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“We need a geopolitically assertive Union”

Wpływ nowej polityki gospodarczej USA na Unię Europejską

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When you look at the transatlantic economy, the dominating mood is that it is a remarkably resilient in a rather turbulent world. The EU and US are also seen as deeply integrated. Our relations generate 16 million jobs on both sides of the Atlantic. We are mutually most important markets. Half of global consumption is there. More than 60% of foreign direct investment comes to US from Europe and the same share of American foreign direct investment goes to Europe.

I believe that our reflection on the trade and industrial relations between the US and Europe has to be seen in a broader context. We probably all agree that a new world order is in the making right before our eyes, not to say under our watch. Recent years made us aware of the importance of a strategic geopolitical thinking and policy making as the economy becomes a space for geopolitical rivalry. The EU is on the mission to bring its geopolitical value added into the new of global order, challenged by authoritarian regimes. Today we can also see with clarity that the West who had designed the globalization we know has missed signals that transformative times are coming.

There are concrete defining processes behind this pivot away from what we know, certainly one of them is climate change with its long term consequences across our life. Another one is Russian aggressive war, with huge scope and scale of spillover effects and unpredictable end. For obvious reasons the energy transformation is linked to both. There is also the global clean tech race which requires a hard look from all of us and provides evidence that in this geopolitical reality everything is depending on everything else.

While there is clearly a bilateral dimension in our relations, there is also the global role of both EU and US and their global agency depends also on their individual economic, military and political strength. In the bilateral relations there are also mutually supportive actions, win-win solutions and common avenues. The role of The

Trade and Technology Council (TTC) is fundamental. What matters strongly there is not only the focus on future defining issues and processes, but also exchange of information, coordination and cooperation. The TTC is conducive to confidence building, as well as better understanding of challenges and interests.

In the current geopolitically defined world, the economy has begun to be a battle ground for geopolitical competition and a rather aggressive industrial policy has acquired a defining role. Europe has started to add a strong geopolitical angle to its strategic and policy choices already at the time of Covid era and all its distortions. The purpose was to ensure sustainability of Europe's geopolitical power, avoid old and new dependency addictions, reduce risks of their weaponisation, but, first of all, enhance Europe's sustainable competitiveness.

The EU is on a track of effectively pursuing the green and digital transition through an industrial policy, fostering the shift toward a new business model, moving away from energy intensity and risky dependencies, combining innovative production, effective services, high quality education and well trained workers. Regarding financing of the two transitions there has never been doubt that both public and private investment will have to be involved.

Europe has also started building its first ever framework of economic security, assertiveness building defensive and offensive policy instruments implemented through the international trade policy and aiming at defending the EU's strategic interests, including coping with international dependencies and their weaponisation. These instruments, however, continue to be deeply submerged in the logic of national interests and the current challenge is to move them toward European interest logic.

All these new policy frameworks combined with further changes to production models aim at building security and resilience based on efficiency and sustainable in the long run.

I personally believe that focusing on resilience and security and abandoning efficiency and competitiveness concerns will not work. Sooner or later business will look for efficient investment. This choice can make resilience efficient.

The EU launched the project of the European Green Deal in 2019. We were the first global power to launch its policy of net zero emissions. But the European green transition policy has never been a single target policy. It is designed as a multipurpose strategic process, embracing 27 member states with their specificities and sensitivities. There is green purpose but in the context of many sectorial policies, there is competitiveness there and there are jobs and skills. There is a very strict process of state aid non discriminating rules, with the competence of member states and there is the single market, the most valuable European asset. There is underdeveloped European capital market. There are bureaucracies when it comes to European budget and structural funds. There is a lengthy process of public consultations for every piece of legislation. There is very limited practice of European public goods as most of the funding, including the new generation EU related, comes through national envelopes.

So when Europe embarked on an industrial policy aiming toward net zero or climate neutral policy, we had to link economy, well being, sustainability, security, reconciling internal and international strategic priorities, prepare a predictable and simplified regulatory environment, speed up financing, enhance skills and secure open trade for resilient supply chains.

We started working on our climate plan when President Trump was pulling US out from Paris Agreement. We made it clear to European industries in which direction European policies will go in the coming years, like President Biden did when taking America back to Paris and proposing a series of important laws bringing structural change to American economy.

One of the new policy framework was the IRA, an investment plan for strategic clean energy sectors, actually being both a climate strategy and an investment strategy. There are strong public funding instruments there and regulatory standards, what is lacking is a powerful tool which Europe has, namely the carbon pricing system. A global carbon pricing system would benefit the whole process.

Now with IRA and with Green Deal Industrial Policy, Net Zero Industry Act and dozens of other related European regulations in place we can say that both transatlantic economies had policies to modernize themselves. You might remember that we welcomed American climate ambition to prevent unmanageable global

climate change. We see IRA as a climate, industry and trade policies framework with a strong security dimension. We see it as aiming at revitalizing the American economy, make the reindustrialization feasible and see America prevail in the geostrategic and technological global race. But at the end, IRA is a domestic strategy for the technological race against China. Hard to say today how effective it is. And what would happen to the policy if there is a political reshuffling after elections.

What was worrying for Europe when IRA entered into effect were the elements of protectionism enshrined in it and failure to comply with the WTO rules. The concerns about IRA on the EU side were magnified by the situation in European energy markets at that time. Fixing supply chains after Covid has come at a cost to companies, consumers and public budgets. Russia cut 80% of its gas supply over few months. We managed, though, to avoid blackouts and refill our gas storage but the cost were higher energy prices. This reduced competitiveness of our industry. We looked at the IRA with this background on our minds.

We worried about unfair competition and the Buy American logic. Tax breaks and production subsidies brought risks of unfair competition and subsidies race to the bottom. IRA subsidies are uncapped, paid automatically, the bigger the production the more subsidies. Local content rule and local assembly requirements, though not compliant with WTO, proved attractive for investors. In general, the US created attractive investment environment on clean tech which could redirect investment flows to US.

EU companies could not meet those local requirements without moving investment to the US. It was also obvious that those heavily subsidized products will get one day to international markets and hit the WTO rules. The EU did not use autonomous trade measures against the US. There was no intention to go to WTO. But we also wanted to avoid transatlantic zero sum competition.

The EU and US established a joint high level task force on IRA. We agreed on a non discriminatory application of some rules and started to negotiate CRM agreement which would allow the US to treat EU as an FTA partner for the purpose of clean vehicle credit. It could allow, if agreed, our mining and chemical companies to offer their products to US battery manufacturers and have them benefit from the IRA tax credit. Negotiations are still pending and there is not much in terms of good news.

IRA for many is a common sense. In these years of geopolitical shift we see America protecting its industrial base. Others see it as a major step toward protectionism. It is true that public subsidies have always been a part of economic policy landscape in US. This time it is on a bigger scale. The issue is the impact on the rest of the world, the consequences for friendly partners, the risk of race to the bottom, regarding public subsidies, when they are not based on a rules based system.

When IRA came, the EU was already well advanced pursuing the climate related legislation, and the geopolitical risks and specific IRA tools accelerated legislative action on the EU side regarding the implementation of the industrial policy. This implied abandoning some of sacred principles and harnessing new tools through its Green Deal Industrial Plan and Net Zero Industry Act based industrial policy aiming at competitiveness of our industrial base. The US IRA related distortions to our level playing field came as additional incentive to accelerate the launching of the Green Deal Industrial Plan which rebalanced the competition situation.

The already mentioned defensive measures introduced on both side of the Atlantic aimed at preventing undue foreign influence. In the US they came with an executive order of the President, in Europe we needed fully fledged legislative acts, including investment screening, export controls, public procurement, anti coercive instrument. In the US we could see ban on the export of high end chips, chips making in China and screening of the outbound investment. With regard to the latter Europe is not yet there.

Investing in a clean energy industrial base in the EU required adjusting our state aid rules and looking at how to get additional financing into the system. The state aid framework was made simpler, predictable, targeted, not distorting single market. On funding, we actually looked into the existing programs as the idea of an additional funding in the form of Sovereign Fund at EU level was rejected by member states.

The complex geopolitical situation has called for a strong EU-US cooperation across many policy areas. As I mentioned TTC, established after the first joint summit in June 2021 proved to become an excellent platform for the coming work across all new challenges and opportunities coping with trade in green technologies, digital trade, standards, artificial intelligence, semi conductors, supply chains, sustainability, moving toward transatlantic green market and many more.

For both, the EU and the US it is clear that the geopolitical situation calls for a strong partnership across many policy areas. We see it in growing trade flows, in millions of jobs our trade creates. There is a mutual interest in cooperating on supply chains. We see also mutual investment increasing.

Also, to boost trade in green technologies we continue to explore ways to facilitate trade in goods and technologies that are vital for the green transition, including by strengthening the cooperation on conformity assessment. Mutual conformity agreements matter strongly for smaller companies as they substantially reduce costs.

In TTC in Lulea, in May 2023 we launched Transatlantic Initiative on Sustainable Trade to make sure that trade policy participates in the green transition. Cooperation on export control and investment screening has been important in the context of Russian sanctions. We share with American side the logic of de-risking in the context of dependencies.

Regarding digital technologies, we need tangible progress on digital trade tools to reduce the red tape for companies. We inspired the International Guiding Principles on Artificial Intelligence (AI) and the voluntary Code of Conduct for AI developers farther adopted in the G7. We agreed within the task forces under TTC to continue cooperating on international AI governance.

Both parties intensified coordination on the availability of critical raw materials crucial for semiconductor production, having activated the joint TTC early warning mechanism for semiconductor supply chain disruptions, following China's announced controls on gallium and germanium. A roundtable on the semiconductor supply chain took place in the margins of the TTC, focusing on developments and potential cooperation in the legacy semiconductor supply chains.

There was also a TTC Stakeholder event on the Transatlantic Green Marketplace, which took place on 31 January. This was a good opportunity to engage with the business sector

In the European Union, there is awareness that geopolitical resilience requires EU stronger not only economically but also institutionally and politically, hopefully working in tandem with the US. And we need a geopolitically assertive Union,

hopefully again standing shoulder to shoulder with the US, to ensure that internationally agreed and enforced rules are in place.