

THE ENVIRONMENTAL BIAS OF INDUSTRIAL POLICY

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Abstract

We take stock of the current practices of industrial policies in the EU. We show that industrial policies in the EU on average favour more emission intensive sectors over less emission intensive sectors, and more emission intensive firms over less emission intensive firms. On average, between 2016 and 2019, each additional tonne of carbon was awarded a support premium of one Euro. We show that this emissions premium does not derive from grants which are more likely to help firms transition toward cleaner production technologies, but from tax advantages. This premium has the potential to substantially decrease incentives set by carbon pricing. We find that the emissions premium inherent in the EU's industrial policies is neither explained by heavier lobbying of emission intensive sectors and firms, nor by higher employment, trade exposure, or upstreamness.

Keywords: Industrial Policy, Carbon Emissions, Manufacturing

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