

Important Projects of Common European Interest (IPCEIs) as a New Form of Differentiation: An Analysis of Their Challenges for the European Single Market

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Important Projects of Common European Interest (IPCEIs) as a New Form of Differentiation: An Analysis of Their Challenges for the European Single Market

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Abstract

In support of a more active EU industrial policy, so-called Important Projects of Common European Interest (IPCEIs) have been increasingly used in recent years. IPCEIs can, however, create some tensions with EU competition policy, and thus the functioning of the Single Market. In this paper, we show that these tensions are linked mainly to the nature of IPCEIs, constituting budgetary differentiation with a comparatively informal and vague governance framework. The identified key challenges for the Single Market's level playing field are differences in financial, technical and administrative capabilities between member states and their enterprises as well as shortcomings in the arrangements governing the creation, implementation and evaluation of IPCEIs. Based on analyses of the public consultation for the recent revision of the Commission's IPCEI communication and all currently approved national recovery and resilience plans, we find that the identified challenges have not been addressed sufficiently so far. To alleviate some of the tensions between EU industrial policy and competition policy we recommend to finance IPCEIs through European rather than national funding and to implement a more inclusive and coherent governance framework.

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Executive summary

For several decades now, the European Single Market has been a centrepiece of the European Union. The Single Market lays a particular focus on competition policy, aiming at creating competitive markets through the implementation of the four freedoms and a level playing field across EU member states. The recent revival of a more active industrial policy, as exemplified by the increasing use of Important Projects of Common European Interest (IPCEIs), creates potential tensions with the functioning of the Single Market. IPCEIs constitute a new form of (budgetary) differentiation in the otherwise largely undifferentiated Single Market. Through IPCEIs, willing member states fund domestic enterprises with public financing, being exempted from the usual state aid rules of EU competition policy. The push towards the (re)development of a common EU industrial policy is driven by several factors: the increasing acknowledgement that ambitious public investment is necessary to achieve EU objectives around the green and digital transitions, concerns about the global competitiveness of European enterprises in the face of high public subsidies in the USA and China, and a perceived need for more “strategic autonomy” to reduce the EU dependency on third countries in key value chains.

This policy paper aims at identifying the key challenges that IPCEIs pose for the functioning of the Single Market. It draws on the feedback provided by public and private stakeholders in the public consultation on the 2021 revisions of the Commission’s IPCEI communication and the 22 currently approved national recovery and resilience plans (NRRPs) of the European Recovery Plan called Next Generation EU. Our analysis shows that a key challenge of IPCEIs for the EU’s level playing field is important differences in financial, technical and administrative capabilities between member states as well as their enterprises. Smaller and less advanced economies often lack the fiscal space necessary to finance IPCEI projects or do not have sufficient administrative staff to manage the development, implementation and evaluation of IPCEIs. These issues can also exist at the enterprise level, where small and medium-sized enterprises (SMEs) might not possess the capabilities to join IPCEI projects. The analysis also highlights shortcomings in the arrangements governing the creation, implementation and evaluation of IPCEIs. In the absence of more formal and concrete guidelines, the governance frameworks of individual IPCEIs are developed on an ad hoc basis. This creates risks such as the exclusion of potentially interested stakeholders. To better alleviate the tensions between a more active industrial policy and the functioning of the Single Market, this policy paper recommends that IPCEIs should be financed through EU funding rather than national funding, providing several options for “Europeanising” funding. We also consider it necessary to implement a more inclusive and coherent governance framework, in which the Commission plays a more central role to ensure that all interested public and private stakeholders can take part in IPCEIs.

Introduction

This policy paper studies so-called Important Projects of Common European Interest (IPCEIs) as a new instance of differentiation in the otherwise largely undifferentiated Single Market. It is interested in analysing the challenges that IPCEIs as a key element of a more active EU industrial policy pose for the functioning of the Single Market, which is geared towards competitive markets through the implementation of its four freedoms and a level playing field for enterprises across the EU. To do so, the first section of this paper discusses differentiation in the Single Market, including existing forms and IPCEIs as one of the most recent and important additions to these forms. It highlights that IPCEIs constitute a form of budgetary differentiation and are a key tool for the new EU industrial policy. The second section then discusses the potential tensions that IPCEIs can create between the objectives of the EU competition policy and industrial policy, and points out potential problems for the functioning of the Single Market. Moving to the empirical part of this paper, the third section provides an overview of all existing and currently planned IPCEIs. The central fourth section then discusses the main identified problems in the current set-up of IPCEIs for a well-functioning level playing field, drawing on the feedback of public and private stakeholders to the Commission's 2021 revision of the IPCEI communication. The key challenges include differences in financial, technical and administrative capabilities between member states and their enterprises as well as shortcomings in the arrangements governing the creation, implementation and evaluation of IPCEIs. Subsequently, section 5 analyses whether the final version of the 2021 IPCEI communication and the European funding available through the European Recovery Plan Next Generation EU have sufficiently addressed the identified problems. It finds that the changes brought by the new IPCEI communication are too small and incremental, while member states could have also made a better use of European funding provided by Next Generation EU. The concluding section of this policy paper finally summarises the overall findings and makes several recommendations to better alleviate the existing tensions between IPCEIs (as EU industrial policy) and the Single Market (as a main instance of EU competition policy). It suggests to finance IPCEIs through European funding, discussing several options to "Europeanise" their funding, and calls for the implementation of a more inclusive, coherent and transparent framework to govern the development, implementation and evaluation of IPCEIs.

1. IPCEIs and the (un)differentiated nature of the Single Market

The Single Market is a cornerstone of the European Union and generally considered as the epitome of homogeneous EU integration. For many observers it is such a central feature of the Union that it leads Vivien A. Schmidt (2019: 295) to state that "member-states naturally belong" to the Single Market. In her vision of the EU's future, the Single Market is the only policy area that precludes internal differentiated



integration in the EU, with democratic and rule of law requirements constituting another exemption from differentiable EU policy areas (Schmidt 2019, see also Kelemen 2019). Indeed, all 27 EU member states take part in the Single Market whose *acquis* is developed based on the Community Method. Making use of both negative and positive integration (Treib 2014: 16), the Single Market focuses on two things: the achievement and maintenance of its four freedoms (of movement of goods, capital, services and people) and a level playing field for economic actors across the Union enforced through stringent European competition law (Pichler et al. 2021). As Matthijs et al. (2019: 210) point out, “the institutional principles of the EU’s core economic policy areas rule out internal differentiation to a striking degree”. They highlight that “political calls for differentiation” in the Single Market, for example by the United Kingdom, have been repeatedly denied on the grounds that there can be no cherry-picking among the “indivisible” four freedoms (Matthijs et al. 2019: 210).

1.1 Existing forms of differentiation in the Single Market

But while internal (formal) differentiation inside the Single Market is indeed markedly low in comparison to other EU policy areas, such as European foreign, security and defence policy (Siddi et al. 2021) or European migration and home affairs (Comte and Lavenex 2021), some types of differentiation are nevertheless present. First, not all policy areas that can affect the Single Market’s level playing field have seen uniform integration over the course of the last decades, remaining highly differentiated. Schmidt (2019: 303) sees this type of differentiation best exemplified by the persistence of differentiated tax regimes, allowing “beggar thy neighbor” fiscal policy-making. Second, even in those Single Market policy areas that follow the principle of uniform integration, there can be temporary differentiation or more informal “discretionary differentiation” (Howarth and Sadeh 2010: 923) through quasi-permanent “negotiated exemptions to commonly agreed rules for individual countries” (Schmidt 2019: 302). These exemptions are supposed to account for country-specific challenges, and often express the interests of certain domestic groups that object to the homogenous application of the four freedoms. Examples of these two forms of differentiation are the seven-year transition period for the free movement of workers following the 2004 EU enlargement or the Commission’s acceptance of national quotas for medical students in Austria and Belgium. Third, while internal differentiation in the Single Market is limited, there is quite extensive external differentiation. Numerous third countries have (partial) access to the Single Market through agreements such as the European Economic Area (EEA), the EU-Swiss bilateral agreements, EU customs unions and comprehensive free trade agreements (Eisl 2020).

1.2 IPCEIs as new form of differentiation in the Single Market

Beyond these internal and external forms of existing differentiation, new differentiation dynamics are taking place in the Single Market, in the form of Important Projects of Common European Interest (IPCEIs), supported by industrial alliances (European Commission 2014, 2021a). IPCEIs aim at pursuing common EU objectives such as the goals of the European Green Deal (European Commission 2021b) and the new EU industrial strategy (European Commission 2020, 2021c). IPCEIs are developed by groups of willing EEA member states and their enterprises – in collaboration with the European Commission – to implement common projects in situations where systemic or market failures as well as particular societal challenges require public financing. Through IPCEIs, participating member states can financially support such projects without being subject to the usual state aid rules of the Single Market. The legal basis for IPCEIs is TFEU Art. 107 (3)b, which the European Commission first further interpreted and specified in its 2014 IPCEI Communication (European Commission 2014). After a public consultation and review, the Commission published a revision of the IPCEI Communication in autumn 2021 (European Commission 2021a). In a nutshell, the IPCEI communication defines the eligibility criteria of projects for the development on an IPCEI as well as the compatibility criteria such projects must fulfil to be exempted by the European Commission from the usual state aid requirements.

IPCEIs are a form of budgetary differentiation (Monti et al. 2016), in which common EU priorities are financed by a limited number of EU member states. While there has always been minor differentiation inside the EU budget, IPCEIs are part of a relatively recent phenomenon, in which budgetary differentiation consists in the comparatively informal pooling of national resources by a group of EU member states. These resources are then used to fund EU-level projects, sometimes combined with additional EU funding. Since their inception, a key tenet of IPCEIs is the use of participating member states' national public financing to support eligible companies in the selected policy area, with each country subsidising companies that are situated inside its domestic borders. Other than specifying the overall criteria for which projects can constitute IPCEIs and approving the exemption from the general state aid rules, the role of the European Commission in the development of IPCEIs is relatively minor. Beyond IPCEIs, another recent example for the informal pooling of national funding is the EU trust funds for external action (Castillejo 2016, Kipp 2018). The latter, however, also profit from substantial EU funding, while IPCEIs rely exclusively on national funding. In their informality, IPCEIs are closer to the differentiated cooperation arrangements we find in the policy areas of defence and foreign policy (Kovář and Kočí 2022) than to the highly institutionalised forms of differentiation that, for example, make up the EU's Economic and Monetary Union. As with informal differentiation in foreign policy, the use of informal differentiation in budgetary policy can be seen as a way to compensate for in-built institutional shortcomings of unanimity-based decision-making. Difficulties to expand EU-level funding for the new industrial strategy have led to the search for alternative sources of funding stemming from national budgets of willing member states, made possible through the use of IPCEIs.



IPCEIs are part of a renewed push towards the (re)development of an industrial policy in the European Union. Beyond the attainment of common EU objectives such as the green and digital transitions, they are driven, on the one hand, by concerns about global competitiveness in face of high public subsidies in the USA and China. On the other hand, IPCEIs are a response to the perceived need for more “strategic autonomy” to reduce the EU dependency on third countries in crucial value chains, recently highlighted by the COVID crisis. Historically, the member states of the EU have run various – but mostly active – types of industrial policy. This changed, however, from the 1980s onwards, when the relaunch of the Single Market project made the European Commission increasingly an active enforcer of EU competition law also because the adoption of the Maastricht Treaty refocused the Commission’s role on creating and maintaining competitive markets inside the EU (Pichler et al. 2021: 143). This included strict limits to the provision of state aid, with member states subsequently having to rely on more implicit and so-called “horizontal” forms of industrial policy such as “investments in education and innovation” (Pichler et al. 2021: 143). A renewed interest in a more active industrial policy in the EU was triggered by the Great Recession and since then the European Commission and a number of member states have launched several proposals and initiatives in this direction. But as the European treaties provide a comparatively “tight corset” for member states in their attempts to mobilise state aid for industrial policy aims, IPCEIs have been identified as one of the most promising options to deal with the restrictions of the existing competition policy framework.

2. Questions raised by IPCEIs for the functioning of the Single Market

The purpose, design and implementation of IPCEIs, however, raises a series of questions regarding the functioning of the Single Market. First, the propagation of IPCEIs amplifies potential contradictions between the objectives of EU competition policy – a key aspect of the Single Market – and industrial policy (Galloway 2007). One of the main tenets of the EU Single Market is that the construction of competitive markets through the creation of a level playing field between economic actors inside the EU will lead to economic innovation (Lorenz 2013). Subsequently, the companies surviving internal competition should also be competitive in global markets. But when other countries massively subsidise their own companies, this can undermine the competitiveness of European firms. Given the difficulties to constrain other large global actors in the use of domestic state aid, a more active industrial policy with public financing support is increasingly considered as one of the most useful solutions to keep European companies competitive at the global level. It is, however, difficult for politicians and technocrats to decide which enterprises and technologies to support and how to ensure that the level playing field is not tilted beyond a point where “normal” competition between firms inside the EU no longer works sufficiently to spur innovation (Pichler et al. 2021). The creation of “European champions” could thus be both an opportunity and a risk for competitiveness, with potential trade-

offs for the short- and long-run competitiveness of European companies. The comparatively larger public subsidies that can be mobilised through IPCEIs might be necessary to keep the European economy competitive globally but they could also have distortive effects on the Single Market. To some extent, this would already be the case for an active EU industrial policy funded at the EU level.

But the differentiated nature of IPCEIs poses an even broader challenge to the functioning of the Single Market, which the subsequent sections of this policy paper identify and address. First, IPCEIs constitute a form of budgetary differentiation based on national financial contributions by participating member states for enterprises in their own territory. Differences in their financial, technical and administrative capabilities – which can be due to differences in size, economic development and fiscal space – could subsequently undermine the Single Market’s level playing field. This could also be the case if there are major differences in enterprise capabilities between countries, for example due to variation in average firm size (see Redeker and Hainbach 2020). Second, the informal and ad hoc nature of differentiation in the case of IPCEIs could pose additional challenges for the functioning of the Single Market. Vague or absent procedures for the development, implementation and evaluation of IPCEIs could potentially lead to the inadvertent or even intentional exclusion of member states and enterprises, further tilting the level playing field and undermining the accountability and legitimacy of such forms of budgetary differentiation in achieving common EU objectives (see Kovář and Kočí 2022).

3. Overview of existing and planned IPCEIs

Before discussing the various challenges that IPCEIs can potentially pose to the functioning of the Single Market, this section provides a short overview of the existing and planned IPCEIs. While the tool of IPCEIs was barely used after its inception in 2014 (Tagliapietra and Veugelers 2020, Meunier and Mickus 2020: 1087), since 2018 three IPCEIs with varying membership configurations, regarding both member states and enterprises, and duration have been adopted and are currently in their implementation phase (Table 1). The IPCEI on microelectronics was the first to be approved by the European Commission. It runs from 2018 to 2024, with public and private funding of 1.75 and 6 billion euro respectively, and was originally notified by Germany, France, Italy and the United Kingdom, when the latter was still part of the EU. Initially, this IPCEI included 29 industry actors, which grew to 32 in March 2021, when Austria joined. Since then, the number of member states forming an IPCEI has grown. In 2019 and 2021, two IPCEIs on batteries, supported by the European Battery Alliance, were approved. Seven member states support 17 enterprises with public financing amounting to 3.2 billion euro in the so-called “Summer IPCEI” on batteries (2019–2031) and 12 member states provide 2.9 billion euro of public funding to 42 companies in the battery value chain in the subsequent “Autumn IPCEI” (2021–2028). In the context of the revamped EU industrial strategy and the European Green Deal, a number of additional IPCEIs are currently under development, most

notably on hydrogen, microelectronics, cloud systems, low-carbon industry and pharmaceuticals (European Commission 2021c: 14).

Table 1 | IPCEIs adopted as of the end of 2021

IPCEI	Microelectronics	Batteries I (Summer IPCEI)	Batteries II (Autumn IPCEI)
Public funding	1.75 billion euro*	3.2 billion euro	2.9 billion euro
Private funding	6 billion euro*	5 billion euro	9 billion euro
Start date	12/2018	12/2019	01/2021
End date	2024	2031	2028
Member states (+ third countries)	4: Austria, France, Germany, Italy + UK (Austria joined in March 2021)	7: Belgium, Finland, France, Germany, Italy, Poland, Sweden	12: Austria, Belgium, Croatia, Finland, France, Germany, Greece, Italy, Poland, Slovakia, Spain, Sweden
Industry actors	32*	17	42
Key actors	European Commission, European Semiconductor Industry Association (ESIA), member states, European industry	European Commission, European Battery Alliance, European industry	European Commission, European Battery Alliance, European industry

Notes: *Data on public and private funding for the microelectronics IPCEI is based on the original notification by four member states. The number of participating industry actors increased from 29 to 32 when Austria joined the IPCEI.

Sources: Own compilation based on presentational materials of individual IPCEIs.

Over the course of the last two years, the elaboration of these new IPCEIs has taken place in parallel to the Commission review of its IPCEI Communication and will reflect its 2021 revision. According to the French Presidency of the Council of the EU, we can expect four so-called prenotifications and notifications of IPCEIs for the first half of 2022, including on hydrogen, microelectronics, cloud technologies and health (Agence Europe 2022). The IPCEIs adopted in 2022 are likely going to be larger and more complex than the already existing ones. In 2020, a manifesto of 21 member states and Norway called for the development of an IPCEI on hydrogen (IPCEI Hydrogen Manifesto 2020), which seems to have consolidated in 17 participating countries, while the planned second IPCEI on microelectronics is going to have at least 20 states taking part in the project (Agence Europe 2022). The planned IPCEI on cloud systems finally is likely to be joined by 12 member states (BMW i 2021).

4. Challenges of IPCEIs for the functioning of the Single Market

The main challenges of IPCEIs for the functioning of the Single Market identified in this paper are based on a detailed analysis of all 52 feedback documents submitted by public and private stakeholders in the public consultation on the review of the IPCEI Communication in late 2020 and early 2021. While the various stakeholders identified numerous problems in the development, implementation and evaluation processes of IPCEIs, this paper only focuses on those dimensions that are particularly relevant from the point of view of (budgetary) differentiation and its potential risks for the functioning of the Single Market. Among those challenges are (1) differences in the capabilities of member states, (2) differences in the capabilities of enterprises among and across member states, as well as (3) shortcomings in the governance arrangements of IPCEIs, particularly regarding their transparency and inclusiveness. The following subsections will not only discuss these challenges in more detail but also provide an overview of the various solutions proposed by the different stakeholders.

4.1 Differences in member state capabilities

As a joint non-paper by 11 EU member states¹ recently stressed, “there is a risk that a proliferation of IPCEIs will lead to a less dynamic and less competitive economy in the EU” (IPCEI non-paper 2021). In their view, “not all Member States have the same financial or human resources to participate in an IPCEI” which poses “the risk of further widening the economic disparities between Member States, creating unequal access to IPCEI initiatives as well as increasing national debt levels” (IPCEI non-paper 2021). This mirrors the concerns shared by several public and private stakeholders in the public consultation on the review of the IPCEI communication,² especially from smaller member states. They saw important risks for the functioning of the Single Market stemming from differences in member states’ capabilities, linked to variation in size, economic development and fiscal space. A Belgian employers’ organisation, for example, pointed out that “IPCEIs inevitably cause distortions by the fact that projects are financed by national/regional governments and not directly by EU fundings programmes” (Agoria 2020). As the Dutch authorities (2021: 2) further detailed in their feedback,

state aid support schemes differ between Member States [because] various Member States will have smaller budgets than other Member States[,] some

¹ The joint non-paper was co-signed by Czechia, Denmark, Finland, Ireland, Latvia, Lithuania, the Netherlands, Poland, Slovakia, Spain and Sweden.

² European Commission website: *Feedback to the Revision of the IPCEI Communication*, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12661-Revision-of-Communication-on-important-projects-of-common-European-interest/feedback_en?p_id=16155691. Includes the feedback by the Italian, Danish and Swedish authorities, the companies ArcelorMittal and Voestalpine as well as the employers’ organisation Agoria.

Member States will have more leeway to utilize their budgets in a discretionary way than others, e.g. give direct state aid, versus generic support schemes that often are tax based [and] smaller Member States will have smaller staffs which will make guiding multiple IPCEIs simultaneously challenging.

Consequently, the Dutch authorities (2021: 2) saw some EU countries to “be better positioned to deal with and benefit from IPCEIs than others, even proportionally”, subsequently “exacerbate[ing] an unlevel playing field within the EU”. This applies both to the overall national funding a member state can provide for its companies in the framework of an IPCEI but also to the support for each individual enterprise. As pointed out by Agoria (2020), “the ratio ‘national support/number of companies involved’ [for the Summer IPCEI on batteries] varies from €250 million per company in one Member state to less than €30 million per company in another one”.

The different stakeholders made various proposals to address the issue of diverging member state capabilities to finance and administer IPCEIs. Agoria (2020), for example, “plead for the addition of EU funding to IPCEIs and the creation of funding synergies in order to lower the discrepancies among Member States/regions in the support of their companies”. In its view, this additional EU funding would help to create “a better level playing field” between member states and companies (Agoria 2020). Also several steel companies and their associations (e.g., Voestalpine, ArcelorMittal, Jernkontoret, Eurofer, Austrian Economic Chamber) suggested to “extend the co-financing requirement of the beneficiary by the option of co-financing by other, especially European Union, funds” (Voestalpine 2020). The Italian authorities went even further in their recommendations on the pooling of public and private funding for IPCEIs at various government levels, stating that “EU co-financing should become a mandatory requirement of IPCEIs, confirming their strategic importance of the project for the Union as a whole” (Italian authorities 2020). Interestingly, the Dutch authorities, while acknowledging the opportunities provided from the EU co-financing of IPCEIs, nevertheless suggested several limitations. They recommended that “co-financing from an EU fund may not exceed 30% of the total costs”, that “co-financing from an EU fund should be restricted to a number of specific instruments” such as the InvestEU programme or the Recovery and Resilience Facility (RRF) and that “support from an EU fund for an IPCEI must clearly have spill-overs for other member states that only join with national funds and/or do not join the IPCEI at all” (Dutch authorities 2021: 8).

4.2 Differences in enterprise capabilities

Many public and private stakeholders participating in the public consultation on the review of the IPCEI communication stated that differences in capabilities were an issue not only for member states but also for enterprises that could join specific IPCEIs. According to the Danish authorities (2021), small and medium-sized enterprises (SMEs) often “do not have the same administrative capacity compared to larger companies to go through a long application process” to receive financial support through an IPCEI. The administrative burden to determine the eligibility for IPCEI participation and the amount and technicality of preparatory work was

deemed as “too challenging for SMEs” (Agoria 2020) and “a major obstacle for the participation in an IPCEI” (Dutch authorities 2021: 6). As different member states have different compositions regarding company size (see Redeker and Hainbach 2020) and as smaller member states tend to have a higher share of SMEs than larger member states, this can be a challenge for the functioning of the Single Market, especially with budgetary differentiation in the form of IPCEIs.

To resolve issues regarding the differences in enterprise size and capabilities, the various stakeholders proposed a number of options to better integrate SMEs in IPCEIs, typically focusing on the use of incentives to attain a better equilibrium between large companies and SMEs. Such incentives could be directed towards SMEs themselves, helping to raise their interest in IPCEI participation, but also towards larger enterprises and public authorities, pushing them towards the active inclusion of SMEs when setting up specific IPCEIs. Among the proposed incentives for SMEs were to allow for a higher aid intensity for smaller than for larger companies or a reduced administrative burden for SMEs (or for smaller projects) in the notification process (Danish authorities 2020, Austrian economic chamber 2020, Dutch authorities 2021). In this regard, the Italian authorities (2020) proposed, for example, that “SMEs should be exempted from the obligation to present the counterfactual scenario and to demonstrate the positive spillover effects of the IPCEI [and] should also benefit from simplified procedures for other reporting requirements”.

More broadly, stakeholders called for the simplification and harmonisation of the application and notification procedures across member states, their clear communication to companies as well as the introduction of assistance mechanisms to help SMEs during the preparation and execution phases of IPCEIs (Dutch authorities 2021, Agoria 2020, Zentralverband Elektrotechnik und Elektronikindustrie, 2020, AeroSpace and Defence Industries Association of Europe 2020). Regarding incentives towards large enterprises and participating countries, the Danish authorities (2020) suggested that their inclusion in IPCEIs “could be listed more explicit[ly] as a positive indicator than is currently the case”.

4.3 Lack of transparent and inclusive governance

Finally, IPCEIs might also pose a challenge for the functioning of the Single Market due to their informal nature. Numerous public and private stakeholders criticised the lack of clarity and transparency in the rules guiding the creation and implementation of individual IPCEIs. They considered the ad hoc processes leading to the development of IPCEIs to not be sufficiently inclusive for certain member states and enterprises, making it difficult to join an existing IPCEI at a later stage, and saw a need to clarify the European Commission’s role in the process. Many stakeholders felt that there was an insider-outsider problem in the construction of specific IPCEIs, as well-connected member states and companies (also with the European institutions) could leave out other countries and actors to gain exclusive economic benefits from the use of IPCEIs. Agoria (2020), for example, criticised that “currently Calls for Expression of

Interest for IPCEIs are launched by the individual member states, if they choose to do so, in a scattered and incoherent way [leading] to a lot of uncertainty among companies”.

Several stakeholders such as the Swedish government, Cefic, BASF SE and Siemens Energy supported the idea that the European Commission (or another supra-national body) could take a more proactive and central role in the creation and implementation of specific IPCEIs. They considered that a European body would better be able to defend the interests of all member states and European companies than when the set-up of IPCEIs was led exclusively by individual countries. Various feedback documents were in favour of the Commission organising EU-wide Calls for Expression of Interest, ex-ante consultations and ad hoc prenotification meetings for member states (Agoria 2020, Bitkom 2020, Cembureau 2020, Dutch authorities 2021). Bitkom (2020) went even a step further and suggested that “a central help desk set up by the European Commission and participating Member States staffed with funding experts could support the consortium partners during the preparation phase of new IPCEIs”. Beyond the role of the Commission or another European body in guiding the IPCEI process, many stakeholders asked for broader clarifications and more concrete guidelines in the framework of rules regulating the creation and implementation of IPCEIs (Austrian Economic Chamber, Agoria, BASF SE). The Italian authorities (2020) called for IPCEI rules which “should encourage and facilitate as much as possible the opening to Member States and their participation in ongoing IPCEIs”. Similarly, the Swedish authorities highlighted that “a clear regulatory framework with a predictable process [was] necessary for the implementation of projects with a larger number of participants” (Sveriges regering 2020). For the different stakeholders this included “common and clear standards and templates for reports and application documents” (Zentralverband Elektrotechnik and Elektronikindustrie 2020), a transparent communication procedure, for instance through the creation of an “open platform with an overview of the ongoing IPCEI application procedures in all participating Member State[s]” (Dansk Erhverv 2020), the assignment of clearer roles and tasks for the various involved actors (BASF SE 2020), as well as “increased transparency and accountability” for the evaluation of IPCEIs (CEE Bankwatch 2020).

5. Recent opportunities to address challenges from IPCEIs for the Single Market

With the revision of the IPCEI communication by the Commission in late 2021 and the European Recovery Plan, a new framework for IPCEIs and their financing could potentially be in place. In the following subsections we discuss, first, the extent to which the feedback submitted in the public consultation has been integrated in the revised IPCEI communication and whether the adaptations are far-reaching enough to ensure the functioning of the Single Market. Then we have, second, a closer look at the already approved national recovery and resilience plans (NRRPs) financed by the European Recovery Plan to see whether member states have made use of European grants to bridge differences in country sizes and capabilities.

5.1 An insufficient revision of the IPCEI communication

Given the comprehensive feedback of public and private stakeholders, the 2021 Revision of the IPCEI communication was a major opportunity for the European Commission to address some of the identified challenges of IPCEIs for the functioning of the Single Market. But while a number of changes were made to the text, such as the inclusion of recent common EU objectives (points 4, 5, 14 European Commission 2021a), we agree with the recent assessment by Poitiers and Weil (2022) who view it as “a minor revision” which “failed to address any of the major flaws of IPCEI”. To address broader concerns of IPCEIs distorting the level playing field in the Single Market, the Commission integrated more explicit provisions regarding the relocation of economic activity between member states due to provided state aid (point 47), the use of claw-back mechanisms (point 36) as well as the need for “important” co-financing by beneficiaries (point 19). Regarding the participation of SMEs, points 5 and 21d of the 2021 revision highlight the importance of their participation, but in practice, this is only a part of one of the various “general positive indicators” in the IPCEI communication’s eligibility criteria. To improve the openness and inclusiveness of IPCEIs, the Commission (2021a) increased the minimal number of participants from two to four member states (point 16) and requires that “notifying Member States must demonstrate that all Member States were informed of the possible emergence of a project, for example by way of contacts, alliances, meetings, or match-making events, also involving SMEs and start-ups, and given opportunity to participate” (point 17). To address concerns about a lack of transparency, points 48 and 49 of the new IPCEI communication require the publication of more comprehensive information on individual aid grant decisions, applying to a greater number of beneficiaries.

While all of these rather incremental changes to the IPCEI communication seem to point in the right direction, the 2021 revision is clearly insufficient to provide a clearer and more comprehensive framework for the creation, implementation and evaluation of IPCEIs. The requirement of at least four participating member states does little to better integrate member states with different capabilities, the new communication remains very vague on a better integration of SMEs and there is no overhaul of the procedure to set up individual IPCEIs, leaving it in the hands of member states.

5.2 The partially missed opportunity of European grants

With the agreement on the European Recovery Plan, Next Generation EU, during the COVID-19 crisis, an unexpected opportunity has presented itself for member states to address the differences in country sizes and capabilities to support IPCEIs. That is because the Recovery and Resilience Facility (RRF) allows member states to use their NRRPs to finance the public spending shares of IPCEIs with European instead of national money. So far, 22 NRRPs have been approved by the Commission and

Council, while five are still under negotiation. Table 2 shows the extent to which member states have made use of the RRF to finance IPCEIs. Out of the 22 NRRPs, 13 plans mention IPCEIs explicitly. The Greek NRRP, however, only discusses IPCEIs in the context of institutional reforms, without setting money aside for financing public investments in eligible companies, leaving us with 12 countries in the analysis. Among the 12 member states that explicitly use their NRRP to finance IPCEIs, there are important differences on several dimensions (Table 2). First, the spending envelopes linked to IPCEIs vary strongly in absolute values, but also relative to the size of NRRPs and national GDP. Regarding absolute spending, countries like Germany, Italy and Spain commit more than 1 billion euro each to various IPCEIs they support, with Germany even reaching 3.75 billion euro. In contrast, countries like Latvia, Slovakia and Slovenia link less than 100 million euro to IPCEIs. There is also significant variation in IPCEI spending relative to the overall NRRP size. Germany, for example, spends 14.6 per cent of the RRF grants on IPCEIs, while most other countries have, with exceptions, a spending share around 2 or 3 per cent. As the size of RRF grants relative to national GDP can vary substantially, IPCEI spending shares in relation to GDP attenuate the picture. Central and eastern European member states tend to spend a comparatively bigger amount of European grants for IPCEIs in relation to their GDP than western European countries. This is also due to the fact that the former receive comparatively larger amounts of RRF grants.

Table 2 | Overview of IPCEI spending in NRRPs

Country	Overall IPCEI spending (euro)	IPCEI share of NRRP (%)	IPCEI share of GDP (%)	Earmarked IPCEI spending
Germany	3.75 billion	14.6 (13.4)	108	Yes
Austria	250 million	7.1 (5.6)	63	Yes
France	1.275 billion	3.2 (3.1)	52	Yes
Italy	1.5 billion	2.2	84	Yes
Finland	171 million	8.1	71	Maybe
Latvia	>98 million	4.9 (5.4)	320	Maybe
Slovenia	7.5 million	0.4	31	Maybe
Belgium	639.2 million	10.8	134	No
Romania	500 million	3.5 (3.5)	224	No
Spain	2.055 billion	3	165	No
Czechia	181.64 million	2.6	81	No
Slovakia	73.5 million	1.2 (1.1)	78	No

Notes: (1) The NRRPs of Cyprus, Denmark, Estonia, Croatia, Ireland, Lithuania, Luxembourg, Malta and Portugal do not mention IPCEIs. The Greek NRRP only mentions IPCEIs in the context of institutional reforms, not RRF spending. (2) The percentages are based on the national grant sizes estimated by Darvas et al. (2021), and the percentages in brackets are based on the size of submitted NRRPs. The calculation of the IPCEI share of the overall NRRP for Italy excludes the country's loan component. (3) The values in the column "IPCEI share of GDP" should only be interpreted in relative terms, as these numbers are multiplied by a factor of 100,000 for better readability.

Sources: Darvas et al. (2021), Eurostat (2022), own analysis of data on IPCEI spending derived from NRRP Council Implementing Decisions, related annexes and Commission Staff Working Documents.

Second, there are also major differences between NRRPs regarding the earmarking of funds. Only four of the analysed NRRPs have dedicated spending posts for specific IPCEIs (Austria, France, Germany, Italy). Germany, for example, earmarks 1.5 billion euro for the hydrogen IPCEI, another 1.5 billion euro for the second microelectronics IPCEI and 750 million euro for the cloud systems IPCEI. France and Italy earmark a spending post in their NRRPs for the hydrogen IPCEI, while Austria dedicates RRF grants to both the hydrogen and microelectronics IPCEIs. For three member states (Finland, Latvia, Slovenia), it was difficult to ascertain whether specific spending posts in their NRRPs would be exclusively earmarked for IPCEIs because of vague or ambiguous language in their respective plans. The NRRPs of Belgium, Czechia, Spain, Romania and Slovakia, finally, have spending posts that will be used for the funding of IPCEIs but also for various other investments. For these five countries, it is very difficult to identify actual IPCEI spending which might constitute only a fraction of the relevant spending posts. Due to this fact, the spending data should be taken with a grain of salt, at least for all those NRRPs in which IPCEI spending is not earmarked in detail. In addition, in several plans (Czechia, Latvia, Slovakia, Slovenia, Spain) individual spending envelopes that can include IPCEI spending are so broad that they can finance up to all of the three IPCEIs – hydrogen, microelectronics and cloud systems.

Third, NRRPs also differ on the composition of supported IPCEIs. While at least four new IPCEIs are going to be pre-notified or notified in the first half of 2022, only three concrete IPCEIs are mentioned in the various NRRPs: the upcoming IPCEIs on hydrogen, microelectronics and cloud systems. Four member states use RRF money to fund all three of these IPCEIs (Germany, Italy, Latvia, Spain), six member states provide funding for two specific IPCEIs (Austria, Belgium, Czechia, Finland, Slovenia, Slovakia) while two member states only address one IPCEI (France, Romania). Overall, eight countries use the European Recovery Plan to finance the IPCEI on hydrogen, 11 countries the IPCEI on microelectronics and seven countries the IPCEI on cloud systems. Interestingly, there is a quite marked difference between different country groups.

Table 3 | Spending for individual IPCEIs in NRRPs (euro)

Country	IPCEI hydrogen	IPCEI microelectronics	IPCEI cloud systems
Austria	125 million	125 million	
Belgium	387.2 million	252 million	
Cyprus			
Czechia		181.64 million	
Germany	1.5 billion	1.5 billion	750 million
Denmark			
Greece			
Estonia			
Spain	1.555 billion	500 million	
Finland	156 million	15 million	
France	1.275 billion		
Croatia			
Ireland			
Italy	1.5 billion		
Lithuania			
Luxembourg			
Latvia	>98 million		
Malta			
Portugal			
Romania		500 million	
Slovenia		7.5 million	
Slovakia		73.5 million	

Notes: Spending envelopes for IPCEIs and the extent of their earmarking. Dark blue indicates full earmarking of a specific spending post for IPCEIs, light blue indicates possible/likely earmarking, white indicates that IPCEI spending is mentioned as part of a broader spending envelope.

Sources: Own analysis of data on IPCEI spending derived from NRRP Council Implementing Decisions, related annexes and Commission Staff Working Documents.

While the IPCEI on microelectronics is mentioned in NRRPs from across the whole EU, RRF funding for the IPCEI on hydrogen is concentrated among wealthier and western European member states. In contrast, the IPCEI on cloud systems is included more often in plans from central and eastern European member states (Table 3). While more than half of the 22 currently approved NRRPs contain IPCEI spending, the European Recovery Plan is nevertheless a partially missed opportunity for member states to address differences in capabilities. Interestingly, many smaller countries continue to not make any (explicit) use of IPCEIs, using European money to counterbalance differences in capabilities. This could, however, be related to a number of factors. First, smaller countries might not have any companies working in the field of a planned IPCEI. Second, the rules for the integration of SMEs in IPCEIs might still be insufficient to have them join IPCEIs. Third, some governments might not want to link RRF grants with ICPEIs that are still under negotiation. In cases

where participation was still not clear, member states might have refrained from earmarking funds for an expenditure post that could potentially not be executed. This point also highlights the limit of the RRF to (co-)finance IPCEIs with European funding, given that the RRF is, for now, a one-off instrument and not particularly designed to provide money for IPCEIs.

Conclusions and recommendations

This paper has highlighted the main challenges that IPCEIs, as a new form of differentiation, pose for the functioning of the Single Market. The main identified challenges are (1) differences in financial, technical and administrative capabilities between member states and (2) their enterprises, as well as (3) shortcomings in the arrangements governing the creation, implementation and evaluation of IPCEIs. These challenges are linked mainly to the nature of IPCEIs, constituting budgetary differentiation with a comparatively informal and vague governance framework. The analysis of the IPCEI communication's 2021 revision and 22 NRRPs has shown two things. First, the new communication reveals a lack of ambition on the side of the Commission to address the various challenges of IPCEIs for the functioning of the Single Market. Second, the European Recovery Plan, Next Generation EU, has been a partially missed opportunity for member states to counterbalance differences in national financial capabilities, as they could have made more use of the European grants available to them for financing IPCEIs.

Two changes are particularly pertinent to adequately address the challenges that IPCEIs, as informally governed budgetary differentiation, pose for the functioning of the Single Market. First, it is crucial to provide EU funding for the realisation of common EU objectives instead of national funding exclusively for domestic enterprises. This would facilitate dealing with the tensions between a more active industrial policy geared towards external competitiveness and the safeguarding of a level playing field inside the Single Market for internal competitiveness. The RRF has done this on a temporary basis for two broad EU goals, committing expenditure shares of 37 per cent and 20 per cent for spending in the green and digital transitions. The limited uptake of RRF grants for IPCEIs, however, also highlights the need to develop better-tailored or dedicated EU funding programmes to support IPCEIs. A permanent version of Next Generation EU or a second investment plan based on European debt with a clear funding structure for IPCEIs would be the best solution to reconcile EU competition policy and industrial policy. A similar solution to "Europeanise" the funding of IPCEIs based on national resources would be "a joint funding structure in which participating states pay into a common pot that finances projects across all countries" (Redeker 2021: 5). A different option for European funding could be developed in the context of the reform of the European fiscal framework. To remove at least institutional constraints from national IPCEI funding, exemptions of such funding from fiscal rules could be introduced in unison with stricter control of state aid handed out through IPCEIs. Such an approach would, however, only partially address the various concerns regarding the functioning of the Single Market and might not lead to sufficiently ambitious investment with regard to global competitors. In



addition to the question of funding, also the creation of technical and administrative capabilities at the European level could help to address the challenges in terms of different capabilities, supporting the set-up and implementation of IPCEIs among willing member states and enterprises.

Second, the existing IPCEI framework is in need of a more ambitious overhaul, rather than incremental changes, to address challenges regarding the inclusion of smaller member states and SMEs, as well as the overall process and its transparency to achieve the necessary accountability and legitimacy of IPCEIs in the long term. Even following the 2021 revision of the IPCEI communication, the creation, implementation and evaluation of IPCEI remains largely an ad hoc exercise in which certain member states and/or large enterprises can play a defining role for the (non)participation of other actors. The modifications in the IPCEI communication fall short of ensuring a more coherent and inclusive approach for participation in the governance of IPCEIs. The current set-up of the IPCEI framework with national funding going to domestic enterprises incites the creation of an unlevel playing field and can only be counterbalanced if the Commission or another European body takes over the development of individual IPCEIs. Together with European funding handed out to the most compatible and eligible enterprises, such a governance approach would be the best suited to reduce the tensions between EU competition policy and industrial policy.

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EU Integration and Differentiation
for Effectiveness and Accountability

Differentiation has become the new normal in the European Union (EU) and one of the most crucial matters in defining its future. A certain degree of differentiation has always been part of the European integration project since its early days. The Eurozone and the Schengen area have further consolidated this trend into long-term projects of differentiated integration among EU Member States.

A number of unprecedented internal and external challenges to the EU, however, including the financial and economic crisis, the migration phenomenon, renewed geopolitical tensions and Brexit, have reinforced today the belief that **more flexibility is needed within the complex EU machinery**. A Permanent Structured Cooperation, for example, has been launched in the field of defence, enabling groups of willing and able Member States to join forces through new, flexible arrangements. Differentiation could offer a way forward also in many other key policy fields within the Union, where uniformity is undesirable or unattainable, as well as in the design of EU external action within an increasingly unstable global environment, offering manifold models of cooperation between the EU and candidate countries, potential accession countries and associated third countries.

EU IDEA's key goal is to address **whether, how much and what form of differentiation is not only compatible with, but is also conducive to a more effective, cohesive and democratic EU**. The basic claim of the project is that differentiation is not only necessary to address current challenges more effectively, by making the Union more resilient and responsive to citizens. Differentiation is also desirable as long as such flexibility is compatible with the core principles of the EU's constitutionalism and identity, sustainable in terms of governance, and acceptable to EU citizens, Member States and affected third partners.



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