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The European Green Deal Industrial Plan: is Germany ready to accept more interventionism?

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The Green Deal Industrial Plan (GDIP), an economic support programme aimed at stepping up the energy and technological transformation in Europe, was presented by the European Commission in early February. It is assumed that the transformation will mainly gain momentum from the lifting of numerous restrictions to state aid. In effect, member states would be able to boost their 'green' investments more quickly. In addition, the Commission proposes to loosen and simplify the requirements for some EU economic support programmes such as IPCEIs.

The programme also includes the launch of a new 'sovereignty fund' which will help to finance part of the expenditure. It is not very likely that the issue of joint bonds will be the main source of funding. The Commission has suggested that in the first stage of the GDIP, funds could be redirected from the pandemic recovery fund and the REPowerEU programme which was established to rapidly reduce the European Union's dependence on fuels from Russia. Negotiations on revising the multiannual financial framework for 2021-7 are due to start in the middle of the year, and are expected to result in the formal ring-fencing of the sovereignty fund in the expenditure plan. Other measures have also been announced as part of the GDIP. These include guaranteeing access to rare earth elements, setting production targets in the green sectors, and signing new trade agreements. The European Council will discuss the European Commission's proposal on 9 February 2023.

Commentary

- The programme was announced in response to the Inflation Reduction Act (IRA; for more detail, see '*The German dilemma: Berlin's response to the trade conflict with the USA*'), which was introduced in the US in January this year and envisages spending US$369 billion to support the energy and technological transformation of American industry. The IRA has caused considerable concern in Europe: firstly, due to its protectionist overtones, and secondly, because of the risk that European companies, encouraged by tax breaks, favourable regulations and lower energy costs, may start relocating their investments to the United States.
- The Commission's proposal has sparked controversy. There is especially strong concern that a further loosening of the common rules governing state aid may affect competition and cohesion in the single market. This is because the proposed facilitations will offer a clear advantage to large, prosperous and fiscally stable countries. This is evidenced, for

example, by data on the relief regulations which were introduced in response to the war in Ukraine. They were met with a disproportionate upsurge of public support in Germany and France. As much as 77% of all the approvals granted by the Commission in 2022 (totalling €672 billion) concerned these two countries alone. That is why a proposal has been put forward to create a new Community fund that would reduce the financial asymmetries within the EU. However, at least ten of the EU's member states have not agreed to joint debt re-issuance.

- Germany is finding it difficult to adopt a clear stance on the Commission's proposal. Within the government coalition, representatives of the SPD and the Greens support this project. On the other hand, the liberal FDP is more sceptical, as it usually treats interventionist concepts with great caution. According to the Europe.Table portal, Berlin's indecision provoked the German ambassador to the EU, Michael Clauss, to write a letter to members of the government in early January. Clauss criticised the government for its uncoordinated European policy and, as he saw it, the German government's insufficient activity on the EU forum. Another important issue raised in this context was the allegation that the German government had failed to respond to the letter of 13 January from the European Commissioner for Competition, Margrethe Vestager, in which she informed the member states about the projects that were later included in the GDIP.
- Germany's caution is understandable: it does see the need to accelerate Europe's energy and technological transformation, but on the other hand, it is concerned about the wider consequences of the ideas being pushed by the Commission. Berlin has taken particular note (not without a certain sympathy) of a joint letter sent to Brussels officials by the finance ministers of Austria, the Czech Republic, Slovakia, Estonia, Finland, Denmark and Ireland who warned against "competing for subsidies" and weakening the common market. The smaller member states argue that the EU should respond to the challenge posed by the IRA by adopting different, more market-oriented policies, cutting red tape and reducing taxes. Therefore, it cannot be ruled out that the GDIP issue will rekindle the dispute between northern European countries, which are more economically liberal, and the southern ones, where the state tends to play a greater role.
- Germany also has a dilemma over financial issues. The joint debt as the main source of financing for the 'sovereignty fund' could probably be discussed during the negotiations, if it were not for the firm resistance from the FDP and the Christian Democratic opposition. These two parties argue that EU bonds were issued in connection with the pandemic recovery fund as a matter of exception, and this is not a move which should be repeated. It is also unclear what position the Federal Constitutional Court in Karlsruhe would adopt. It did agree to the Next Generation EU fund in its December verdict, but it also formulated a list of objections.
- The international consequences of the US implementing the IRA and the EU adopting the GDIP are also important to Germany in the broader context. Both projects reveal the growing popularity of interventionist ideas in economic policy, and have opened up the ongoing debate over arguments in favour of protectionism as a justified measure to support national markets. In other regions of the world, especially the less affluent ones with lower spending capabilities, this may lead to more trade restrictions being imposed. But Germany has a vital interest not only in maintaining an open space for the exchange

of goods and services and strengthening global institutions (especially the World Trade Organisation), but even in further removing economic barriers. Therefore, the German discussion also suggests that it would be better to offer Washington the opportunity to resume negotiations on building a Transatlantic Free Trade Area (which were suspended in 2016), rather than start a costly rivalry with the US over financing their respective industrial sectors.