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EU single market embracing 'green' industrial policy: paradigm shift and challenges

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1. Introduction

The Single Market is transitioning from a rules-based open market to a mechanism focused on promoting green growth locally and globally. The challenge lies in reconciling the rule-based system, built on the belief that open and competitive markets spur growth, with industrial policies targeting structural transformation for 'green growth.' This represents a paradigmatic change fraught with political complexities and major trade-offs, posing substantial regulatory and policy challenges.

2. A shifting paradigm of the EU single market

Table 1 lists major stylised features of the shifting paradigms of the Single Market.

Table 1: The dimensions of the shifting paradigm of the EU Single Market

	Old/current	Emerging
Rationales		
Role of market	Economic growth	Socioeconomic transformation towards green growth
Market embeddedness	Market supporting paradigm	'Market shaping' paradigm
Market vs policy regulation	A sharp distinction	Blurring the boundary between market governance and policy coordination
Policy rationale	Market failure based	System and transformation failure
Allocation Directionality		
Direction of techno-economic growth	'Market knows the best' (Generic business conditions suffice)	Markets as tools of socio-economic and technological change (Sector specific transition pathways)
Governance of Single Market		
Dominant governance mode	Market-enhancing governance	Market governance complementing Stakeholders' governance (MS, EU, Regions, Employers, Trade Unions, Citizens)
Governance rules	A single set of rules, regulatory convergence	Regulatory flexibility and tailoring
Dominant governance level	A sharp micro-macro distinction	Industrial ecosystem
Relationship to global markets		
Openness of SM	Multilateral agreements	Multilateral agreements + Open Strategic Autonomy
Metrics of SM		
Monitoring focus	Legislative and implementation obstacles	Green growth outcomes and obstacles

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The evolving shift is from the sole focus on economic growth towards socio-economic transformation towards green growth, from 'market supporting' towards the 'market shaping' paradigm, from a sharp distinction between market and policy towards blurring the boundary between market governance and policy coordination, from Market failure towards System and Transformation failure-based policies.

Regarding the direction of transformation, there is a shift from 'Market knows the best' (Generic business conditions suffice) towards Markets as tools of socio-economic and technological change (Sector-specific transition pathways).

The SM's governance is shifting from Market-enhancing to Market governance, complementing Stakeholders' governance (MS, EU, Regions, Employers, Trade Unions, Citizens). We observe a shift from a single set of rules and regulatory convergence towards regulatory flexibility and tailoring and from a sharp micro-macro distinction towards the Industrial Ecosystem perspective.

Regarding the relationship with the global market, there is a shift from Multilateral Agreements Towards Open Strategic Autonomy.

Monitoring focus shifts from legislative and implementation obstacles to 'green growth' outcomes and obstacles.

3. Trade-offs of the emerging paradigm of the single market

The emerging paradigm's success or failure hinges on addressing key trade-offs, notably between competition and industrial policy, the focus on consumers and firms versus ecosystems, and the tension between SM openness and strategic autonomy.

Competition vs. Industrial Policy: The trade-off between competition and industrial policy, particularly about state aid rules, raises concerns about potential distortions of competition. Resolving this requires a broader understanding of competition policy, long-term green growth objectives, and specificity in State Aid reforms to differentiate between anti-competitive and competitively neutral subsidies.

Individual Firms vs. Ecosystems: The focus of EU competition policy on individual firms conflicts with the increasing role of ecosystems, particularly in the digital domain. New entities like Important Projects of Common European Interest (IPCEI) and industrial alliances operate at the ecosystem level, challenging traditional competition policy. Integrating these entities into the evolving SM necessitates considering them from both competition and industrial policy perspectives, acknowledging their role in shaping the emerging paradigm.

SM Openness vs. Strategic Autonomy: Achieving a balance between SM openness and controlling EU technological interdependencies with the global economy requires strategic leveraging. The EU's weight in global supply chains and its preference for 'de-risking' over 'decoupling' underscores the importance of integrating economic security considerations into policies.

In summary, navigating these trade-offs is pivotal for the success of the emerging paradigm, and careful consideration of each dimension is essential to ensure a coherent and effective evolution of the EU Single Market.

4. The institutionalisation and policy mix issues

The evolving paradigm of the Single Market (SM), now incorporating industrial policy, necessitates new structures and institutions to address incompatibilities highlighted in the previous sections.

Institutional challenges in building new Single Market governance

Reconciling trade-offs between a rule-based SM and one driven by industrial policy objectives requires broadening the stakeholders involved in regulatory processes. Emerging institutionalisation of industrial alliances, Important Projects of Common European Interest (IPCEI), and Industrial Ecosystems Coordination (ICEC) recognise this. Still, regulatory or corporate capture challenges and the neglect of certain stakeholders need careful consideration. Collaboration between public bodies and the private sector is crucial, necessitating autonomous public bodies to ensure accountability for public support. Methodologies for monitoring climate spending and avoiding greenwashing are essential.

EU Single Market and policy mix issues

The EU's weak fiscal capacity leads to regulations being the dominant instrument to promote green growth. Yet, a policy mix for green growth would require a full range of instruments, including investments, tax credits, and regulations.

The bulk of investments should accelerate the adoption of the existing clean technologies, followed by investments in new technological solutions. Only then can taxes, especially tax credits, be effective instruments to change behaviour and accelerate green transformation. As the main EU-level instrument supporting green growth, regulations are effective only when complementing investments and tax credits. Overall, the EU green industrial policy would require shifting from a price-centred to an investment-centred view of 'greening'.

5. Conclusion

Accommodating industrial policy tasks into the fabric (institutional architecture) of the SM, originally conceived as a dominantly market-enhancing governance mechanism, is reaching its limits. Sooner or later, the dominant paradigm of the SM would have to change to reconcile market enhancement with policy governance. The new instruments and new goals may become incompatible with an unchanged setting or the existing market governance of the SM.

Accommodating industrial policy into the SM would require much more thought to be given to the issues of conditionalities and accountability. A robust system of industrial policy based on conditionalities and accountabilities is compatible with the rule-based system of the SM. This is a striking gap in industrial policy development in the EU. Also, a successful greening policy would need all three groups of instruments to work together and in sequence – investment, tax credits and regulations. The EU challenge is ensuring proper sequencing in the policy mix in the current institutional context with weak EU fiscal capacity and mixed EU/MS competencies in industrial policy.

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