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Europe's last line of defense

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Fortress Europe isn't taboo any more.

Europe's top civil servants are warning that it's time to switch to a more defensive industrial strategy if the European project is to survive a perfect storm of external threats such as U.S. President Donald Trump on one side, and internal powder kegs like French populist leader Marine Le Pen on the other.

European Commission officials, in an unusually frank 173-page memo of what they want to be the priorities of incoming President Ursula von der Leyen, have mapped out a new approach of generous public funding for industry, more loopholes in competition rules and stricter trade defenses. That is music to the ears of France and Germany, and chimes perfectly with their ambitions of forging "European champions" to compete with American and Chinese rivals.

The language of the Commission document is stark when it comes to the prospects of survival in an environment where the U.S. and China are pulling global trade back to a lawless era of "might is right." The EU officials said they need tougher trade defenses because "the EU would be very ill-suited to survive in a purely power-based world order."

In an obvious allusion to the rise of anti-EU populists at home, the officials noted that the EU's free-trading agenda often became a "scapegoat for broader social and economic pains." In response, they stressed that trade policy could play a role in helping to defend the poor by securing "a level playing field" — a phrase that often refers to restrictions on highly subsidized Chinese companies — and by increasing trade barriers on countries with lax environmental standards.

A spokeswoman for the outgoing European Commission dismissed the memo as "draft internal brainstorming documents" that were not yet "mature" enough to make it to von der Leyen's desk.

The plans are not likely to be put in a drawer and forgotten, however, as they are exactly in line with measures sought by the two powers that really can dictate policy in Europe: France and Germany.

Franco-German engine room

Both France and Germany were furious that the outgoing European Commission of President Jean-Claude Juncker this year blocked a mega-merger between Siemens and Alstom that would have created a European rail giant. While Brussels argued the deal would have hiked prices for consumers, Berlin and Paris lambasted the Commission for being naïve about the rise of China and for cleaving to outmoded competition rules.

With Britain leaving the EU as the bloc's strongest advocate of free-trading liberalism, France sees a prime opportunity to take a more protectionist tack during the von der Leyen mandate.

France's Economy Minister Bruno Le Maire, who was one of the leading voices calling for an overhaul of EU rules after the veto on Alstom-Siemens, told POLITICO: "The EU needs to think big and protect its interests."

When asked about what the priorities should be for the next five years, he said: "We are at a turning point for the European project. With the new Parliament and Commission, we have an opportunity to redefine priorities and make radical changes. On the economic front, we both need to be more competitive globally, generate more growth and jobs, whilst also providing greater protection to our citizens."

Somewhat unusually, that kind of language has also emanated from Germany and its all-powerful business lobby, the BDI, in recent months. The doctrine of picking winners is back. German Economy Minister Peter Altmaier, who has also stressed the need for a new approach to building European champions, has laid out plans for special state support for key industrial sectors such as cars, machinery, medical technology, 3D printing, aerospace and defense.

Nervous Nordics

Rather than strengthening Europe, however, there is also a risk that a Franco-German lurch toward more dirigiste policy could open some faultlines in the EU, particularly with Nordic and Benelux nations that are traditionally more closely allied to the free-trading British camp.

Finland's Trade Minister Ville Skinnari stressed that he could not comment on the memo itself, but struck a cautious note on how much protection was needed, and warned that it would be unfair for big countries to strike out alone on any agenda.

"We have followed very closely what the Germans and French have said, and we have to have a close dialogue — mutual understanding is important," he said. "It's understandable that these kinds of initiatives are being made ... We need an industrial strategy, that's for sure. But now the question is how we do that. It's very important that we stay together and have a common approach."

"Erecting barriers is not the best way to enhance competitiveness," he continued. "Instead, we should pursue an ambitious agenda for free trade agreements ... and ensure that the EU remains an open and welcoming environment for businesses, trade and investment."

The ideas in the EU memo are radical by any standards. They include a €100 billion fund to bolster champions facing competition from the U.S. and China, and new trade powers — called an Enforcement Regulation — that would allow unilateral trade retaliation against the United States.

"All of this takes us into a bad anti-market direction," said Simon Lester, associate director of the libertarian Cato Institute's Center for Trade Policy Studies. "But at the same time, I can understand that the proposals on subsidies as well as for retaliation are a reaction to China and to Trump."

Lester said that if EU countries really wanted to build EU champions, they should focus more on encouraging entrepreneurs.

"I don't think you need subsidies, you just need an entrepreneur who takes a chance."