal" single market principles on which European integration was built and the "strategic" and geopolitical interests of the main participants in the European integration process: the large European Member States, all also members of the G-7. The most explicit critique of the way international economics has relied on open, international trade as a policy tool to achieve global welfare came most recently from David Singh Grewal.

Grewal[10] describes the "world without walls" of the international economist as a world-historical "gamble": a "*combination of liberal hopes for an international order of peaceable and cooperating states... undergirded by neoliberal hopes about the contribution of free markets to wealth, security, and peace.*" Assigning "*a market-led order pride of place in setting the terms of international relations*", whereby "*states are supposed to defer to and enforce the private cross-border orderings of the global market, which mainly means letting a transnational price system determine where production goes globally, and thus who gets what in globalization*" is, for Grewal from a political perspective, unsustainable. Replacing "globally" with Europe in the previous quote, the same questions can now be raised with respect to the EU.

But it is time to conclude. Both the Green Deal and the aim of "strategic autonomy" are illustrative of the novel, more interventionist approach the EU and the US have undertaken over recent years. For Europe, this raises some fundamental questions as to its future as an economic and monetary union built on a common regulatory framework among its 27 Member States, including a stringent set of competition rules allowing the principles of a "single market" to translate itself into a fair level playing field. How to maintain within the EU "*the dominant neoliberal logic of economic welfare maximization through internal liberalization*"[11] when on the external side, these are abandoned following the new "de-risking" strategy becoming dominant with economic security, "strategic autonomy" and technological sovereignty, as new concepts guiding the EU's international trade and investment policy.

As argued here, the Green Deal and the EU Chips Act find themselves on different sides of the spectrum: one of a pan-European project with the ambition to influence developments abroad, the other as part of a project hijacked by some of the larger EU member states, with the aim to wane the EU from outside influences. Both bring location discussions firmly back to the forefront. Renewable energy production has substantially more potential in certain areas of Europe: for the EU to not lose competitiveness towards the outside world might necessitate relocation of industrial centers that were at the forefront of European integration. These internal transformation pressures involving possibly significant industrial and agricultural relocation are likely to translate into new political pressures on the European Union itself, on European values of democracy and single market openness. Why would the EU as the most integrated set of countries, the most clearly identifiable "region without walls" in Gerwal's words, not also be a historical "gamble": a "combination of liberal hopes for a ... [European] order of peaceable and cooperating states... undergirded by *neoliberal* hopes about the contribution of free markets to wealth, security, and peace"? Why would the external pressures for geo-political economic security, for speeding up European industries' transformation into sustainable

competitiveness not create internal competition between Member States for supporting ***their*** industry with state aid; a new battle of fiscal support between countries who can afford it? As the EU is composed primarily of small countries, its overall economic security –Europe's de-risking strategy– will now become the playing field of a couple of large countries, with the rest of Europe paying the price of de-globalization.

It would be the ultimate paradox of European integration: the external dimensions of both the sustainability and new geo-political challenges, undermining Europe's internal values of openness and of soft power.

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