From Competition to Competitiveness: A New EU Industrial Policy?

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Preliminary Draft

Prepared for Panel on "The European Union: New Weight and New Challenges in the Global Economy," Eighth Biennial International Conference of the European Union Studies Association, Nashville, TN, March 27-29, 2003.

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Can a supranational organization structured to break down barriers to the development of a unified internal market prove sufficiently adaptable to selectively protect market sectors from competitive advantages of global market competitors? Has the European Union achieved sufficient confidence in its completion of the single market to pursue such an objective without fears of compromising the project, or have institutional hierarchies become too rigid and the policy bias toward liberalization too deeply embedded for the EU to adopt policies that may conflict with the single market objective?

While military resources are another matter, today's European Union stands as an approximate economic equal of the United States, with a well-developed internal market, a single currency, and a single, weighty voice in the negotiation of rules governing international trade. Reflection upon how Europe got to this point reveals an intense focus of policy makers and policy processes on the construction of Europe's internal market. As proponents of integration sought beginning in the mid-1980s to strengthen the ability of European industry to compete internationally – defined here as competitiveness – the European Community developed a discourse, a set of policies, and an institutional hierarchy that promoted the equation of competitiveness with internal market competition. Along with other policy regimes, a rigorous competition policy, including both close scrutiny of potential abuses of market position and government aid to industry, served the objective of building the single European market.

While construction of the single market continues, asymptotically approaching completion,[1] the global economic downturn of the first years of the 21st century has presented the EU with new international economic challenges. Some governments – Germany first and foremost – have called for a more outward-looking policy to take account of challenges to European industry from international economic competitors. Indeed, an April 2002 *Financial Times* article appearing under Gerhard Schroeder's name asserted that EU efforts to promote growth and jobs neglected manufacturing industry and failed to take sufficient account of the external environment in which European industry operates.[2]

In the wake of the article, which represented the public face of longstanding German government discontent with the European Commission, Commission President Romano Prodi, along with the European Commissioners for Competition, Enterprise, and Environment, met with Schroeder in a high-level Brussels dinner. Shortly afterward, the European Union announced plans to explore a new approach to industrial policy. The new approach, reflected in the European Commission report on European Competitiveness released one month later, underscored the need for the Commission as regulator to achieve a balance between policies designed to safeguard competition within Europe's single market and those aimed at promoting industrial competitiveness.[3]

This was not simply a casual shift in emphasis. Since the early efforts to promote the single European market in the latter half of the 1980s, the supranational European Commission had struggled to strengthen regulatory mechanisms that made reductions in government aid to industry, scrutiny of anti-competitive practices, and liberalization of services sectors core elements of Community policy. Seeking to advance both economic prosperity and its own institutional capacities, the European Commission, along with single market proponents in the business sector and in national political institutions, defined a policy course that equated competitiveness with competition: free and fair competition within the single market was not an end in itself, but the most effective means of securing the competitiveness of European industry vis-à-vis Europe's competitors, Japan and the United States. Now, a decade after the official inception of the single European market, the European Commission seemed to acknowledge that competitiveness may not always be served by increasing the rigor of competition rules, that regulation needs to be modulated in accordance with the regulatory environment in competing countries, and that the application of Community policies should vary with the needs of particular sectors. Commission President Prodi, shunning any return to the efforts to build national champions that had in the 1960s, '70s, and '80s nurtured the widespread subsidization, overcapacities, and inefficiencies of European industry the EC had labored so hard to overcome, called in a January 2003 industrial policy conference in Brussels for the creation of "European Champions" as a response to competition from Asia and the U.S.[4]

The announced change in industrial policy raises serious questions about policy continuity and change. Precisely how much and what types of policy adaptation are possible for an international organization whose decision-making structures, institutions, and policy discourse consistently have served an overarching objective -- the development of an internal market – which has yet to be fully achieved, but whose completion is within reach? Did the shift in EU industrial policy announced in spring 2002 signal that Europe's single market has arrived at a different, perhaps more mature phase, in which the focus on promoting market liberalization and free competition *within* has given way to greater attention toward competitiveness *without*? Can an EU long focused on completing an internal market subordinate that objective to the demand for a more flexible response to the competitive advantages of specific industrial sectors of global market competitors?

At least three responses to these questions are possible. First, external economic pressures may render apparent critical policy failures, leading policy makers to reevaluate and revise policy. While the single market as a whole may be perceived as a success, the declining global market share of European industry in sectors such as shipbuilding and chemicals may provide the impetus for new policy departures to boost the ability of these sectors to compete. Second, we might hypothesize that while external economic pressures by themselves have no effect on policy, they take on genuine force when they translate into demands for policy change from powerful member state governments. Several literatures that analyze conditions for policy change – including the epistemic communities literature and studies of the role of ideas in policy formulation[5] -- emphasize the importance of powerful agents in giving policy relevance to ideas. In the case of the EU and industrial policy, pressures from a German government struggling in 2002 to win reelection and to revive economic growth in a stagnant economy – especially if supported by other powerful governments, including France – could from this perspective very well be sufficient to induce a significant reorientation of single market regulation.

A third and final hypothesis is that, perceptions of the need for policy reorientation and the support for policy reform among powerful constituents notwithstanding, the institutional arrangements that structure political interaction in the EU foster a stubborn resistance to policy change. In particular, the force, pervasiveness, and long duration of the single market objective have, as in the case of the governing institutions shaping 20^{th} century British industrial policy studied by Peter Hall, "imparted a consistent bias to policy."[6]

This essay finds compelling evidence supporting this third hypothesis. Subjecting claims of industrial policy change to close study, the essay considers the prospect that, despite powerful forces operating in favor of a substantive redirection of policy, the rhetorical shift in Community industrial policy announced in 2002-3 may not correspond directly to *actual* policy changes. More specifically, the essay finds evidence that the development of the single market elevated components of the EC institutions responsible for pursuing the completion of the single market to a privileged position in the policy making machinery, rendering the competition and internal market segments of the institutional apparatus *primus inter pares*. This is reflected in the hegemonic status within EU institutions of internal market competition as the most effective means of promoting competitiveness of European industry. The muscularity of the European Commission in its institutional components (Directorates General, or DGs) responsible for competition and the internal market represent a bulwark of resistance to any shift in the emphasis of regulation in favor of sectoral industrial policies promoted by the Commission's enterprise DG. In essence, this represents a *supranational institutional constraint* on any new industrial policy.

Moreover, there also are constraints stemming from the process of Europeanization, by which integration has altered or reinforced changes in domestic political economies. As competition and sectoral liberalization have become entrenched as the primary approach to competitiveness, the application of these policies in the economies of EU member states has strengthened the resolve of several national governments to resist any relaxation of the regulatory regime in response to narrow sectoral concerns. While rhetorically it may be possible to sustain the concept of a balance between rigorous regulation and flexible sectoral application of competition rules, in practice it is not. Ultimately, industrial policies involving selectively relaxed application of competition regulations to particular sectors are likely to meet resistance from the Commission's most powerful regulatory units as well as the governments who have embraced regulatory rigor. This opposition is likely to overwhelm initiatives to protect particular sectors, rendering such forms of industrial policy unviable.

But these constraints do not imply that there is no room for industrial policy innovation in Europe; such innovation merely must take other directions. In particular, there may be room for the EU to organize cooperative efforts in research and development in critical high-tech or emerging sectors, such as aerospace and satellite navigation. However, here, too, industrial policy advocates face constraints, however different from those accompanying efforts to promote sectorally distinctive industrial policy. These constraints also reflect elements of the EU decision-making structure, emerging from the process of seeking agreement between governments to share costs and benefits – in other words, *intergovernmental constraints*. The essay illuminates these difficulties by looking at the Galileo project – the EU's effort to develop a satellite navigation system to compete with the Global Positioning System (GPS) of the U.S. While such constraints are by no means insurmountable, experience demonstrates that they can slow down development of time-sensitive high-technology ventures, thereby threatening their viability.

The essay first describes the regulatory regime that grew out of the single market project, the institutional development that accompanied this process, and the deep embedding in Community institutions of the concept of competitiveness through competition. The next section examines the new industrial policy that appears to have emerged since 2002. The study then depicts some of the constraints facing attempts to establish new directions in industrial policy in response to international competition. The paper does this by examining recent efforts of the European Commission and some national governments to coordinate a response in the shipbuilding sector to the competitive advantages bestowed on South Korean shipbuilders through government subsidies. The essay then turns to another dimension of EU industrial policy, involving coordinated efforts in research and development and large-scale high-technology programs. Here I examine the recent experience with the Galileo satellite navigation program. The evidence indicates that, given the deep institutional roots of the Community regulatory environment that emerged with the development of the single market, the political space for sector-specific departures in industrial policy is highly circumscribed. The study of EU industrial policy therefore reveals how the institutional arrangements that produce policy regimes work to perpetuate those policies and undermine others.

The Single Market, Competition and Competitiveness

Prior to the 1986 Single European Act, there was little support among national governments for a rigorous and far-reaching EC competition policy; the single market legislation was a permissive condition for more active development of competition policy at the European level. In addition, the ascendance of economic liberalism in policy-making circles in the 1980s provided fertile conditions for a more rigorous approach to regulating state aid to industry. Acting in this receptive environment, the European Commission under Jacques Delors sought during the second half of the 1980s to advance both the cause of European integration and the Commission's institutional grandeur. By promoting the idea that sagging European international economic competitiveness could best be served through more effective competition, Delors both built the case for vigorous implementation of the single market program and sought to place the European Commission's regulatory apparatus at the core of the process. From the Commission perspective, support from national governments for a formula equating competitiveness with competition would likely translate into enhanced authority for those units of the Commission responsible for single market implementation and for overseeing competition.

As part of this strategy to promote the quest for competitiveness through competition, Delors at the June 1993 Copenhagen European Council asked national executives to grant the Commission permission to produce a study of Europe's competitiveness in international comparison. The resulting White Paper, "Growth, Competitiveness, Employment: The Challenges and Ways Forward into the 21st Century," placed the Commission at the center of the European debate over approaches to job creation and structural adjustment to improve competitiveness, and made the case for a more active Commission role in implementing the single market program and guiding industrial policy. The White Paper, which pursued an analytical path shared by economics and finance ministers in several national governments, established that one of the primary sources of the competitiveness problems of member states was the sluggish structural adjustment of European industry, fostered in part by distortions of market signals stemming from industrial aid to inefficient firms and structurally weak sectors.

The Commission White Paper began from the premise that by reducing other non-tariff barriers to intra-European trade, the single market project amplified the impact of national subsidies, which could yield significant competitive advantages to firms receiving government assistance. Furthermore, given the substantial variation in the abilities of European countries to aid their industrial enterprises, regulation of industrial aid at the European level would be essential for the effective functioning of a single market.[7] In other words, with the removal of other barriers to competition, regulation of subsidies and other forms of aid to industry assumed a greater significance for the internal market. Finding that sectoral industrial aid and government assistance to individual firms distorted markets most severely, the Commission's policy prescription was that efficient allocation of resources would require a shift in the use of government industrial aid away from firm-specific and sectoral assistance and toward horizontal measures designed to promote investment generally and growth markets in particular, or in favor of the Community's least favored regions.[8] Again, this prescription was endorsed by national ministers who sought additional political leverage to fend off demands for industrial aid from domestic interests.

The Competition DG's commitment to make industrial aid policy serve the internal market extends to its approach to competition regulation generally. As Albertina Albors-Llorens asserts, the EC Treaty imposes on the Commission the obligation of ensuring internal market competition, which may at times conflict with competition decisions made on economic grounds. According to EC competition policy, "although price discrimination or the granting of loyalty or target discounts by a dominant company have not been proved to be necessarily inefficient in economic terms, they have been rendered unlawful mainly because they are inimical to the common market principles."[9]

What have been the institutional consequences of this policy course? Although the European Commission's authority to regulate government aid to industry is established in the EEC Treaty, it is only with the development of the single market that the Commission developed strong regulatory capacities in this area. In the wake of the single market project came member state support for more rigorous state aid control, the articulation of a web of rules by the European Commission, and the growth of a private sector constituency for close scrutiny of government aid.[10] By fulfilling the Treaty's promise of autonomous regulatory authority for the Commission, these processes enhanced the influence of the Competition DG.

Furthermore, along with sectoral liberalization, which similarly augmented the status of the Internal Market DG, regulation of competition -- including market position as well as industrial aid -- became a leading tool in the Commission's effort to complete and improve the internal market. Precisely because the single market is an evolving objective, with the continual prospect of new fronts for market integration, sectoral liberalization and competition policy remain prominent tools for fostering integration. The agenda for European integration, including ongoing, defining projects such as the Lisbon process, intended to make the EU the world's most competitive economy by 2010, has both reflected and reinforced the vanguard status of the Internal Market and Competition DGs. Numerous policy initiatives, including calls for more trans-European cooperation in research and development and job training programs, have been derivative of the overarching objective of completing a single market with free and fair competition. This process has been self-reinforcing; the continuous application of the authority of the Internal Market and Competition DGs have further strengthened their roles in defining how, when, and where the European Commission seeks to advance the cause of integration.

Dimensions of the New Industrial Policy

The European Commission's December 2002 communication on European industrial policy appears to mark a dramatic break with the Commission's previous study of globalization and competitiveness of less than four years earlier.[11] Two elements of this shift stand out most starkly: (1) the 2002 communication emphasizes that manufacturing industry is at the core of Europe's pursuit of competitiveness; and (2) the Commission underscores that industrial policy "needs to take into account the specific needs and characteristics of individual sectors."[12]

The 1999 report essentially promoted four themes that were crucial to the competitiveness of European enterprises in the face of globalization. First was an emphasis on more intensive use of technology, especially in business services. But the Commission's critique of European competitiveness in services was general, identifying the slowness of public authorities to liberalize services as a primary source of Europe's failure "to develop a services mentality."[13] The second focal point was a need to overcome the fragmentation of European efforts in research and development. The Commission noted that R&D efforts are centralized in Japan, fragmented but coordinated in the US, and subject to incompatible organizational forms and duplication of effort across EU member states. In particular, whereas the U.S. Department of Defense plays a central role in promoting the development of high-tech industry through its procurement function, European governments each have their own defense procurement policies.[14]

The final two themes presented in the Commission's 1999 analysis of European competitiveness in the global economy were the need for Europe to stimulate the development of an "enterprise culture" – consisting largely of promoting the integration and expansion of venture capital markets and the completion of a single

European patent system – and the need to pursue global rules for competition through the WTO. The December 2002 industrial policy communication reiterated these latter two themes, and also underscored heavily the need for a more coordinated R&D effort. However, it also included stunning departures. As noted above, the first of these was the emphasis on the importance of manufacturing industry and the interdependence of manufacturing and services. The report suggests that the rapid growth of services as a share of the EU economy has drawn the attention of policy makers away from manufacturing, that service sector growth itself has been driven partly by the demand for business services from the manufacturing sector, and that applications of new technology typically take place first in the manufacturing sector.[15] In addition, the 2002 report, "Industrial Policy in an Enlarged Europe," indicates that while the application of industrial policy continues to have "a horizontal basis," meaning that the objective is to stimulate economic dynamism across all sectors of the economy, this basis should be accompanied by "sectoral applications," implying flexibility and responsiveness to market conditions in individual sectors rather than a rules-based regime.[16]

This seeming shift to a less rigid application of the industrial aid segment of competition rules also is reflected in the European Commission's 2002 European Competitiveness Report, produced by the Commission's Enterprise Directorate General. The report highlights the need for balance in the application of competition rules, citing the commitment of the Community and the member states in Treaty Article 157(1) to "ensure that the conditions necessary for the competitiveness of the Community's industry exists."[17] The report also refers to the Commission's discretion in the application of state aid rules "to strike a balance between a certain degree of distortion of competition and the possible beneficial effects resulting from the aid to the enterprises or the industry."[18]

A novel dimension of the 2002 Competitiveness Report is a direct comparison of EU competition and industrial policies with those of the EU's principal competitor, the U.S. By virtue of this comparison, the report implies that a competitiveness policy focused on competition within Europe's single market may put European industry at a disadvantage because of less rigorous U.S. competition policies. In particular, the different rules applied by U.S. antitrust agencies "may facilitate a consideration of arguments other than those based on pure competition policy." Moreover, as opposed to the situation in the EU, subsidies lie outside the scope of US competition policy; as the report indicates, "US subsidy policy is oriented towards strategic industrial sectors."[19]

In sharp contrast to the 2002 Competitiveness Report, the Enterprise DG's 1999 report attributes the productivity gap between European and U.S. industry to market imperfections – the incomplete nature of the single market. The analysis is very much inward-looking; policy prescriptions include "continuing managed removal of subsidies for declining industries," and "no specific protection of national champions…"[20] These themes are consistent with the Community's industrial policy efforts during this period. In the mid-1990s, the Commission's Industry Directorate General articulated an industrial competitiveness policy for the chemicals sector in response to demands from the industry and the German government. The policy calls for efforts to eliminate national measures that impede the free movement of goods in the sector and more effective competition within the internal market. Reflecting the stature of the Competition DG, the latter point includes both vetting of mergers and joint ventures that could restrict competition and reduction of distortions of competition in the sector resulting from state aid.[21] Policy for the sector also includes an effort to negotiate a reduction in trade barriers in the sector through the WTO. Overall, there was little that was sectorally distinctive in this policy, which amounted to reinforcement of single market competition and liberalization policies in the name of industrial competitiveness.

Ultimately, forces of sectoral liberalization and tight subsidy regulation from the European level have assisted efforts by governments to "harden" their states, making them less permeable to rent-seeking by particularistic interests and giving governments a firmer grip on fiscal policy. State hardening has in turn augmented national government support for more wide-ranging competition and tight regulation of state aid, reinforcing the authority of the Internal Market and Competition DGs of the European Commission. The debate within the EU surrounding the recent dispute between the European Union and South Korea over the latter's subsidies to its shipbuilding sector provides an instructive illustration.

Shipbuilding: Hard States in International Competition

European shipbuilding offers a prime example of the tension between the internal market's focus on competition and the external demands of competitiveness, as well as the way in which state hardening constrains the policy choice of easing subsidy restraints. With the cooperation of the national governments, the European Commission oversaw the gradual phasing out of decades of shipbuilding subsidies in member states between 1996 and 2000. However, pressures to reintroduce a subsidy regime emerged immediately in response to claims by shipbuilders in several member states that South Korean shipyards were heavily subsidized by state-run banks and were dumping their ships on world markets.

Following the failure of initial talks between the European Commission and the South Korean government to resolve the dispute, the Commission in 2001 faced mounting pressure to forge a collective response. Pressure came from several national governments as well as European industry associations, including the European Metalworkers' Federation and the Committee of EU Shipbuilders Associations. The Commission proposed a dual approach of seeking to drive the South Koreans back to the bargaining table by agreement among EU member states to restore the subsidy regime abandoned in 2000 and lodging a complaint with the WTO.

However, EU Trade Commissioner Pascal Lamy could not easily galvanize support for the reintroduction of subsidies. The British, Danish, Dutch, Swedish and Finnish governments, while supporting a case on behalf of the EU through the WTO, rejected the Commission's proposal to allow government aid to shipbuilding.[22] Opposition to the proposal stemmed from two sources. First was the concern that for some member state governments – especially Spain and Germany, which had a record of subsidizing shipbuilding -- the subsidy regime would be taken as an opportunity to continue to aid uncompetitive producers, and could be used to distort competition between EU shipbuilders. This concern was borne out when the Dutch government in December 2002 complained to the European Commission that the Spanish government was using the temporary subsidy regime to aid a Spanish shipbuilding group in a case in which no South Korean competitors were involved.[23]

The second reason for opposition was that "hard" states that had eliminated subsidies and given primacy to budget constraints did not wish to open themselves to claims for protection from their domestic shipbuilders. Ultimately, member states in June 2002 agreed to a revised Commission proposal to permit subsidies at a lower rate and on a more restrictive basis than in the 2001 proposal. Reflecting the accumulated power of the Competition DG within the Commission, Competition Commissioner Mario Monti succeeded in pushing through two changes to the temporary subsidy regime: first, governments would be permitted to pay subsidies of only 6 per cent of a vessel's value, as opposed to the 9 per cent originally proposed by the Commission (the 9% rate reflected the allowed subsidy level prior to the phase out of subsidies at the end of 2000); and second, Monti insisted that French demands for subsidies to extend beyond container ships and chemicals carriers to liquid natural gas carriers be put on hold.[24]

Confirming fears about subjecting governments to more intense pressure from producer interests, Dutch shipyards immediately began to lobby the Dutch government to adopt the subsidy regime, pointing out that their German, French, Italian and Spanish competitors already could benefit from such subsidies, and calling for a "level playing field."[25] Indeed, by late 2002, Germany's federal government had in place plans for 62 million euros worth of subsidies, to be funded jointly with Germany's five maritime Länder.[26] In a letter to Commission President Prodi expressing opposition to the aid scheme and reflecting "hard state" concerns, Finnish Prime Minister Paavo Lipponen asserted that "It is likely to create political pressure to adopt this...mechanism also in countries that have opposed the introduction of such operational aid. This in turn will have negative consequences for public finances."[27] And reflecting the determination of the Competition DG to combat the prospect for shipbuilding subsidies to become generalized and prolonged rather than focused on the dispute with South Korea and temporary, Competition Commissioner Mario Monti in January 2003 intensified scrutiny of the German shipbuilding aid scheme, suggesting that these might constitute illegal subsidies.

As the shipbuilding case demonstrates, even in instances where there is substantial evidence that international competitors are violating the rules of the international trade regime, and in which industries in a majority of member states are affected, the EU may not readily adopt sectoral industrial policies that deviate from embedded single market rules. Reluctance to undertake such policy shifts stem from the success of some national governments in hardening their capacity to fend off subsidy demands from domestic producers, as well as the determination of the Commission's Competition DG to protect the integrity of the internal market competition regime. Does this mean the EU is incapable of crafting industrial policy to support the competitiveness of an industrial sector? Or might the EU develop industrial policy departures that do not come directly into conflict with the rules and institutions protecting single market competition?

The Galileo Satellite Navigation Program: Promise and Peril

The EU's 3.6 billion euro plan for a satellite global navigation system designed to compete with the U.S. Global Positioning System (GPS) is its most ambitious trans-European high-technology industrial initiative to date. The European Union launched the Galileo project in 1999, when the Council of Ministers authorized the European Commission to develop the system jointly with the European Space Agency (ESA). With program planning for Galileo completed in 2001, the development phase of the system is expected to last until 2005, with production and launching of satellites in 2006-7 and full operability of the system by 2008.[28]

The potential economic benefits provided a critical impetus for project. The GPS has generated a continually expanding series of applications, creating a $7.5 billion annual market by 2001. The Galileo project, to be paid for from European Commission funds, the ESA budget, subscriptions from EU member states, and participation from commercial firms, promises a potentially huge payoff; estimates suggest a market of euros 9 billion annually and the creation of more than 100,000 jobs.[29] Moreover, the positioning of GPS satellites does not serve urban areas and higher latitudes as well as other parts of the globe; the orbits of Galileo's 30 satellites promises better coverage for these areas of central importance to EU countries.[30] An independent study of Galileo carried out by a private consortium hired by the European Commission found that the cost-benefit ratio of the project would, at a minimum of 4.6, far exceed that for large public sector transport infrastructure projects.[31]

But the long-term strategic significance of the project is perhaps greater than this, for it creates the prospect of EU independence from the GPS, for which military applications take priority. The U.S. reserves the right to degrade the GPS in the event of urgent military need, placing global freight tracking, navigation on the seas, telecommunications and banking networks, and civilian transport at the mercy of American military planning. Accordingly, the anticipated U.S. invasion of Iraq in spring 2003 promised to give a further fillip to the Galileo project.[32] Proponents of a more independent and cohesive European security and defense policy embraced Galileo as a vital tool in the service of this objective, and proponents in the Commission and in national governments heralded Galileo as a means to protect against U.S. domination.[33]

Based solely on the benefits expected from Galileo, we would predict the rapid advance of the project. In March 2002, the German government joined France, Italy, Spain and Belgium in earmarking funds to support Galileo. However, despite the motivation of competing with the U.S. and the potential of capturing massive economic gains, conflict over economic shares in the project have delayed Galileo for more than two years. According to rules of procedure established by the European Space Agency, contracts for the construction of the satellite system are to be awarded in proportion to the contributions of governments.[34] The Italian and German governments, both desperate to boost flagging economies, have battled to claim the largest share and the industrial leadership of the project, along with Galileo's manufacturing headquarters.[35] While Germany planned on a 25% share in Galileo from the outset of the project, France, Italy and the UK have refused to take smaller shares than Germany. Other governments, including Spain, are reluctant to reduce their shares in order to create more latitude for compromise.[36] Economic stagnation across the EU has intensified the distributional conflict.

The standoff places the entire project in jeopardy, since release of the ESA's share of the project funds depends upon agreement on shares in the project among national governments. With these funds on hold engineering teams assembled by some participants have had to be disbanded, and the contract for the system's first experimental satellites may be delayed.

Path Dependence and Industrial Policy Change in the EU

The authority of the European Commission's Internal Market and Competition DGs stand in sharp contrast to the rhetoric afoot in 2002-3 of new sectoral industrial policy departures for the EU. The critical question for evaluating the prospect of a sharp change in industrial policy is whether the institutional hierarchy that emerged in the EU with the development of the single market project remains intact. A glance at evidence from numerous areas, such as new rules liberalizing motor vehicle sales in the internal market, which were adamantly opposed by German industrial interests and the German government, indicate that the prevalence of the Competition and Internal Market DGs persists. Indeed, such institutional hierarchies, while not immutable, do not change readily, even in response to external demands. For one, such demands are likely to be interpreted by policy actors through the lens of existing institutional structures, dictating a response that reinforces rather than revises those structures. Moreover, even if promoted by powerful agents – such as the German government – policy ideas that run afoul of existing structures are unlikely to induce policy shifts. As Judith Goldstein writes, "just as new groups who enter government must comply with existing rules, so too must new ideas 'fit' and accommodate existing structures."[37]

Similarly, as Michael Mastanduno has argued, while the international environment may heighten the sensitivity of policy makers to new concerns – in this case, the damaging consequences of a unilaterally tough competition policy in globally difficult economic conditions – that sensitivity does not translate directly into policy change. The response to policy concerns depends upon the structure, ideas, and objectives of policy making institutions.[38] In the case of the U.S. response to Japanese industrial policy in the area of high-definition television (HDTV) studied by Mastanduno, the U.S. Department of Commerce played a role somewhat analogous to that of the Enterprise DG in the European Commission. While Commerce wished to undertake industrial policy initiatives to bolster the ability of U.S. firms to compete with their Japanese counterparts, Commerce "lacked the tradition of intervention and the associated industrial policy instruments"[39] required to overcome the dominant liberal ideology of executive agencies like the Council of Economic Advisors and the Office of Management and Budget (which in this instance were analogous to the Commission's Internal Market and Competition DGs).

Ultimately, then, institutional hierarchies in the Commission and the hardening of several national governments through the Europeanization process suggest that Gerhard Schroeder's quest for more flexible application of EU competition rules to individual sectors is likely to end in disappointment. However, this does not preclude EU efforts to develop joint projects in emerging high tech sectors, an industrial policy course with which the EU has a mixed record. In the case of Galileo, the prospects are muddied by delays in project development due to conflict between member state governments over the distribution of program costs and benefits. Delays stemming from disagreements between governments have derailed Community high-tech initiatives in the past. In his study of EC efforts to develop an industrial policy for high definition television (HDTV), John Peterson finds that the protracted inability of governments to agree on a common broadcasting standard allowed time for American digital technology to overtake the planned European system.[40] The result was the collapse of the European HDTV project.

HDTV, like Galileo, promised substantial benefits and applications in multiple sectors, including "broadcasting, electronics, defense, and aerospace..."[41] Moreover, the HDTV project had political and financial support from several national governments. As for HDTV, Galileo signals the potential for mobilization of European political and financial resources "when both national governments and the Commission see vital industrial interests at stake."[42] In the case of Galileo, delays caused by disagreement between national governments similarly may undermine the project. These conflicts over the distribution of benefits also increase the likelihood that the project will not be completed by its target date of 2008; this fundamentally threatens the very viability of the project, because many of the commercial benefits expected for the EU market would be preempted by a planned enhancement of the GPS by the U.S.[43] Nonetheless, Galileo harbors promise for a breakthrough in EU industrial policy becaue intergovernmental conflict is amenable to compromise, and far more likely to occur in the near term than a reshuffling of the institutional hierarchy that helps define the course of policy in the European Union.

[1] The European Commission officially measures implementation of elements of the single market according to periodic publications of a single market "scoreboard." The most recent of these (Scoreboard No. 10), published in May 2002, set an implementation target of 98.5% transposition of all single market legislation – including 1497 directives and 299 regulations -- by spring 2003. In May 2002, only 7 member states met this 1.5% "implementation deficit." The Commission also set a target of reducing by 10% the number of infringement proceedings, which in May 2002 numbered more than 1500. See Commission of the European Communities, Internal Market DG, Internal Market Scoreboard No. 10, May 2002.

[2] Gerhard Schröder, "Shaping Industry on the Anvil of Europe: Economic policy should boost competitiveness among the industrial companies that drive the European Union," *Financial Times* (London), April 29, 2002, p. 21.

[3] *European Competitiveness Report 2002*. Commission staff working document (SEC(2002) 528). Luxembourg: Office for Official Publications of the European Communities, 2002.

[4] "Industrial Policy: Public Debate on European Strategy Kicked Off," European Information Service, *European Report* No. 2745 (http://web.lexis-nexis.com/universe.

[5] Examples from the epistemic communities literature, which emphasizes the importance of institutional position for actors to wield influence over policy, include Emanuel Adler and Peter Haas, "Conlcusion: Epistemic Communities, World Order, and the Creation of a Reflective Research Program," *International Organization* 46, 1 (Winter 1992), and Peter Haas, "Do Regimes Matter? Epistemic Communities and Mediterranean Pollution Control," *International Organization* 43, 3 (Summer 1989), pp. 377-403. On the critical role of powerful constituences in translating ideas into policy outcomes, see Judith Goldstein, "The Impact of Ideas on Trade Policy: The Origins of U.S. Agricultural and Manufacturing Policies," *International Organization* 43, 1 (Winter 1989), p. 31-71. Goldstein writes (p. 71) that "ideas influence policy only when they are carried by individuals or groups with political clout."

[6] Peter Hall, *Governing the Economy* (New York and Oxford: Oxford University Press, 1986), p. 61.

[7] In his article, "The Transformation of European Community Competition Law?" *Harvard International Law Journal*, Volume 35, Number 1 (Winter 1994), p. 98, David J. Gerber points out that unlike most national systems of competition policy, EU competition policy has aimed at the objective of "unifying the European market" rather than protecting consumers or promoting technological progress.

[8] European Commission, *Growth, Competitiveness, Employment: The Challenges and Ways Forward Into the 21st Century*. Luxembourg: Office for Official Publications of the European Communities, 1994, pp. 63 and 79.

[9] Albertina Albors-Llorens, "Competition Policy and the Shaping of the Single Market," in Catherine Barnard and Joanne Scott, eds, *The Law of the Single European Market: Unpacking the Premises* (Oxford and Portland, Oregon: Hart Publishing, 2002), p. 329.

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[33] According to a report in *Aviation Week & Space Technology* (Vol. 156, issue 7, 2/18/2002, p.28), senior European defense officials in France, Italy and Spain were advocating a vote in favor of Galileo in advance of the March 2002 Council of Transport Ministers.

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