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Made in Europe: An EU Green Industrial Plan to respond to the challenge of US and Chinese protectionism

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Summary

- The EU needs to urgently formulate a response to US and Chinese protectionism.
- US decarbonization legislation poses a threat of deindustrialization for Europe.
- Europe needs a plan to support EU green, industrial and technological competitiveness, while protecting European cohesion and the single market, and promoting European strategic autonomy.
- Relaxing EU state aid rules must be an inevitable first component of Europe's response. But this would overwhelmingly benefit the stronger economies of Germany and France, undermining EU cohesion and the integrity of the single market.
- Thus, the second component of EU response must be a European Sovereignty Fund, of a size commensurate to the magnitude of the challenge.
- The new Fund must support value chain categories that include as many EU member states as possible.
- SURE, extended to encompass the energy crisis and green transition, should be an integral part of the mix, and so should promoting technological skills and reskilling for the "Clean Tech Economy".
- Investment funding should seek to contribute to vertical integration, including as many stages in the supply chain as possible. It should contribute to the return of specific supply chains and production units from third countries to the EU and seek to include the EU's weakest economies.
- Subsidies should rise if the investment is cross-border in nature and carry a bonus if made in an EU region with a low GDP per capita compared to the EU average.
- Funding could also promote European strategic autonomy by including cross-border partnerships of EU member states in the defence technology industry.
- It should involve new funding rather than simply recycling money from existing programmes, and certainly avoid deploying undisbursed resources from the Recovery & Resilience Fund.

Introduction

The Biden administration's recent legislation designed to support the decarbonization of US production, spur green investment, and counter Chinese competition (and protectionism) is a historic step towards the United States' convergence with the values and priorities of Europe in terms of the green transition and tackling climate change.

But at the same time, by reserving extremely favourable treatment for companies that relocate their investments to the US, it also poses a huge threat to the productive base and industrial competitiveness of the European Union. The spectre of disinvestment and de-industrialisation now looms over Europe. The managements of major European industrial groups have informed their governments that they will be making crucial decisions over the next 2–6 months as to whether they will be moving to the US to take advantage of the powerful incentives provided for by the new US legislation. The EU institutions are urgently elaborating various approaches with a view to formulating a joint EU response to this challenge in the coming weeks.

The IRA includes $369 billion in measures to strengthen investments relating to the climate and green energy […]. The total actual amount set aside for green energy could reach $560 billion.

In the text below, we outline both the problem and the main features which we believe should inform a joint European industrial "Made in Europe" policy.

The US Inflation Reduction Act (IRA)

The (euphemistically named) Inflation Reduction Act (IRA) signed into law by President Biden in August 2022 is, together with the Bipartisan Infrastructure Law (BIL, November 2021), one of the twin pillars of the policy which seeks to decarbonize the US economy. The IRA includes $369 billion in measures to strengthen investments relating to the climate and green energy, while the BIL provides for $80 billion in financing for energy transition infrastructure. The total actual amount set aside for green energy (due to leverage and given that there is no cap on tax credits) could reach $560 billion, according to the International Energy Agency.[1]

The first axis is that decarbonization should be achieved by means of incentives rather than disincentives (…) The second axis is reshoring, which entails attracting production chains back to the US.

The Biden legislative package is very powerful and the EU has a good deal to learn from it. The philosophy of the BIL and the IRA revolves around two main axes: The first is that **decarbonization** should be achieved by means of **incentives rather than disincentives**. In other words, businesses should be given incentives to invest in low-emission technologies, not disincentives (in the form of taxation etc.). It should be noted that repeated attempts to introduce a carbon tax in the US have failed.

The second axis is **reshoring**, which entails attracting production chains back to the US. America is a world leader in research and innovation. But when technologies mature and become standardised, they "migrate" to China, which ends up dominating production chains such as photovoltaics or batteries as a result.[2] Successive attempts by US governments to rein in this production migration (through loans for domestic production, tariffs on Chinese products, etc.) have proved ineffective. Biden's dual legislative package results in **multi-faceted support for multiple categories of low carbon-emission technology**. It does not limit itself to subsidizing the production of

[1] International Energy Agency, World Energy Outlook 2022, https://iea.blob.core.windows.net/assets/c282400e-00b0-4edf-9a8e-6f2ca6536ec8/WorldEnergyOutlook2022.pdf
[2] Nikos Tsafos, unpublished note. Also N. Tsafos, How the Energy Transition Will Rewire the World, https://www.csis.org/analysis/how-energy-transition-will-rewire-world

"green" products, it also increases the subsidy if the production itself is low emission, supporting the conversion of conventional into "green" industries, and subsidizing the construction of machinery for producing "green" products. Another important feature of the IRA is that **the amount of the incentives is also based on various other factors**, such as the place of production (e.g. a vulnerable region), the working conditions the company provides its employees, or the use of materials produced in the US.

Through funding and/or tax incentives covering a high percentage of the cost, the IRA supports multiple categories and combinations of "green" investments, such as the energy upgrading of buildings, various forms of renewable energy, energy storage, the production and use of clean hydrogen, green manufacturing, and purchases of "clean" cars. Several of these incentives cover all of North America (i.e. they include Canada and Mexico).

The Biden legislation promises enormous advantages for the US economy (and US democracy), effectively serving the goal of bringing investment and good industrial jobs back to the US, and marking a historic turn towards decarbonization and the green transition of America.

The expected result is **an explosion of investment in the US** (and, secondarily, in Canada and Mexico) **across the entire chain of production**. The Biden legislation promises enormous advantages for the US economy (and US democracy), effectively serving the goal of bringing investment and good industrial jobs back to the US, and marking a historic turn towards decarbonization and the green transition of America. And Europe has every reason to hope Biden's policy will be successful in achieving all of this.

However, while the primary aim of the US legislation is to deal with China (which systematically implements state aid policies vis-a-vis its industries of strategic importance), there is an imminent risk the **IRA will ultimately inflict more collateral damage on Europe**. In fact, the IRA has arrived at a time when Europe is already at a competitive disadvantage, due to lower energy costs in the US coupled with the absence in the United States of any costs associated with carbon pollutants. It is clear that the IRA flagrantly violates World Trade Organization (WTO) rules, and thus constitutes a continuation and escalation of a policy of marginalizing the WTO which began during the Trump presidency.

The European Union's response to the IRA thus far

The coming into force of the IRA in the US had an impact which was immediately felt in Europe. Citing rising costs in Europe and the generous incentives provided in America, large companies—first among them battery manufacturers such as Sweden's Northvolt and Volkswagen's PowerCo unit—are preparing to invest in North America in the immediate future; in Northvolt's case, this has entailed cancelling a similar planned investment in Germany[3].

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[3] https://www.politico.eu/article/us-joe-biden-batteries-sustainability-threatens-europe-car-batteries/
[4] https://www.euronews.com/my-europe/2022/10/31/eu-demands-similar-access-to-us-as-canada-and-mexico-for-electric-cars-and-renewable-produ

This led to an attempt to warm the Franco-German axis back up, with the finance ministers of the two countries meeting on 22 November[5] and issuing a joint statement announcing their nations' intention to strengthen their cooperation on industrial policy matters in strategic sectors and projects of Common European Interest, and to support a powerful European response to the US legislation.

The baton was then picked up by French President Emmanuel Macron, who on December 1 visited President Biden in an attempt to change his mind and ensure that the products of European companies would be treated in a similar way to those produced in Canada and Mexico[6]. Despite the exchange of pleasantries, the results of Macron's intervention were a long way from what he had hoped for.

It was at this point that the Europeans began to realise they would have to deal with the new situation with the means at their disposal, and that a "Buy European Act" was starting to seem necessary. Thus, in a speech at the College of Europe[7] in early December 2022, the President of the Commission stated that the EU rules on state aid would have to be amended to provide for a European response to the IRA. She added that the EU would have to introduce "compensatory" measures to mitigate the distortions such subsidies would cause to competition, while broaching the subject of creating an additional funding package by means of a "Sovereignty Fund" at the EU level. The European Sovereignty Fund had already been announced in the Commission President's State of the Union address of September 2022.

The President of the Commission stated that the EU rules on state aid would have to be amended to provide for a European response to the IRA. […] The EU would have to introduce "compensatory" measures to mitigate the distortions such subsidies would cause to competition, while broaching the subject of creating an additional funding package by means of a "Sovereignty Fund" at the EU level.

In the same vein, Internal Market Commissioner Thierry Breton insisted in an interview[8] that the EU "would have to go ahead and draw up a massive support plan for industry". Going further, he suggested that the EU should assume a new common debt undertaking to address inequalities in the capacity of individual member states to support their national industries on their own. He specified €350 billion as the amount that would be required, which is comparable to the funding provided for by the US package.

As a natural follow-up to these developments, the European Council of December 2022[9] called on the Commission to present proposals aimed at enabling the EU to improve its competitiveness and respond to the clear risk of European investment migration to the US. It is expected that the Commission's proposals will be presented in January 2023 and discussed at the extraordinary European Council meeting in February 2023.

However, early in 2023, France, which had taken the lead in highlighting the need for an immediate European response to the US law, announced through its Finance Minister that it would in the meantime be promoting its own national scheme, with a wide range of incentives to encourage green industries to stay in, or return to, France[10]. Many perceived the French move—which, it should be noted, was preceded by Germany's decision to provide €200 billion in state aid—as being more of, or also, a tactical manoeuvre designed to speed up decision-making at the EU level. A few days later, the official proposal was published in which France calls on the EU to set new

[5] https://www.bmwk.de/Redaktion/EN/Pressemitteilungen/2022/11/20221122-habeck-and-le-maire-call-for-impetus-to-strengthen-european-industrial-policy.html
[6] https://www.washingtonpost.com/world/2022/12/04/america-first-ira-biden-eu/
[7] https://ec.europa.eu/commission/presscorner/detail/en/speech_22_7487
[8] https://www.lejdd.fr/Economie/thierry-breton-commissaire-europeen-face-a-une-distorsion-de-concurrence-leurope-doit-reagir-4151974
[9] https://www.consilium.europa.eu/media/60872/2022-12-15-euco-conclusions-en.pdf
[10] https://www.politico.eu/article/france-us-america-green-incentives-plan-biden-macron/

production targets, to relax state aid rules in specific sectors, to create an emergency Sovereignty Fund (though this was to be funded with existing unused resources rather than by "fresh money"), and to focus its trade strategy on shoring up the internal market[11].

At almost the same time, it was reported [12] that the Social Democratic Party (SPD) parliamentary group in Germany was asking the EU to respond to the IRA with a relaxing of the rules on state aid and the provision of new funding to strengthen European industry. Chancellor Scholz, mindful of the negative reaction of his FDP coalition partner Christian Lindner, has to date distanced himself from this proposal through his representatives[13]. The proposal, the exact content of which has yet to be published, reportedly includes the use of existing funding instruments (Recovery Fund, NSRF, etc.) along with European Investment Bank loans—but also perhaps its enhancement with new financial instruments, plus a "constructive examination" of new joint financial instruments.

The European Commission in turn, on 17 January 2023, announced through its President at Davos[14] that it will be proposing a Net-Zero Industry Act which will include a series of clean tech targets for 2030, measures to simplify licencing and operations (such as more flexible and easier accessibility, including SMEs, to Important Projects of Common European Interest), tax breaks and targeted state aid for green investments. At the same time, it will prepare a European Sovereignty Fund in the context of the medium-term review of the Multiannual Financial Framework for 2021–2027.

With the two largest economies in the EU (France and Germany) converging with the European Commission on how Europe should respond to the new conditions brought into being by the IRA, it would seem Europe is building up a head of steam.

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Competitiveness and cohesion: outlining the European response

While the need for an immediate and effective response to the IRA seems to be taken for granted by almost every EU member state, the form, content and scope of this response is not yet clear.

Certainly, everyone agrees that changes to the rules on state aid are needed, with some wanting them relaxed and others—including the Commission—pushing for a more radical 'adjustment'. A foretaste of what such an adjustment could entail is provided by the French proposal, which seeks the introduction of new production targets in the manner of the policy for bolstering the EU's competitiveness and resilience in semiconductor technology (the European Chips Act), along with state aid targeted at specific sectors.

It is obvious that relaxing/adjusting the state rules on subsidies will primarily favour large corporations in economically powerful countries, Germany and France in particular, which, however, jointly serve as the engine driving Europe's response to the IRA and to broader geoeconomic challenges. Which is to say that any such move could and must have the support of every EU member state. But it is also clear that

[11] https://www.politico.eu/article/france-europe-strategy-revealed-revealed-frances-massive-made-in-europe-strategy/
[12] https://www.bloomberg.com/news/articles/2023-01-11/germany-s-scholz-backs-joint-eu-funding-to-counter-us-green-plan#x
[13] https://www.politico.eu/article/olaf-scholz-european-union-debt-says-nein-to-his-partys-calls-for-new-debt/
[14] https://ec.europa.eu/commission/presscorner/detail/en/speech_23_232

implementing such a decision will distort competition within Europe and automatically create the need to extend support to companies and economies of the less powerful states, in order to minimise the inevitable adverse effects of this distortion. France and Germany both seem to grasp this necessity, as does the Commission, and all three converge in endorsing a new fund, which the Commission has dubbed the "European Sovereignty Fund". Naturally, the countries of the European South share this view, although they have not yet come forward to formally request that such a fund be set up.

This same spirit imbues the letter (13/1/2023) sent by the European Commissioner for Competition, Vice-President Margrethe Vestager, to the bloc's 27 finance ministers, in which she announces the launch of a consultation for a Temporary Crisis and Transition Framework, recognises the need to support the weaker member states so they can keep up with the rest, and announces that the RePowerEU programme will be boosted and a "collective European fund" created for this purpose. It should be noted that, as Vestager's letter acknowledges, the Commission has approved (under the Temporary Crisis Framework) a total of 672 billion euros in state aid since the Russian invasion of Ukraine alone, 77% of which has been paid out in Germany and France. It is clear that **any further relaxing of the state aid regime will widen the gap between these two economies and the other member states to an extent that will threaten the very functioning of the single market.**

The EU's response to the new conditions ushered in by the IRA—and other factors—must be built upon two inseparable components: the relaxation/adjustment of state aid rules and the creation of a new financial instrument large enough to compensate for any distortion, thereby protecting the single market and supporting the bloc's weaker economies.

Consequently, the EU's response to the new conditions ushered in by the IRA—and other factors—must be built upon two inseparable components: the **relaxation/adjustment of state aid rules *and*** the creation of **a new financial instrument large enough to compensate for any distortion, thereby protecting the single market and supporting the bloc's weaker economies.** Such an approach must have the universal support of the EU's member states.

The content of these two components has still to be examined in detail. It must be clear to all parties that reaching an agreement on state aid presupposes that an agreement has been reached on the new Fund, and in particular the size of its budget, its geographical scope, the criteria governing the allocation of its resources, the type of subsidies it will finance and—the biggest issue, and the most challenging to negotiate—where its funds will come from. The effectiveness of the new Fund for the EU as a whole will depend on these properties.

As far as the **size of the new Fund's budget** is concerned, we can make do, for a ballpark figure, with the estimate made by Internal Market Commissioner Thierry Breton, who costed it at 350 billion euros, which is at least comparable with the budget of the IRA. Clearly, there can be no accurate estimates without a thorough study, for which there clearly is not time, although such a study is being proposed by the Swedish Presidency.

As regards the **new Fund's geographical scope**, it should follow the model of the Recovery and Resilience Fund and cover the entirety of the EU without any differentiation between territories. The Fund's necessarily broad geographical reach means it has to **support value chain categories that involve and include as many EU member states as possible.**

Regarding the **criteria for allocating the Fund's resources**, the safest option would be to employ the same criteria as the Recovery and Resilience Fund. Of course, it would be reasonable if these criteria were weighted in favour of the sectors/industries/value

chains that have been prioritized for support. It should also be clear that the Fund must, **in addition to its developmental function, also serve the Cohesion of the EU and the integrity of the single market**. Indeed, this must be prioritized to an extent analogous to the distortion that would be caused by extensively relaxing the rules on state aid to the benefit of the EU's economically stronger member states. The Recovery and Resilience Fund, the model for the new instrument, simultaneously carried functions of development, stabilisation and redistribution. The new Fund should aim to function in a similar way.

This means that the subsidies the new Fund provides should be determined to a significant degree by a **regional dimension**. This regional dimension is an integral part of the EU's identity, but it also informs the logic of the IRA in the US. The IRA prioritizes the targeting of investment at less developed regions by providing stronger incentives for investments aimed at such areas. The European tool should be underpinned by a similar logic.

The **solidarity and cohesion dimension** is an important component in the mix of instruments that are to be proposed. Decarbonization and the green transition represent a major shift in the productive base of the EU's economies, and will create losers, too—specifically, industries, businesses and workers in the high carbon emissions economy. The Covid-19 crisis led the EU to introduce SURE (Support to mitigate Unemployment Risks in an Emergency), an important risk-sharing instrument financed by joint borrowing which functioned as a job insurance scheme at a pan-European level.[15] It is clear that **SURE, extended to encompass the energy crisis and green transition, must be an integral part of the mix,** and it is encouraging that it is included in the proposals made by European Council President Charles Michel.[16] Also positive is President von der Leyen's reference to promoting **technological skills and reskilling** as an integral part of the Commission's entire "**Clean Tech Economy**" plan. It should be noted that job losses due to de-industrialisation are not restricted to industry and actually impact on the whole range of support services, therefore reducing employment opportunities for young people, with broader implications (from fiscal to social security and social).

While we all agree that enterprises in economically powerful countries, and in particular those in Germany and France, should be supported in their capacity as the 'powerhouse' of Europe, a 'made in Europe' response should contribute to the return of specific supply chains and/or production units from third countries to the EU, and do so while seeking to include the EU's weaker economies.

The **aim of the subsidies** is an area that has to be approached with considerable care. First, a key criterion for the provision of aid must be whether it will contribute to **vertical integration, to include as many stages in the supply chain as possible.** This furthers the goal of keeping production in Europe, of attracting more stages in the supply chain, and of enhancing the efficiency and security of European value and supply chains. The President of the Commission spoke along these lines at Davos, about the need to focus on investments of strategic importance along the entire supply chain.

In other words, while we all agree that enterprises in economically powerful countries, and in particular those in Germany and France, should be supported in their capacity as the 'powerhouse' of Europe, a 'made in Europe' response should contribute to **the return of specific supply chains and/or production units from third countries to the EU, and do so while seeking to include the EU's weaker economies**. For example, if, in order for state aid to be provided to large industries (in France, for example, or

[15] Frank Vandenbroucke, László Andor, Roel Beetsma, Brian Burgoon, Georg Fischer, Theresa Kuhn, Chris Luigjes and Francesco Nicoli, "The European Commission's SURE initiative and euro area unemployment re-insurance", VoxEU, 6 April 2020, https://cepr.org/voxeu/columns/european-commissions-sure-initiative-and-euro-area-unemployment-re-insurance

[16] Charles Michel, "Going big for EU industry", https://www.politico.eu/article/opinion-charles-michel-ukraine-war-going-big-for-european-union-industry/

Germany), there was an "obligation" to, for instance, cooperate with / procure from other European countries or businesses, this would make the developmental effect more pronounced. There would be room for incentivising at a European level, and for reshoring in particular—for instance, through specific incentives for reshoring in cohesion countries. In such a case, investment incentives could come with specific conditions attached: for example, **subsidies might rise if the investment is cross-border in nature and carry a bonus if made in an EU region with a low GDP per capita compared to the EU average**—thereby bringing the logic of cohesion into the equation. And all this through the prism of vertical integration, which seeks to repatriate multiple stages of the value and supply chain back to the EU.

Investment incentives could come with specific conditions attached: for example, subsidies might rise if the investment is cross-border in nature and carry a bonus if made in an EU region with a low GDP per capita compared to the EU average—thereby bringing the logic of cohesion into the equation.

The latest French proposal provides a satisfactory outline of the objectives state aid should serve, proposing that new production targets be set that will reduce dependencies in sensitive sectors on the basis of the European Chips Act, and taking photovoltaics, batteries, hydrogen, and critical raw materials as sensitive sectors/value chains. It should be noted that the EU has not opened up to dirty industries. However, circumstances have brought to the fore the issue of extracting and processing critical raw materials. Historically, the main objection to such extraction and processing has been its environmental burden on European territory, but the strategy of friendshoring could do away with reservations of this sort. In addition, as is also the case with the IRA, larger subsidies could be provided for if the critical minerals in question are sourced from specified geographical areas, thus reinforcing other EU priorities such as its Southern Neighbourhood policy.

Following a similar logic, the criteria governing the provision of subsidies from a European Sovereignty Fund should include their contribution to **promoting European strategic autonomy**. Strengthening partnerships between member states with a view to promoting a European defence technology industry and integration in the field of joint production and procurement is an example of initiatives that would contribute to this goal.

The **provenance of the new Fund's resources** is expected to provoke a difficult tug-of-war. As mentioned above, the latest—and as yet unofficial and unpublished—proposals from Germany and France have limited themselves to the use of existing resources without the use of "fresh money". The Commission, too, has not dared to proceed beyond this. As mentioned above, in her speech at Davos (17.1.2023), President von der Leyen announced that the Commission would be preparing a European Sovereignty Fund in the context of the medium-term review of the Multiannual Financial Framework for 2021-2027, but provided no further details. It is currently not clear whether this will take the form of additional funding (in the form of direct financing or new borrowing?), or of a redeployment of existing expenditure. The German proposal goes a little further by timidly suggesting a "constructive examination" of new joint financial instruments, but steers clear of the taboo on new joint borrowing. In the French proposal[17], joint borrowing is implied only, by analogy with the pandemic-era SURE programme, though it is not excluded. **Clearly, the desirable objective should involve new funding rather than simply recycling money from existing programmes**, or counting on overambitious leveraging expectations.

[17] "Note from the French authorities on the outlines of a 'Made in Europe' strategy", 9/1/2023. See also https://www.politico.eu/article/france-europe-strategy-revealed-revealed-frances-massive-made-in-europe-strategy/

The French are proposing a (new) European Sovereignty Fund in two phases. The first, "emergency", phase will be financed by undisbursed resources from the Recovery Fund, RePowerEU and other instruments (InvestEU, Innovation Fund, Just Transition Fund, Horizon Europe) and the European Investment Bank (EIB). The authors even specify the exact amount of Recovery Fund resources they propose to allocate to the new Fund's first phase and call on member states to revise their national recovery plans. But there are legitimate question marks over the proposed figures: For part of the €365 billion in subsidies and €221 billion in loans which the proposal would allocate from undisbursed resources, invitations to tender have been made and commitments made and/or contracts signed. If the revision foreseen in the proposal is added to the review of the national recovery plans foreseen in the context of RePowerEU, it will clearly be impossible to meet the deadlines for the implementation of the Recovery Fund. This would give additional fuel to those who seek to exclude any resumption of the Recovery Fund. Moreover, the programme is already in full swing in every member state, and without any implementation deadlines being missed and, most importantly, without the need that prompted the historic decision to establish the Recovery Fund having disappeared. **So any such de facto emaciation of the Recovery Fund would be entirely unjustifiable.**

"Fresh money" must be sought, along with the sources from which it will come.

The French proposal has the Sovereignty Fund's second phase, which it foresees beginning before the end of 2023, being preceded by an assessment of the bloc's needs in sensitive sectors, but provides no additional detail; the proposal is vague about where the funding is to come from, saying that the issue "needs to be looked into". This may leave the possibility open of its being financed by joint borrowing.

It is clear that, if this new undertaking is to succeed, all the resources that are considered under-utilised or in danger of being used "any which way" simply so they can be absorbed, will have to be mobilised; the Recovery Fund does not fall into this category, however. As things stand, of course, existing resources will be used, and probably not only those that are un- or under-used. However, the amount used will fall far short of the figure which has been repeated over and over again, even by members of the European Commission. This means that **"fresh money" must be sought, along with the sources from which it will come.**

An interim solution that would provide an at least partial answer to the search for "fresh money" could be the conversion of "unclaimed" Recovery Fund loans—which are already being transferred to RePowerEU—into subsidies.

It is clear that, especially at the present juncture, increasing the Multiannual Financial Framework (MFF) for 2021–2027 by increasing national contributions is simply out of the question. Therefore, **the only way forward lies in a new joint EU debt, even though its repayment will require new revenues to be foreseen in the EU budget** (i.e. additional Own Resources) for the post-2027 programming period at least, when the repayment of this new loan can begin, if a grace period of a few years has been achieved. Alternatively, a reallocation of the expenditure for this period would have to be foreseen to make room for the cost of repaying the new joint borrowing.

An interim solution that would provide an at least partial answer to the search for "fresh money" could be **the conversion of "unclaimed" Recovery Fund loans—which are already being transferred to RePowerEU—into subsidies.** This solution does not require any changes to the MFF for 2021–2027, nor does it increase the size of NextGenerationEU, i.e. it does not require new joint borrowing. However, it does require the EU to modify its decision on its own resources, which in turn requires all 27 national parliaments to agree, albeit only on changing the grant/loan ratio.

Other ideas are likely to be tabled. Some more and some less imaginative. Some will be realistic, others won't be. The gravity of the situation calls for a combination of

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imagination, realism and above all courage on the part of the European Union as it formulates a common response to one of its most crucial challenges.

In conclusion

The historic challenge facing the EU is the need to deal with the negative repercussions of Chinese and US protectionism by means of a **common plan of EU green, industrial and technological competitiveness**, while protecting **European cohesion and the single market**, and promoting **European strategic autonomy.**

Like all key EU decisions, this too will require **a grand bargain** with two main components: (a) a **relaxation or modification of the rules on state aid**, which will mainly favour the EU's most powerful economies, and (b) to counter this, a **European Sovereignty Fund** (or set of new instruments that add up to something significant rather than a mere recycling of resources) designed not only to bolster Made in Europe, but also to ensure the integrity of the single market and the internal cohesion of the EU.