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Europe and its Industry's Future: Benign Neglect or European Interest?

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INTRO DUCTION

The European Union and its industry are facing unprecedented challenges since the inception of European construction in post-War times. The speed of economic globalisation, in which the EU's open economy is deeply immersed, and the rapid upsurge, in recent years, of major emerging economic powers are having an ever greater impact on the European economy and on the competitiveness of European business. This detrimental impact is worsened by inherent weaknesses, insufficient policy co-ordination, and serious shortcomings affecting the efficiency of the Single Market. Increasingly, the EU appears to lack a convincing macroeconomic and industrial strategy to face these major challenges in a global context of combined financial, economic, social and environmental crises. Whilst Europe's competitive advantages are weakened by its inherent contradictions, Europeans have often adopted an attitude of benign neglect towards their own companies. The consistency of the Union's competitiveness strategy with its collective social and environmental policy choices is increasingly put to the test. The EU is a leading player in generating market rules, fighting climate change, providing development aid and promoting human rights, but only achieves limited success in spreading its code of conduct and competition norms beyond EU borders. Whilst it sets itself ambitious aims in reducing Co2 emissions and promoting sustainable development, intense competition is developing worldwide for the control of sources of energy and raw materials. The principle of reciprocity in market access is not applied, although European businesses continue to face unfair commercial practices, market distortions and infringements on intellectual property rights. A number of directives and initiatives, although necessary, have been widely criticised for not taking sufficiently into account the interests of European businesses operating in the Single Market and for creating additional obstacles to their development. Moreover, diverging national interests and lack of solidarity between member states frequently pursuing their own agenda in a dispersed order weaken the Union's ability to have its voice heard externally. Of course, Europe counts numerous large companies that are highly competitive on external markets, and it remains a major actor in world trade. But its positions in future technologies are gradually eroded and European companies face fierce competition from newly industrialised countries even in their areas of strength.

In the face of this paradigm, crucial issues are at stake, which question the finality and, ultimately, could prevent the success of the entire European integration enterprise. What will the position of Europe be in tomorrow's world where emerging economic powers will continue to progress rapidly, gain market shares and increased access to future technologies whilst the economic size and demographic weight of an ageing Europe will *de facto* shrink in comparison with other major economic regions? Can the European Union reconcile the general European interest with its aspirations of exemplarity and desire to promote social values, sound competition practices, corporate social responsibility and sustainable development without hampering the competitiveness of European business? How could the co-ordination of internal EU policies be improved, and how can external policies consistent with internal policy decisions be put into place in a way that takes more into account European business interests?

This empirical paper aims to address these essential questions. In doing so, it argues a number of points. Firstly, since the European Union increasingly perceives itself as 'a player in globalisation' (COM 2007), it needs to take more convincing action in favour of its own industry. The attitude of benign neglect that has so far prevailed can only result in a further erosion of Europe's industrial base. Without preserving this base, the EU will gradually lose influence and, hence, its hope of shaping globalisation. Secondly, the EU has become an economic giant, but remains a political dwarf. In order for it to continue to be a key player in shaping globalisation, as it aspires to be, the EU needs to ensure that the high ambitions that it displays are realistically achievable. Its economic weight as the world's leading trader and second largest investor is weakened by its acute lack of cohesion. The EU must be more pro-active, consolidate and strengthen its comparative industrial advantages if it wants to maintain its positions in international business and trade. This requires a more assertive, more 'political' and strategic approach, as well as a proper internal debate in order to define the vital interests shared by Europeans and to build up common European goods. Thirdly, the necessity to adopt a more 'political' approach in economic dealings should under no circumstances be an alibi for protectionism. A more assertive stance should consolidate rather than question the Community *acquis*. The crucial challenge is about 'how to protect without being protectionist' (Barroso 2007), without questioning the very foundations of post-War European construction, without jeopardising European values within the fallacious boundaries of an illusory 'fortress Europe'. The relevance of these claims is particularly high against the current background of severe global recession, which tends, both, to increase the role of the State and to amplify calls for economic patriotism worldwide as well as within the EU.

In view of the above, it seems pertinent to frame the paper theoretically around the debate on industrial policy and its links with other policies which have a direct impact on industry, and to articulate its strategic implications within the broader context of the Lisbon Strategy. The paper, first, examines the recently revived industrial policy debate within Europe, which is underpinned by the dichotomy between adepts of market liberalism and advocates of political intervention. Then, it considers the EU Commission's stance towards the concept of a European interest, how it addresses this issue, and what it has done concretely in order to apply this as a principle in its policy handlings. In order to evaluate the extent to which the EU has applied this principle to the benefit of European business, the paper considers two issues. First, the Small Business Act, which was drawn up to improve access for Small and Middle-sized Enterprises (SMEs) to the integrated single market and enhance their efficiency. Then, the principle of reciprocity in market access and how it is applied in international trade, since it provides useful indications about the readiness of the EU to use its own instruments. Finally, the paper argues that the current economic recession can provide the incentive to launch a renewed post-2010 Lisbon Strategy which should articulate existing policies and ensure that careful attention is devoted towards the interest of European business.

This paper intends to contribute to the new debate surrounding the European interest by arguing that the precondition for the EU, if it is to remain a major actor in shaping globalisation, is to defend and boost its economic and business interests more effectively than it has done until now, and that in doing so it has no other credible alternative than resisting both internal and external protectionist pressures. The paper's central claim is that the EU needs to be considerably more assertive than it has been until today in defending the interest of European business if it wants to retain both its key role internationally, and its full credibility within the business community. This can only work if three closely interlinked requirements are met. First, a strategic requirement: the need to become more 'political' raises the issue of how to elaborate an appropriate strategy. Second, a policy requirement: this strategy has to be backed up by an appropriate industrial policy which needs to be articulated with other existing policies impacting upon industry. Third, a commitment to remain faithful to the founding values of European construction, with regard, in particular, to the need to preserve economic openness and avoid the trap of protectionism and the temptation of national entrenchment.

Within the large spectrum of existing research on economic integration theory and EU single market policies, issues related to the European interest have until very recently remained mostly implicit. As an organisation whose foundations rely on the rule of Law rather than on a political union, who is weary of promoting good practice in international trade and competition issues, the EU caustiously avoids making too explicit references to promoting the specific interest of the European economy and business or acting in a way that may be perceived as interventionist or led by political calculations. However, the fact that the EU did not anticipate major global economic shocks, such as the collapse of the New Economy in 2001, the shock wave provoked by stunning economic rise of emerging continent-countries (China, India, Russia, Brazil), or more recently the credit crunch and subsequent recession, have questioned its ability to provide a collective answer to such global challenges. Increasing fears that the European industry would gradually lose its distinct comparative advantages in a new international division of labour re-shaped by the speed of change in emerging economies have raised overall awareness that industry is an issue of common European interest which requires joint action to be taken at supranational level. It is in this context of rising concern for the future of European industry in the global economy that a revival of industrial policy was initiated by the EU Commission, as a response to intense lobbying on the part of several member states (COM (2002), (2003), (2004)), and that this reinstatement was further consolidated after 2004 in the aftermath of the Wim Kok Report on the Lisbon Strategy (2004). This report inspired the Strategy's mid-term review conducted by the European Council in March 2005 (COM (2005a), (2005b)). Whilst it highlighted the urgency of boosting growth, innovation and competitiveness but without clarifying which action needed to be taken, the Lisbon Strategy, streamlined in 2005, proposed a sound roadmap geared towards establishing more flexible labour markets, consolidating the Single European Market, providing more investment in R&D and improvements in training and professional qualifications. Its content displays an increasing perception of the need to be more pro-active in improving the overall market environment in which business operates. However, the actual concern for the European interest remained also primarily implicit.

Against this background, and in an attempt to clarify a debate too narrowly focussed on 'activistic' sectoral interventions, the EU Commission defined a new industrial policy paradigm based essentially on 'soft', transversal supply-side measures to consolidate the framework in which firms operate (Trouille 2007). Until not so long ago, supply-side policies used to be conducted exclusively at national level, and their more or less hidden purpose was to arrogate competitive advantages to national firms by means of a panoply of protectionist measures and anti-competitive instruments to thwart market forces. From the mid-1980s onwards, this type of sectoral policies gradually lost momentum while Europe was moving towards liberalisation and the establishment of its Single Market. Even in France, which has a long tradition of interventionist practices, the acquisition of aluminium specialist Péchiney by its Canadian rival Alcan could take place in 2002 without real opposition from the state[1]. The concept of industrial policy only gradually came back on the European policy agenda in 2003-2004, then in 2005 when it was rehabilitated by the Commission (COM (2005b)), this time on different groundings. The Commission's Directorate-General (DG) Enterprise and Industry openly stated that the aim of its new industrial policy was to increase the competitiveness of European companies by improving the general competitive environment by means of an improved regulatory framework within the Single Market (better regulation), using essentially horizontal instruments, and resorting only cautiously to some sectoral measures (Verheugen 2005). This renovated industrial policy relies on 'soft' interventions which aim at improving the overall competitive environment. It diverges resolutely from the kind of interventionist sectoral policies which, for instance, allowed the French economy to take off in post-War times. The focus is on investing into research and development (R&D) and innovation in order to improve the conditions for industrial development, on boosting small and middle-sized enterprises (SMEs), on defending intellectual property rights, and on improving the skills of the working population through better education and training. Under this understanding, it was no longer a taboo in Brussels-based EU institutions to discuss the European interest (Herzog 2008), understood as an attempt to share preoccupations on industry, innovation and the knowledge economy, as testified by a recent communication

[1] Even though this foreign takeover sparked off subsequently a shock wave throughout the country comparable with the reaction caused in Germany by the takeover of telecommunications giant Mannesmann by Vodafone.

from the Commission (COM (2007)), nor is it to debate about issues of reciprocity and community preference (Baud/Fischer 2008).

However, notwithstanding these new windows of opportunities, initial enthusiasm among those in favour of adopting an EU-wide industrial strategy soon gave room to dissensions vis-à-vis a concept that was traditionally used as an alibi for protectionism. These diverging views are revealing for the complexity of a particularly delicate interaction between different actors whose perceptions and expectations diverge sometimes greatly. They highlight a deeply-rooted misunderstanding of what industrial policy should consist of, that is, about the fundamental question of its content (Cohen/Lorenzi 2000). Indeed, industrial policy theory raises the crucial question as to whether or not state intervention in industry is appropriate, and if so, which types of intervention are acceptable and compatible with the community *acquis*, and under which conditions. There are numerous views as to what industrial policy ought to be and to entail. Should it consist of a vertical strategy, aiming at strengthening certain selected industries perceived as strategic and at preserving declining sectors for either social or prestige reasons? Or else, should the emphasis lay on horizontal, accompanying measures in order to create within the European production site a framework favourable to business and investment? How to encourage R&D and boost innovation, which represent the most promising way for the European economy to remain competitive in the face of the inexorable rise of large emerging economies? Should champions, national or European ones, be encouraged, and if so, which ones, on which criteria, and how? Should a policy mix be envisaged, involving vertical as well as horizontal actions? Finally, to what extent are these different approaches of industrial policy compatible with the Community *acquis*, with particular regard to more established policies, in particular competition, trade and technology policies which, by definition, impact upon industry?

Indeed, the fact that, first, a large number of EU policy measures exert already an influence upon industry, and second, that there are numerous conceptions and diverging expectations of industrial policy across Europe makes the Commission’s task extremely awkward. Furthermore, whatever the stance that it advocates, the implementation of its industrial policy precepts remains largely within the nation-state’s province, with each member state having specific specialisations and wanting to defend ‘its’ companies (Trouille 2007). The member states and their jealously guarded prerogatives share the prime responsibility for difficulties encountered in designing joint pan-European industrial policies or in launching important projects of common interest across Europe, as illustrated by numerous attempts made across most member states to protect their national champion in the energy sector to the detriment of a European energy policy, or else by the obstacles that recently delayed the launch of the

Galileo satellite project. In view of the obstacles faced while attempting to put in place pan-European strategies whilst member states continued to pursue their own priorities, initial ambitions had to be tempered.

Different understandings of industrial policy highlight the lack of a single definition of what it entails as well as its relative absence from economic theory (Cohen/Lorenzi 2000; Coriat 2000). Whilst numerous studies focus on state intervention and review different types of market failures as the main justifications for applying supply-side policies such as state aids, tax advantages or sector-specific measures, attempts to develop a theoretical foundation for policies affecting industry have indeed focused only marginally on industrial policy. The literature identifies two prevailing conceptions. First, the 'horizontal' laissez-faire, market-orientated approach, whose emphasis lies on creating a favourable and sustainable economic and legal environment for business investment by relying as much as possible on market mechanisms whilst correcting market deficiencies such as insufficient competition. Second, the 'vertical' interpretation, which leads the national state to preserve long-established corporate structures by means of sectoral interventions, in order to protect industries perceived as strategic, save jobs and create national 'champions'. This classification into two schools of thought with a radically opposed approach is arguably rather narrow and simplistic. It presents, however, the advantage of shedding light on the division that has traditionally affected the European debate on industrial policy for several decades. Advocates of a minimalist 'horizontal' approach are to be found among the more liberal-minded national economies (the UK, Ireland, the Netherlands, Scandinavian countries, and to some extent central European member states) and within the EU-Commission, whilst the 'vertical', interventionist definition has traditionally been shared primarily by France, and to some extent Southern European member states and the Walloon area of Belgium. Many of these member states, in particular Germany, claim to refer to the first scenario but with frequent lack of consistency (Trouille/Uterwedde 2008).

Interestingly, this dichotomy between interventionist and non-interventionist industrial policies reflects the fundamental ideological clash between, on the one hand, adepts of market liberalism and, on the other, advocates of political control, which has affected economic integration in Europe for several decades. As previous competition commissioner Mario Monti explains: *There are two opposite camps today. On the one hand, those who scorn Europe for being willing to sell its soul and settle for a purely market-oriented society. On the other hand, those who claim that the inflexibility that hinders Europe's economy is responsible for low growth rates. 'Too much' market influence in one case, 'too little' in the other: we need to overcome this ideological controversy, in order to get a clearer view of the* *facts* (Monti 2003). Of course, traditional capitalistic models within Europe have undergone deep transformations through combined economic pressures resulting from globalisation and political pressures for convergence emanating from Europe (Callagan 2008), and it can be expected from the current financial crisis and from the rise of capitalism in emerging economies that more transformations are on their way (Lorenzi 2008). Nonetheless, nearly two decades after its inception, the Single European Market has not generated a truly European form of capitalism. Instead, we are faced with rival national capitalisms, where each country defends tooth and nail its national specialisations and statutes and treats industrial policy as a national prerogative (Herzog 2008). Distinct nationally based post-war models continue to coexist within the EU (Schmidt 2002), with managed capitalism backed up by an 'enabling' state in Germany and state-directed capitalism organised by an 'interventionist' state in France (Trouille/Uterwedde 2008), and financial capitalism supervised (currently under tight scrutiny) in the UK by a state widely regarded as the most liberal in Europe, even after massive public interventions in the financial sphere since the collapse of Northern Rock in 2008. Most bones of contention which affect the Union, for instance, concerning levels of market regulation, macro-economic activism versus market adjustment, trade openness versus protection, laissez-faire versus intervention, are conditioned by the persistence of diverging varieties of capitalism which reflect different economic models and social traditions. These diverging capitalistic models and the lack of synergy between them, coupled with political divisions and clashes of national interest between the main member states as well as between old and new members, represent a great level of diversity which is clearly a major obstacle to a united European strategy in the face of international competition. It is a handicap that Europe as a 'fragmented' power has to overcome if it is to become more assertive and more effective in defending its own interests (Ahearne *et al* 2006; Sapir 2007; Herzog 2008).

In the face of the Union's internal fragmentation and the persistent incapacity of member states to reach a compromise on common industrial interests, the Commission has had the difficult task of addressing concern frequently expressed about the staggering pace of global changes and their impact on Europe. In a vision paper entitled *The European Interest: Succeeding in the age of globalisation* (COM (2007), the Commission exposes its views on the general policy framework which should succeed to the Lisbon Strategy beyond 2010. This Communication is an attempt to cater for the necessity to be more reactive to the speed of change, if Europe is to retain its distinctive strengths in the international division of labour. It endeavours to explore a new global approach with, this time, an explicit focus on the interests of Europe. It acknowledges the concern of European citizens in the face of the scale and speed of global economic changes, and it states an intention to 'enable Europeans to shape globalisation'. It also deals with the need to 'protect without being protectionist', as President Barroso repeatedly points out in official declarations. Its emphasis on better regulation, on maintaining efforts in favour of innovation, and on researching some form of reciprocity in the relations that the EU entertains with external markets, appear to go in the right direction. The intentions stated throughout the Communication attest that the Commission has become more receptive to the principle of safeguarding the European interest. But are these steps sufficient to address the tremendous strategic challenges that Europe is facing in the 21st Century? Or does this Communication merely consist of a collection of declarations based good intentions without putting verbal commitment into action? It would appear, as will be discussed below, that the second option seems to apply. Of course, the Commission is under scrutiny from the EU Council and member states keen on preserving the current intergovernmental status quo. In addition, the Commission is, at the time of writing, nearing the end of its current five-year period. Its current situation therefore leaves her with little more leeway than a hope to make its mark on this new debate.

It is only recently that literature has focused specifically on the European interest. This literature emanates primarily from Brussels-based think tanks[2] which took the opportunity of the aforementioned Commission's paper on the European Interest (COM (2007)) to carry out further investigation and influence the new debate. Official discourse emanating from EU institutions frequently leans towards a generally positive interpretation of an integration presented as a 'process' and spreads a resolutely optimistic outlook which tends to play down the extent of certain challenges. But positive pictures are often in sharp contrast with the more realistic analysis provided by EU-experts. Whilst publications by *Bruegel* explore the EU's positions and the future choices and challenges that it faces within the global economy from an international relations and trade perspective and in terms of its own governance (Ahearne *et* al 2006; Sapir 2007; Pisani-Ferry 2005, 2008), *Confrontations Europe* provides a comprehensive analysis of Europe's inherent structural weaknesses (Herzog 2008). Herzog calls for a new vision of Europe's relationship to the world and for a deep-reaching reform of the EU's governance system, and he insists on the need for joint political commitment to build a united force. Furthermore, he develops the concept of a consolidated Single Market used as a base camp for European business to face globalisation. Pisani-Ferry (2008) argues that the EU is engaged in the task of redefining the reason of its existence. Contrary to nation-states, the EU is in a constant need of justifying its purpose. Past achievements, like creating an area of peace, a monetary union, are no longer a sufficient justification for the integration project. The introspective approach which prevailed until recently relied on defining the EU's

[2] *Bruegel* and *Confrontations Europe* have been the most pro-active European think-tanks researching the European interest.

existence by the extent of economic and political integration reached by its members. However, defining the Union in terms of differential integration has become increasingly awkward at a time when the progress of economic globalisation has, arguably, caught up single market integration. The EU has found a new *raison d'être* in the way that it perceives itself as a player in globalisation. This new paradigm would fit with the Union's own preferences and desire to influence international discussions, and it is also in accord with the wish of its citizens. However, as Pisani-Ferry (2008) points out, this endeavour to endow the EU with a new sense of legitimacy could easily lead to a crisis of confidence if it were shown to be rhetoric rather than based upon convincing action. Interestingly, all aforementioned researchers converge in their respective analysis on the issue of power. The EU is, in its own way, a global power, rightly referred to as 'soft' or 'fragmented'. The real question being for Europeans how they intend to use the instruments of this power in international negotiations on trade or on global regulation. The two following cases, however, show that more needs to be done in order for the EU action to be more convincing.

In a Communication entitled *Think Small First: A Small Business Act for Europe* (COM 2008), the Commission intended to design a European equivalent of the American Small Business Act (SBA) of 1953, which grants certain privileges to small domestic enterprises. Contrary to American SMEs, their European counterparts struggle when attempting to go international. Aware that better access for SMEs to a more integrated Single Market would enhance their efficiency, the Commission stressed their key role for future development, acknowledging the fact that they face considerable bureaucratic hurdles and that they need to be better assisted 'to fully unlock their potential of long term sustainable growth and of more job creation'. To achieve this goal, he Commission proposed policy actions to be undertaken by both the Commission and member states. However, the text, which consists of a compromise between the 27 member states, is less ambitious than its American equivalent, which it was hoping to replicate. More specifically, the core measure of the American SBA, which forces the US Federal Administration to grant 23 percent of its purchasing contracts to SMEs, is not matched by any similar measure in the European SBA, due to the opposition of the more liberal-minded member states, in particular the UK, and despite the fact that other important developed economies (Canada, Japan, South Korea) have adopted this constraining measure. A further proposal, which was inspired by American restrictions imposed on foreign SMEs in accessing American public markets, and which aimed at establishing a clause of reciprocity to set limitations to the access of third countries' SMEs to the Single European Market, was also turned down. Difficulties to reach agreement as a result of the opposition of the more liberal minded member states, in particular the UK, means that the scope of the

European SBA remains very modest compared to the US, and that the support the EU provides to its SMEs will remain more symbolic than effective.

Whilst the SBA case illustrates a missed opportunity to raise the profile and potential of SMEs in the Single Market on the grounds of disagreements between member states influenced by diverging economic philosophies, the issue of reciprocity in market access highlights an inherent weakness at the level of the Commission, since it is responsible for competition and trade policies but does too little to apply the principle of reciprocity. Different economic zones do not respect the same rules. In most regions of the world, even in the most developed economies, many public procurement markets are still closed to European companies' access. The case of rail transportation in Japan clearly illustrates this discrepancy. Whilst the total market share of the three world leaders Alstom, Bombardier and Siemens amounts to 60 percent, their total cumulated market share in Japan is only 0.3 percent. Japan signed the WTO Agreement on Public Markets in 1994, but added an 'operational security' clause to prevent foreign rail transportation providers from bidding for Japanese public contracts. This clause means *de facto* that trains have to be manufactured by Japanese companies in order to comply with the Japanese security requirement in rail transport (Schuman Foundation 2008). Lack of reciprocity has, until recently, also applied to EU-Canada relations, since Canadian public contracts are negotiated by mutual agreement between Federal states and national companies rather than by public tenders, preventing Alstom in 2006 from bidding for the Metropolitan transport system in Montreal, whilst in the same year, thanks to the European practice of calling for public tender, Bombardier won a major contract for the renovation of trains in the Paris area. However, progress has recently been made through bilateral negotiations towards an EU-Canada economic partnership (Hübner/de Mestral 2008). Furthermore, the principle of a reciprocal access to markets also raises numerous issues of contention with regard to China. EU-China relations are constantly affected by divergences over trade deficits (the entire EU-27 exports more to Switzerland than to China), intellectual property and climate change. Whilst EU imports from China totalled €231m in 2007, EU exports to China only reached €72m in the same year. Due to bureaucratic burdens European exporters lost $12.4bn in 2004 as a direct consequence of non-tariff barriers in China[3]. These examples show that a large number of countries conduct a defensive industrial strategy without always admitting it, and even the most liberal ones do so consistently, as attested by the US Pentagon's decision in July 2008 to reopen the US Air Force bidding for a multimillion dollar contract for mid-air refuelling tankers, despite it having been won by EADS over Boeing's competing bid.

[3] Source: EU Commission 2007.

The difficulty for European companies of accessing public procurement markets in third countries whilst firms from these countries can gain access to the EU's open domestic market is not limited to 'North-South' agreements, as is often believed, but in fact concerns very often 'North-North' agreements. This highlights the importance of tackling systematically issues related to public procurement markets in bilateral trade negotiations. This also implies that the Commission needs to consider possible retaliation in a de-complexed manner. Its Communication on the European Interest (COM 2007) does indeed state that i*t is important for the EU to use its influence in international negotiations to seek openness from others: the political case for openness can only be sustained if others reciprocate in a positive manner. The EU needs to ensure that third countries offer proportionate levels of openness to EU exporters and investors which do not impinge on our capacity to protect our interests (…)* (COM 2007). However, the Commission does not take advantage of the room of manoeuvre that it has at its disposal in accordance with its own public procurement legislation. In its Public Market Directive[4] of June 2004, it introduced a clause of reciprocity allowing the EU to apply targeted retaliation measures, if necessary, to convince reluctant trade partners that it is in their firms' interest to open up their markets. However, this clause has never been transposed into Community law. The EU should allow itself to make use of the principle of reciprocity in market access by closing down its public markets temporarily to countries that refuse to open their own, instead of simply brandishing this principle as a threat, without ever daring to take action. It is criticised for treating matters of reciprocity merely in statements of intent, although it would seem straightforward to give it the force of law in European jurisdiction.

In addition to taking such external action, measures could also be considered in order to improve internal policy efficiency by improving the co-ordination between existing policies whose impact on European business is the most substantial, i.e. competition, trade and technology policies. Improved policy co-ordination would, for instance, allow industrial policy to be better integrated within the established EU policy framework. Industrial policy has been referred to in more recent literature as a triangle consisting of competition, trade and technology policy (Cohen/Lorenzi 2000; Mosconi 2006), highlighting an imbalance between, on the one hand, the first two components and, on the other, the third element, which is the weaker side of the industrial policy triangle. For some, industrial policy is simply absent, and it is the European competition policy that has, for a long time, *served as an industrial policy*

[4] Directive (2004/18/EC) on the coordination of procedures for the award of public public works contracts, public supply contracts and public service contracts, 30.06.2004.

although it neither had the vocation nor the means[5]. As a result of the weakness of the EU industrial policy, European business has arguably been deprived of a useful means of implementing a comprehensive and global strategic approach encompassing competition, trade and investment. Instead of this, EU competition policy has repeatedly been criticised for being more constraining than the competition policies in force in other regions of the world, with respect to concentration criteria, the size of companies and presumptions on abuse of dominance. The Commission has been blamed for adopting a too 'dogmatic' and 'legalistic' approach to competition rules. Its economic action has been seen as too narrowly focused on competition, a system that, according to some, has proved itself, but that would no longer be adapted to the new world economic situation (Lambert/Myard 2007). Such criticisms are, however, not groundless. As far as state aids are concerned, the EU is indeed the region that imposes itself the strictest discipline, even though this discipline had to be relaxed in the aftermath of the 2008 credit crunch. As far as mergers and acquisitions (M&As) are concerned, even though the number of cases where the Commission was opposed to a concentration remains altogether very limited (20 out of 3628 from 1990 to 31 October 2007), the cases of Aérospatiale-Alenia-Haviland (middle-sized aircrafts), of Péchiney-Alcan-Alusuisse (aluminium) and of Schneider-Legrand (electrical connections and materials) of forbidden concentrations are often cited as missed opportunities to create strong industrial players in Europe whose critical mass would have allowed them to face external competition in a more offensive way. Arguably, the size of a company does not, in itself, necessarily preclude an infringement to the good functioning of the market. Advocates of revisiting competition laws would like to see a balanced mix between the objectives of competition and the need to endow Europe with strong companies able to thrive in the industries of the future. They argue that a concentration rejected strictly on competition grounds should still regarded as acceptable on the proviso that the concentration is a matter of European interest. Such a mechanism is possible, for example, in Germany, where a proposed merger in the energy sector between Eon and Ruhrgas was first rejected by the Federal Cartel Office, but subsequently accepted by the Federal Government. Furthermore, the EU competition policy does not sufficiently take into account innovation policies, and a better articulation of these policies would also seem to be desirable (Lallement/Wisnia-Weill 2007).

CONCLUSION

The EU today is at the crossroads. It is confronted with the most serious economic and social challenges of its history. It can no longer hope to consolidate its economic integration without

[5] Olivier Guersant, from the EU Commission's DG Competition. See *Interface*, Monthly Bulletin No43, Confrontations Europe, December 2008 p2.

reaching sufficient political cohesion. Single market integration is still relevant, but has been caught by the speed of globalisation. As Pisani-Ferry (2008) notes, it has reached a stage of diminishing returns where persistent efforts are required to reach only marginal progress. The contradiction between ambitious aims expressed by the Commission and a form of benign neglect that has prevailed for a long time, the gap between introspection and action, are no longer sustainable and will only create a further erosion of the European industrial base. Despite a change of tone and terminology in the Commission's discourse, its rather hesitant, sometimes over-scrupulous stance is to only understandable to a certain extent, since the Commission would dread taking measures that could contribute, even indirectly, to feed an overall trend towards protectionism in the global economy a trend further magnified by the severity of the current worldwide recession. However, the EU should privilege a strategic approach in order to increase its efficiency and increase its industrial portfolio. This cannot be done without adopting a new mindset which gives more careful attention to the European interest and the definition of common European goods and to improving co-ordination between EU policies. It has become necessary to identify strategic European issues in terms of the EU's independence, the relevance of public interventions, and the necessity to adjust the existing policy framework in the context of a 'post-Lisbon' strategy beyond 2010. Only with these three aims in mind will the EU be able to strengthen its position as a global player both within the Union and at a global scale whilst promoting its own values and ideals. The EU does not seem to have any other alternative than to strive to overcome internal antagonisms and become a fully-fledged, more assertive and 'political' global player capable of shaping economic globalisation.

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