Toward a Sustainable European Industrial Policy: Tools and Levers

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Executive Summary

At the request of the President of the European Commission, Mario Draghi published in September 2024 a report entitled "The Future of European Competitiveness," aimed at informing the agenda of European institutions for the 2024–2029 mandate. **Warning against European economic "decoupling," the former President of the European Central Bank calls for a more assertive economic policy, notably in industrial policy**, to equip the European Union (EU) with an economy capable of addressing the challenges of strategic autonomy and decarbonisation in a fundamentally disrupted global context.

More than a year after the publication of the Draghi report, presented as the compass of the second Von der Leyen Commission, this note takes stock of European industrial policy and charts a path towards a more coherent and sustainable industrial policy.

The Draghi report continues to guide the Commission's work and symbolises a broad consensus on the need for a common European response to economic, geopolitical and technological shocks. But this apparent consensus is fragile: political ambition runs up against deep disagreements between Member States on key issues such as investment financing, energy policy and EU trade protection.

The "Draghi moment" marks the abandonment of many Green Deal objectives that had characterised the first Von der Leyen Commission. The report focuses on competitiveness and addresses decarbonisation only through that lens, without examining potential conflicts of objectives and by recommending maximum reduction of European regulations governing industrial activities. Environmental and social issues are either sidelined or presented as normative and regulatory constraints on industrial development.

Despite maintaining the course towards decarbonisation, the Commission's initial initiatives reflect and amplify these imbalances: decisions unfavourable to the climate, environment and social justice; a shift from necessary "simplification" to deliberate deregulation in favour of short-term competitiveness logic; and roadmaps that neglect environmental and social issues while key legislative texts are delayed.

Yet despite this sweeping rollback, the EU is no closer to its central objectives of strategic autonomy and competitiveness.

Nonetheless, tools already exist, have been announced or are being developed. This note analyses their potential to redirect European industrial momentum towards the dual objective of ecological transition and strategic autonomy, while taking economic constraints into account.

To build lasting European competitiveness — capable of navigating the new international context, resisting pressure from other powers, and integrating environmental and social imperatives — several actions are priorities:

- Organise the governance of European industrial policy by integrating economic, environmental and social issues to build future competitiveness on sustainable foundations;
- Strengthen the social and environmental conditionalities of industry support schemes;
- Avoid subsidy races between Member States and promote European cooperation on strategic industrial projects oriented towards ecological transition, such as small electric vehicles;
- Introduce environmental, social and local content criteria across all public support for European industry;
- Make full use of the new trade defence tools and develop a new doctrine for revising multilateral trade rules;
- Implement ambitiously all the instruments of the "Green Shield" (Carbon Border Adjustment Mechanism, EUDR, CS3D, forced labour regulation, ecodesign regulation, etc.) and progressively extend them;
- Strengthen European common financing and direct investments through coordinated programmes (EIB, ECB).

List of Abbreviations

LCA	Life Cycle Assessment
ECB	European Central Bank
EIB	European Investment Bank
EC	European Commission
CEEAG	Climate, Energy and Environmental Aid Guidelines 2022
CISAF	Clean Industrial State Aid Framework
CS3D	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
CTIP	Clean Trade and Investment Partnership
DNSH	Do No Significant Harm
ESG	Environmental, Social and Governance criteria
ESPR	Ecodesign for Sustainable Products Regulation
ETS	European Trading System
GATT	General Agreement on Tariffs and Trade
LNG	Liquefied Natural Gas
I4CE	Institute for Climate Economics
AI	Artificial Intelligence
IED	Industrial Emissions Directive
IMPI	International Procurement Instrument
IRA	Inflation Reduction Act
CBAM	Carbon Border Adjustment Mechanism
ESM	European Stability Mechanism
MtCO2e	Million tonnes of CO2 equivalent
MWh	Megawatt-hour
OECD	Organisation for Economic Co-operation and Development
WTO	World Trade Organization
NGO	Non-Governmental Organisation
PFAS	Per- and polyfluoroalkyl substances (forever chemicals)
GDP	Gross Domestic Product
IPCEI	Important Project of Common European Interest
SME	Small and Medium-sized Enterprise
R&D	Research and Development
EUDR	EU Deforestation Regulation
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
GBER	General Block Exemption Regulation
STEP	Strategic Technologies for Europe Platform
SUV	Sport Utility Vehicle
TCTF	Temporary Crisis and Transition Framework
EU	European Union
SIU	Savings and Investments Union

Where is European Industrial Policy Heading?

One year after its publication, the Draghi report on the future of European competitiveness remains the political compass of the Von der Leyen Commission. A symbol of broad consensus on the need for an ambitious common response to economic, geopolitical and technological shocks, it has permeated the Commission's entire programme, from the Commissioners' mission letters to the Clean Industrial Deal presented in February 2025.

In the wake of the Letta report published a few months earlier, Mario Draghi — former Italian Prime Minister and President of the European Central Bank from 2011 to 2019 — diagnosed a "decoupling" of the European Union from the United States and China in terms of growth and competitiveness. The causes: a missed turn in the first digital revolution and the absence of a genuine industrial policy at the Community level.

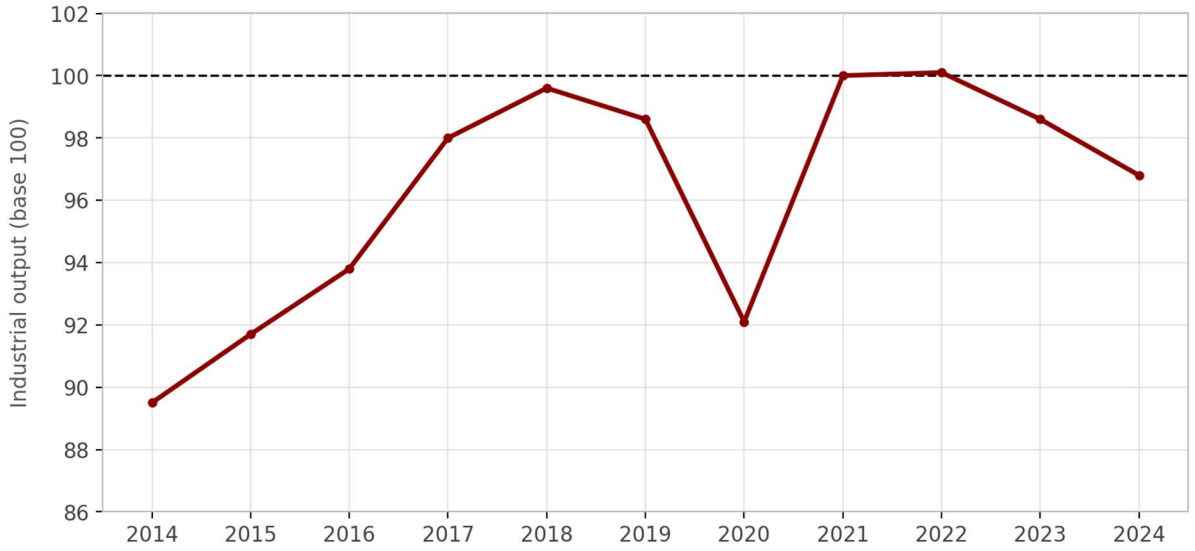
To meet these challenges, the report advocates for a more active, better-coordinated economic policy drawing on a much wider range of tools than currently exists: administrative simplification, massive investment, sector-specific support, diversification of trade policy instruments, relaxation of the State aid framework, and mobilisation of public procurement as a genuine strategic lever.

Europe's Weakening Industrial Base

The report appears against a backdrop of industrial weakening on the continent. The European Union remains an industrial power and a net exporter of goods, but the trends are worrying. Manufacturing output fell by 2% in 2024 compared to 2023 (after -1.4% the previous year), dropping below pre-Covid levels. Early 2025 indicators pointed to a very fragile recovery, quickly reversed by a new decline and the announcement of US tariffs.

More worryingly, Europe is weakening in its core sectors. Of the five largest European industrial sectors (food products, chemicals, metal products, machinery and equipment, motor vehicles), only the first two are holding up, while the other three all saw output declines between 2023 and 2024. Germany, which accounts for 26% of European industrial output, saw its production index fall by 5.4 points since 2023 — an unprecedented deindustrialisation linked to Chinese competition, energy price exposure and structural difficulties in investment sectors. Italy (14% of output) suffered a 4.7-point decline, while France (12%), starting from a lower base, fared relatively better despite a wave of factory closures.

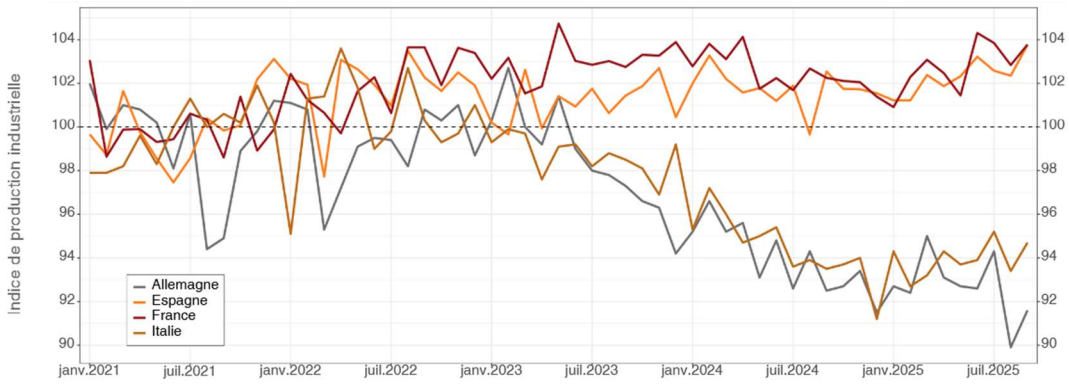
Figure 1: European industrial output at its lowest level since the Covid crisis



Note: Change in the value of industrial output sold in the EU, 2014–2024 (base 2021 = 100).
European Union excluding Cyprus, Luxembourg, Malta.
Source: Eurostat (data code DS-056120)

These difficulties translate into concrete job losses: in Germany alone, 50,000 jobs were lost in the automotive sector in 2024, and 250,000 in the entire manufacturing sector since 2019. Meanwhile, value chains are being reorganised, with German carmakers now all investing in electric vehicle production sites in Hungary, where Chinese battery manufacturers are also establishing a major presence.

Figure 2 : Les industries allemandes et italiennes décrochent



Note : Indice de production industrielle dans l'industrie manufacturière. Base 100 en 2021. Derniers points :janvier 2025 pour la France, l'Allemagne et l'Espagne, décembre 2024 pour l'Italie.
Lecture : en France, en janvier 2025, l'indice de production industrielle dans l'industrie manufacturière se situe 0.3 point au-dessus de son niveau moyen de 2021.
Source : Insee (2025) : "Désordre mondial, croissance en berne", Note de conjoncture, mars.

A Superficial Consensus

At its release, the Draghi report attracted a relative consensus around a shared diagnosis of European decoupling, or at least of a serious and multifaceted threat. The year since publication

has only reinforced the findings and challenges identified. From east to west, the EU faces mounting headwinds on multiple fronts: the Sino-American rivalry, the war in Ukraine, trade threats, and geopolitical tensions.

Faced with the industrial emergency, the European Union must provide a coordinated response, but diverging economic interests between Member States, successive crises — both health-related and geopolitical — and the new European political landscape, shifting decisively to the right and far right in Parliament in particular, make this task especially difficult. These divisions are further exacerbated by mounting external pressures: Sino-American rivalry, the war in Ukraine, trade threats, and geopolitical tensions.

It is within this constrained framework that the European Commission has rolled out successive action plans: following the "Green Deal Industrial Plan" under the first mandate (2019–2024), it published the "Clean Industrial Deal" under the second (2024–2029), with a series of measures aimed at supporting demand, supply and innovation, capitalising on the relative consensus around Draghi's diagnosis. The stated ambition is to achieve a coherent European policy mix, combining several elements: a choice of strategic sectors to set a direction for the economy, a supply-side policy, a demand-side policy, and external trade protections.

Several of these initiatives explicitly aim to support key sectors of the energy transition (renewable energy, low-carbon mobility, etc.) and are intended as a lever to boost investment and stimulate the Union's industrial competitiveness. Other actions are also more directly targeted at traditional industrial sectors (steel, automotive, chemicals...) in a more vertical, sector-specific approach to industrial policy. But this consensus is only superficial, and political ambition runs up against deep disagreements between Member States on key issues such as investment financing, energy policy and EU external protection measures. Moreover, their economic and political interests diverge depending on the industrial sectors they have developed or are seeking to establish. Above all, by seeking the lowest common denominator and basing its action on a partial vision of European competitiveness, the Commission is durably weakening the achievements of the Green Deal

The Weakening of the Green Deal

While the Draghi report does not explicitly mention the Green Deal, the “Draghi moment” marks the abandonment of many objectives that had defined the first Von der Leyen Commission. Draghi focuses on competitiveness and addresses industrial decarbonisation solely through that lens, without discussing the risks of conflicting objectives.

« The EU’s sustainability reporting framework and due diligence framework is a major source of regulatory burden »

Mario Draghi, The Future of European competitivness, Part B, Section 2, Chapter 5

Simplification and harmonisation of European procedures and legislation run throughout the report. It is undeniable that many regulatory inconsistencies exist within the EU, and that the diversity of procedures between Member States weighs more heavily on European companies’ competitiveness than on their American or Chinese counterparts. But the Draghi report goes well

beyond simplification: it calls for genuine environmental deregulation and treats all environmental and social regulations and directives as "burdens."1

The former Italian Prime Minister thus recommends weakening the REACH regulation, introducing exemptions for PFAS in clean technologies, revising the precautionary principle, exempting industrial projects from specific environmental impact assessments, and relaxing the directives on biodiversity and water to accelerate the deployment of energy infrastructure. This agenda — sliding from simplification towards deregulation — is a long-running battle waged by industry lobbyists, particularly those representing the chemical industry, who welcomed the fact that the Draghi report took up their demands with such thoroughness.

The Choice of Deregulation

In practice, priority is given to deregulation in the name of economic interests. The Commission's first initiatives reflect a slide from necessary administrative "simplification" towards genuine deregulation, with a gradual erosion of Green Deal achievements that clearly represents a trade-off unfavourable to the environment. The most emblematic setbacks are the "Omnibus" packages — legislative vehicles that bundle multiple modifications or revisions of existing texts into single proposals. In less than a year, ten such packages have been published by the Commission. The eighth Omnibus on the environment, published on 10 December 2025, incorporates all of Draghi's proposals, including the removal of numerous industrial emissions reporting obligations for companies, the weakening of texts governing battery production, packaging and waste obligations. This revision of recently adopted texts — most of which had not yet entered into force — also affects "Green Shield" instruments designed to protect the EU from environmental and social dumping by third countries (CS3D, EUDR, CBAM…).

"We all agree: we need simplification and deregulation. At the European level, but also at the national level, where there is gold-plating. I hope that with the Omnibus packages, we are setting an example for others to follow."

Ursula von der Leyen, President of the European Commission, 1 October 2025, at the Copenhagen Summit

Strategic Autonomy: Still Out of Reach

Paradoxically, the Union is no closer to its stated central objectives of strategic autonomy and competitiveness, as concrete measures remain below the level of economic intervention advocated by Draghi. The political deal struck with the US under tariff pressure — providing for a tripling of energy imports (oil, LNG and nuclear) — runs counter to the EU's decarbonisation objectives with no gain in terms of energy sovereignty or even price stabilisation, given the particularly volatile LNG market.

1 The European legislation referred to in the report includes: i) the Corporate Sustainability Reporting Directive (CSRD); ii) the Taxonomy Regulation, in particular its "Do No Significant Harm" (DNSH) assessment; iii) the Sustainable Finance Disclosure Regulation (SFDR); iv) the Corporate Sustainability Due Diligence Directive (CS3D); v) the Ecodesign for Sustainable Products Regulation (ESPR); vi) the Industrial Emissions Directive (IED); vii) the Emissions Trading System (ETS); and viii) the REACH Regulation.

More broadly, Europe is failing to implement a central idea from the Draghi report: the active use of tools to better protect its strategic sectors vis-à-vis the outside world. This is illustrated by, among other things, the abandonment of the digital giant tax and regulations that would allow European startups to compete with American companies. The EU's June 2025 decision, together with other G7 members, to exempt American companies from unilateral application of the minimum corporate tax agreed at the OECD in 2021, also deprives the 27 of a key instrument to combat fiscal dumping.

Through these initial initiatives, the Commission is seeking to respond to the immediate emergency without preparing for the future or setting a lasting direction. A major blind spot concerns in particular the absence of planning built around real needs and sobriety objectives. No significant mechanism is envisaged to integrate demand-reduction policies, even though in the energy sector, efficiency, demand flexibility and sobriety are widely recognised as indispensable levers for meeting climate objectives and achieving the continent's energy autonomy. By continuing to think about industry solely through the lens of supply, technology, investment and production capacity — without questioning volumes produced, end uses or the prioritisation of needs — the new European industrial policy risks reproducing the dead ends of the productivist model of past national policies.

Furthermore, the social dimensions, which were nonetheless important in the original Green Deal, are now marginal: workers receive little consideration and sectoral transitions are left unplanned. The Clean Industrial Deal provides for only a handful of non-binding initiatives (the Quality Jobs Roadmap, the EU Fair Transition Observatory). The Just Transition Fund, designed to support employment in territories heavily dependent on fossil fuels, also risks not being renewed in the next European budget for 2028–2034.

The initial imbalances of the Draghi report have thus been further amplified by a Commission under pressure from short-term interests — geopolitical ones, certainly, but also domestic political ones, driven by the shift to the right and far right in the European Parliament and in most national governments.

Building a Safe and Sustainable Europe

The European industrial momentum does, however, open a political window of opportunity. It pushes the Union towards greater pragmatism, relaxes competition doctrine and encourages a more strategic use of European economic power. Potential synergies exist: making sobriety a strategy for autonomy, making energy transition an industrial direction, and building virtuous cooperation as a lever for resilience.

This note examines the real coherence and effectiveness of the proposed policy mix, and formulates proposals so that the EU can reconcile its climate, environmental and competitiveness objectives. It addresses two challenges: a political challenge, to overcome European fragmentation by developing flexible cooperation instruments; and a temporal challenge, to articulate urgency and vision by building multidimensional governance tools that go beyond short-term economic or competitiveness criteria.

A Promising but Incomplete New European Interventionism

The State Aid Framework: Necessary Relaxation to Be Continued and Directed

The Clean Industrial State Aid Framework (CISAF), adopted in June 2025 and applicable until 2030, is the first concrete measure of the European Clean Industrial Deal. It relaxes the rules governing national public support for investments in renewable energy, batteries, industrial electrification and energy efficiency measures, by simplifying eligibility conditions and broadening the scope of aid.

The CISAF largely extends and makes permanent the Temporary Crisis and Transition Framework (TCTF), initially created to respond to the Covid-19 crisis and later extended during the 2022 energy crisis. While the TCTF aimed to immediately reduce energy costs for European businesses to maintain competitiveness, the CISAF redirects this support towards structural decarbonisation investments that will reduce energy costs in the long term. This marks a significant break with the strictly competition-focused framework that previously prevailed: whereas any public intervention was scrutinised for its distortive effects on the single market, State aid — which amounted to €230 billion in 2022, of which over €40 billion for environment and energy — now becomes a central tool of industrial and ecological transition policy.

The CISAF targets five priority areas of the Clean Industrial Deal, and introduces several major relaxations compared to existing frameworks. It allows a variety of aid forms (grants, tax credits, accelerated depreciation, guarantees), giving Member States greater flexibility in designing their schemes. It also simplifies procedures through compatibility criteria and standardised templates. Notably, the CISAF strongly encourages Member States to integrate European preference criteria into their award procedures — the appearance of this notion in European texts marks a major turning point. Aid intensities are raised for certain strategic projects (up to 45% for renewable energy, 65% for SME-led projects), with the possibility of cumulation under certain conditions.

Conditionality: Moving up a Gear

Aid aimed at reducing current electricity prices is conditional — a second major shift. It must be temporary (under three years) and comply with the 4x50 rule: cover at most 50% of total consumption, not represent a reduction of more than 50% below market price, and not result in a price below €50/MWh. Above all, 50% of the aid granted must be reinvested in decarbonisation, meaning energy efficiency improvements, renewable installation, and demand flexibility tools.

The principle is promising: linking immediate business support to structural investments that will sustainably reduce energy costs in Europe. However, the CISAF permits investments "via third parties" without providing for ex post verification to ensure that investments made under this framework benefit the most economically and socially priority projects, or that they will genuinely contribute to reducing fossil dependence and lowering electricity prices across Europe.

Compared to previous frameworks, the technological scope covered is broader. Overall, the conditions associated with the aid scheme are geared towards accelerating decarbonisation, broadly including renewable energy and all electrification projects that were already part of earlier frameworks. However, the inclusion of technologies such as carbon capture, hydrogen produced from renewable electricity, hydrogen produced from fossil fuels with carbon capture, and low-carbon fuels (also produced via carbon capture technology) — without any marked orientation towards energy efficiency and sobriety — prolongs fossil fuel dependence, given that

the contribution of these technologies to combating climate change is limited and their deployment may prove counterproductive in many situations. The framework also includes aid for investment projects based on natural gas, as a replacement for other more polluting processes. In this context, the conditionality of such aid proves to be an indispensable tool for strategically directing resources.

"In the realm of industrial policy and ecological transition, aid conditionality is a tried-and-tested, adaptable tool for aligning public and private interests."

The framework contains other promising elements, in particular the authorisation of specific support for circular economy projects and the recommendation to Member States to attach social and fiscal conditionalities to aid. These provisions, if effectively implemented and strengthened, constitute a solid foundation for aligning private interests with public objectives2. In the realm of industrial policy and ecological transition, aid conditionality is a tried-and-tested, adaptable tool for aligning public and private interests. Yet public subsidies and support are currently subject to only very weak requirements in terms of governance, environmental impact or local reinvestment, and the European Union should go further to guarantee this alignment. The social conditionality of public support should not be optional and should include at minimum compliance with collective agreements and labour law, but also guarantees regarding the quality of social dialogue and investment in worker training and retraining, as well as irreproachable tax behaviour.

Aligning Public Support with Strategic Transition Priorities

The CISAF focuses on the energy domain. Simplification and expansion of the framework does not yet extend to other essential aspects of public support, particularly investments in and operation of infrastructure indispensable to decarbonisation, such as rail and freight development[3]. The Commission's shift towards a strategic and targeted use of State aid could broaden to allow more pragmatism where all-competition is not necessarily the most efficient mode of organisation, as the Draghi report underlines.

This is undoubtedly the stake of upcoming revisions to other public aid frameworks, starting with the General Block Exemption Regulation (GBER), which details the specific categories of aid compatible with the Treaties under certain conditions, thereby exempting them from prior notification and Commission approval. The articulation between the various aid regimes coexisting within the Union will also need to be clarified — with respect to the GBER, but also with regard to the other European frameworks governing State aid: the framework for State aid for research, development and innovation, the Climate, Energy and Environmental Aid Guidelines (CEEAG), the guidelines for regional State aid, and the IPCEI framework.

Initiating a Strategic Audit of Public Support

More generally, it would be useful to carry out a comprehensive review of all public support to companies and industries, for two reasons. First, to have a precise picture of actual amounts: a significant share of this support is not directly recorded in the European Commission's scorecard

2 Mazzucato, M., & Rodrik, D. (2023). *Industrial policy with conditionalities: a taxonomy and sample cases*, Working paper, Institute for Innovation and Public Purpose.

3 Fret SNCF was forced to split into two entities (Technis for maintenance, Hexafret for freight) in January 2025. This dissolution was the European Commission's sanction for €5.3 billion in unlawfully received State aid between 2007 and 2019 (via the parent company SNCF, mainly through debt write-offs), in violation of competition rules for the rail freight market opened since 2005. In 2024, the operator had already ceded 30% of its most profitable activity to competitors and reduced its workforce by 10% (approximately 5,000 positions), despite a financial recovery from 2021.

(status of tax aids, various exemptions). Their tracking is difficult due to the proliferation of schemes and the opacity of some allocations. Second, categorising these aids according to their contribution to strategic objectives should be a minimum: are they favourable or unfavourable to decarbonisation and transition in general? A classification based on the European taxonomy could be envisaged. These priorities need to be defined precisely and collectively to better align public support with the public interest.

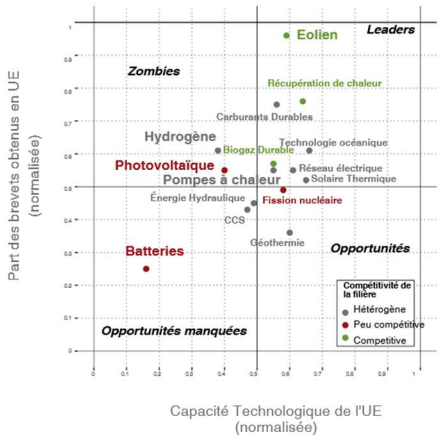
Above all, the effectiveness of the CISAF for decarbonisation will depend on robust monitoring and on the capacity of industries to meet the conditions set, as well as on the ability of Member States to enforce them. Strengthening monitoring and oversight should therefore be a priority. The Commission should work to make these conditions more binding to ensure the economic and social returns on these aid schemes, and provide greater resources within European and national bodies for the harmonised monitoring and evaluation of such aid.

Strengthening Governance and Oversight

As key elements of any industrial policy, the governance of European industrial policy must incorporate social and environmental criteria — multidimensional and not solely focused on short-term competitiveness — at minimum in the choice of strategic sectors. Draghi attempts to classify economic sectors according to the opportunities they represent, and proposes pragmatic, differentiated support. However, the methodological choice is critical: depending on the approach adopted, some technologies change category. Solar and batteries, though less competitive, remain strategically essential and would receive support in the I4CE analysis, whereas they would be considered sunset sectors in the European Commission's analysis. The difference has major consequences for the direction of public support and the definition of industrial priorities.4

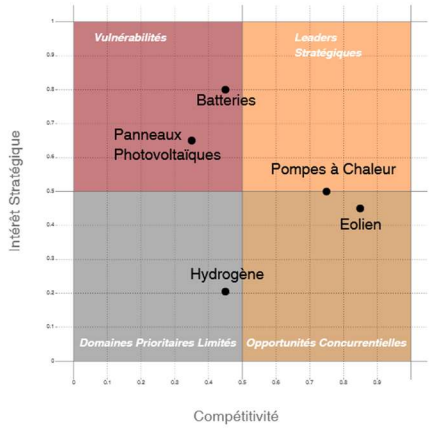
Figure 3 : Des méthodologies différentes pour identifier les secteurs stratégiques mènent à des choix différents

3.A.



Source : Albora et al. (2025)

3.B.



Source : Humpreys et al. (2025)

4 See Albora, G., Benoit, F., Caldarola B., Di Girolamo, V., Diodato, D. et al. (2025): *Path to innovation: an Economic Complexity analysis of technological perspectives in the EU — Advanced Materials*, Publications Office of the European Union, Luxembourg, 2025; and Humphreys, C., Schneider, E., and Henry, C. (2025): *The Competitiveness Coordination Tool: How to make better choices in clean industrial policy*, Institute for Climate Economics, October 2025.

Joint Projects as a Lever for European Industrial Coordination

The relaxation of the State aid framework, while necessary, nevertheless poses several risks for the effectiveness of European industrial policy, foremost among which is a worrying fragmentation of resources.

Between March 2022 and June 2023, under the TCTF regime, the 27 Member States mobilised a total of €730 billion to support households and businesses — a colossal amount that rivals US Inflation Reduction Act investments. But this financial capacity remains theoretical: the distribution is extremely uneven. Germany alone accounts for nearly 50% of expenditure, a share that rises to 73% when France is added. This asymmetry illustrates a structural divide: States with the greatest fiscal room for manoeuvre naturally favour a decentralised approach, while others call for common investments to at least partially bridge territorial development gaps.

Yet, in this fragmented context of dispersed efforts, one of the key challenges lies precisely in the effective mobilisation and deployment of the financing needed for the transition. The risk of resources being spread thinly and unstrategically across industries, sites and companies is real. The CISAF does allow for territorial flexibility to target disadvantaged regions, and a provision prohibits making aid conditional on the relocation of activities within the EU, thereby limiting unfair competition between Member States — but this seems clearly insufficient in the face of the coordination challenge that a European industrial policy represents.

"For certain strategic investments, the pooling of expenditure by Member States sharing common interests is a promising path for effective and targeted support."

In practice, the first two countries to have made use of the CISAF are France — for contracts covering three offshore wind farm projects worth an estimated €567 million per year over 20 years (totalling €11.3 billion) — and Italy, for investment projects worth €200 million in the Lazio region and €65 million in Emilia-Romagna. In Germany, Chancellor Friedrich Merz announced on 13 November 2025 an electricity price reduction scheme for energy-intensive German industries, estimated at between €3 and €5 billion based on the CISAF. In the absence of European coordination on wholesale electricity prices, Italian industries — in direct competition with German plants — could be severely affected.

To avoid harmful aid dispersal, increased competition between Member States and ineffective scattering of resources, the Draghi report emphasises the need for greater coordination and even calls for the progressive integration of certain national expenditures into enhanced and clarified European programmes. For certain strategic investments, the pooling of expenditure by Member States sharing common interests is a promising path for effective and targeted support. The European Union already has a useful tool in this regard: Important Projects of Common European Interest (IPCEIs). However, some adjustments would be necessary to fully exploit their potential within the framework of an industrial policy underpinned by the objective of sustainability.

Important Projects of Common European Interest (IPCEIs)

Introduced with the Treaty of Rome in 1957, strengthened in 2014 and used strategically above all since 2018, IPCEIs constitute a derogatory instrument to European competition law. They allow Member States to jointly support large-scale industrial projects where a market failure has been demonstrated.

To be eligible, an IPCEI must bring together at least four Member States in cooperation with companies, and must involve a sector at the technological frontier with significant spillovers for the European economy. To date, ten IPCEIs have been approved, concentrated on five strategic areas: batteries (including the European Battery Alliance), hydrogen, semiconductors, cloud and health, for a total of €37 billion in approved public aid. An eleventh is being finalised to support the artificial intelligence sector.

Increasing IPCEI Use

The Draghi report recommends greater pooling and refocusing of Member States' budgetary capacities, notably through wider deployment of IPCEIs. But despite their potential, IPCEIs present several limitations that hamper their strategic deployment in service of ecological transition.

The current IPCEI architecture reflects the Commission's objective of positioning Europe as a technological leader in tomorrow's markets. In practice, this translates into a near-exclusive focus on the most R&D-intensive phases. Yet this approach neglects a crucial step: the transition to industrial scale. The application of an innovation, its transposition into the real world and its industrialisation are nonetheless essential links in the value chain which, without adequate support, risk breaking — or being offshored.

The economic and ecological benefits of the rapid deployment of mature technologies, whose manufacture is controlled in Europe, would justify devoting more of PIIEC to incremental innovation and process innovation, and not exclusively to disruptive innovation. As underlined by professional organisations such as CleanTech for Europe, the development of 'leading' decarbonisation technologies is currently hampered by a critical lack of support for scaling up. The link between innovative industries and basic industries, which is crucial to the development of sovereign value chains, remains largely overlooked. As a result, European clean technology companies often have no choice but to turn to Chinese or other competitors to industrialise their innovations.

The current legal framework still requires a demonstration of 'market failure' to justify a PIIEC and access to public aid. The 2021 guidelines represent a step forward by introducing the notion of 'systemic failures' (2021/C 528/02 Article 3.2.1 $15), but this strictly competitive approach struggles to integrate the many positive externalities — environmental, social, security of supply — specific to the strategic sectors of decarbonisation. This approach artificially limits the scope for legitimate intervention and reflects an excessive reliance on the market.

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	Participating companies	Number of projects	Approved State aid (€ bn)	Expected private investment (€ bn)	Participating Member States
First IPCEI on Microelectronics (2018)	29	43	1.9	6.5	FR DE IT GB AT
First IPCEI on Batteries (2019)	17	23	3.2	5.0	FR DE BE FI IT PL SE
Second IPCEI on Batteries – EuBatIn (2021)	42	46	2.9	9.0	FR DE AT BE HR FI GR IT PL SK ES SE
First Hydrogen IPCEI – Hy2Tech (2022)	35	41	5.4	8.8	FR DE AT BE CZ DK EE FI GR IT NL PL PT SK ES
Second Hydrogen IPCEI – Hy2Use (2022)	29	35	5.2	7.0	FR AT BE DK FI GR IT NL PL PT SK ES SE NO
Second IPCEI on Microelectronics & Communication Tech. (2023)	56	68	8.1	13.7	FR DE AT CZ FI GR IT IE MT NL PL RO SK ES
IPCEI on Next Generation Cloud Infrastructure & Services (2023)	19	19	1.2	1.4	FR DE HU IT NL PL ES
Third Hydrogen IPCEI – Hy2Infra (2024)	32	33	6.9	5.4	FR DE IT NL PL PT SK
Fourth Hydrogen IPCEI – Hy2Move (2024)	11	13	1.4	3.3	FR DE EE IT NL SK ES
IPCEI Med4Cure (2024)	13	14	1.0	5.9	FR BE HU IT SK ES
IPCEI Tech4Cure (2025)	10	10	0.4	0.8	FR HU IT SK SI

Beyond Breakthrough Innovation: Reorienting IPCEIs Towards Deployment and Sobriety

IPCEIs have several advantages in deploying a more common industrial strategy. First, they constitute a pooling tool between Member States particularly well-suited to limiting the fragmentation of national efforts and concentrating investments on priority areas. Second, they could strengthen the unity of the common market. Third, well-organised and governed, IPCEIs would enable better articulation of Member States' comparative advantages across different production phases — R&D, prototyping, industrialisation, deployment.

The scheme should also be extended to improvement of existing technologies in the direction of greater sobriety (material and energy), such as the emergence of a European industry for small, affordable electric vehicles — called for by Mario Draghi in his report and echoed by Ursula von der Leyen in her State of the Union address of September 2025.

« The EU should evaluate support for IPCEIs in the automotive sector. Scale, standardisation and collaboration will be crucial for EU manufacturers to become competitive in areas such as small and affordable European electric vehicles. »

Mario Draghi, The Future of European competitivness, Part A, p.48

« This is why we will propose to work with industry on a new Small Affordable Cars initiative. I believe Europe should have its own E-car. E for environmental – clean, efficient and lightweight. E for economical – affordable for people. E for European – built here in Europe, with European supply chains. »

Ursula von der Leyen, State of the Union address, 10 septembre 2025

Making Public Procurement a Lever for Industrial Transformation

Public Procurement: An Under-Exploited Strategic Lever

Public markets represent 15% of EU GDP and constitute a considerable but still largely untapped lever for orienting the economy towards ecological transition objectives, while also strengthening resilience and supporting the development of tomorrow's industry in Europe. Despite commitments to reduce emissions across all sectors, more than half (55%) of contracts awarded under this framework are allocated on price alone, without consideration of other objectives.

Public procurement constitutes first and foremost a direct lever for reducing the environmental footprint by orienting towards sustainable products and services. Beyond this immediate effect, it has three major strategic assets: it allows integration of environmental, social and territorial criteria to favour the most virtuous production modes; as a reference buyer, the public sector also shapes producers' strategies and influences private actors' purchasing behaviour; finally, it constitutes a genuine instrument of industrial policy and innovation, capable of structuring the development of emerging sectors and accelerating the maturation of promising technologies.

As the Draghi report notes, European public markets are today highly fragmented. This dispersion limits their capacity to create lead markets and leads, out of legal prudence, to the systematic prioritisation of the price criterion. This fragmentation generates additional costs for public finances and creates a supply-demand mismatch that increases the vulnerability of supply chains. At the European, national and local levels, public procurement remains insufficiently aligned with social and environmental objectives.

Several recent developments point to a growing awareness. The IMPI Regulation (2022) and the Foreign Subsidies Regulation (2022) now make it possible to exclude bids deemed distortive. The Net-Zero Industry Act (2024) introduces non-economic criteria: a more sustainable or more resilient offer may be preferred over the cheapest one, taking into account in particular environmental performance, energy integration or reduced dependence on a dominant supply source.

In her 2024–2029 political guidelines, Ursula von der Leyen — taking up a Draghi report recommendation to make more strategic use of public markets — announced a revision of the public procurement directives. This aims to allow, in certain strategic sectors, a European preference and a simplification of the rules. The Commission has already launched the evaluation of the three directives governing public procurement: on the award of concession contracts (2014/23/EU), on public procurement (2014/24/EU), and on procurement by entities operating in the water, energy, transport and postal services sectors (Directive 2014/25/EU). The Clean Industrial Deal published in February 2025 confirms this ambition, which is to be translated into the Industrial (Decarbonisation) Accelerator Act, by integrating non-price criteria (resilience, local content, sustainability, circularity, cybersecurity) into public procurement. The Commission President reaffirmed in September 2025 the intention to introduce a "Made in EU" criterion into public procurement, the definition of which remains to be determined.

Generalising Green Public Procurement as a European Standard

The EU already has green public procurement criteria for 14 product and service groups: buildings, transport, collective catering, etc. These criteria, available in “essential” and “comprehensive” versions, remain optional and their application varies considerably between Member States. To truly transform public procurement into a transition lever, three changes appear necessary.

The EU must nonetheless go further. A study by Carbone 4 analyses the impact of a "Buy European and Sustainable Act" prescribing a minimum threshold of European content and a maximum greenhouse gas emissions threshold for products purchased in public markets. Had this measure been implemented in 2019, the impacts in 2021 would have been significant:

Climate gains: 34 MtCO2e in annual reduction of the EU's carbon footprint (representing +64% of the total reduction achieved between 2015 and 2019), and a 30% reduction in the carbon footprint of public procurement in the most polluting sectors.

Economic and social impact: a €6 billion per year increase in sales for European companies, €86 billion mobilised annually for the development of green activities, and 380,000 additional jobs in green sectors.

Making essential environmental and social criteria mandatory would establish harmonised minimum requirements at European level. Presuming by default that environmental and social considerations are part of the contract object would facilitate their systematic integration. This evolution should be accompanied by a progressive generalisation of life cycle assessment (LCA), allowing the purchase price criterion to be replaced by a multi-criteria approach accounting for real impacts from manufacture through to end of life.

Beyond environmental impacts, future directives should also allow valorisation of positive economic and social externalities. Allowing explicit consideration of these full costs and benefits would reinforce coherence between purchasing policy, industrial policy and territorial development.

Progressively Deploying Local Content Requirements

Aligning environmental and social criteria with local content and supply chain resilience requirements would send a strong signal to reorient European industry. This alignment should be extended to all public support schemes to guarantee the coherence of industrial policy. The announced Industrial Accelerator Act, which is to include in particular the establishment of a low-carbon product label, represents an opportunity to structure these requirements in a harmonised way. The question of "Made in EU" nonetheless remains to be clarified: does it refer to a minimum share of value added generated within the European Union, a share of components, or assembly? The economic effects to be expected will depend on how this is defined.

The introduction of local content criteria in public procurement must also take into account at least two key issues. The first is economic: it is a matter of supply and demand adjustment. The question is then one of estimating the potential temporary additional costs and benefits for the EU of European production. To limit the short-term inflationary effect, it seems essential to anticipate a gradual phasing-in of the criteria. The required local content can increase progressively as production capacity on European soil grows, in order to avoid excessive price pressures while sending a clear signal to investors that this capacity is set to increase. This requires sector-by-sector analyses and thorough impact assessments, which will need to be carried out upstream within European bodies responsible for steering industrial policy. Furthermore, to be fully aligned, these local content criteria will need to be linked to environmental and social requirements.

The second issue is compatibility with international trade law. Local preference measures are generally incompatible with the treaties binding the European Union to its trading partners. Under existing law, it is nonetheless already possible to design public procurement schemes favouring local producers (for finished products), provided that equivalent treatment is reserved for producers from countries that are members of the Government Procurement Agreement, as well as countries with which the EU has signed free trade agreements containing public procurement commitments. WTO jurisprudence appears to tolerate specific rules of origin for public procurement defining the locality of a product according to a minimum share of inputs. "Public interest exceptions" may also justify, within the framework of the General Agreement on Tariffs and Trade (GATT), protective measures such as local content policies if they are linked to national security, environmental protection or health.[5]

The introduction of European preference criteria in public procurement appears to be the least risky option in terms of treaty compatibility, while offering the highest potential. It could constitute a first step before considering an extension to other instruments. Moreover, while the WTO remains a pillar of the organisation of world trade, growing geopolitical tensions and the urgency of action against climate change require the European Union to be more creative and more assertive in its approach to international trade.

Proposal for a European joint platform for lightweight, affordable electric vehicles

The dominance of SUVs, widespread upmarket drift, and manufacturers' lack of interest in small electric vehicles: current dynamics in the European automotive market are undermining the transition to sustainable mobility. They are deepening social inequalities, slowing environmental progress, and weakening European industrial competitiveness in the face of Chinese competition.

In this context, public procurement can become a decisive lever for transformation. By structuring demand, it could orient production towards vehicles genuinely aligned with the 2035 objective: electric mobility that is sober, accessible and competitive.

A concrete proposal: creating a European pooled procurement platform*

To transform this ambition into industrial reality, willing Member States could create a common procurement platform dedicated to lightweight electric vehicles, backed by public procurement and linked to an IPCEI. This platform would enable:

- **Pooling public and private purchases** to reduce unit costs by up to 30%, by harmonising procurement procedures at European scale. Structured primarily for public markets (around 200,000 vehicles per year), private buyers (companies, leasing firms, professional fleets) could join the platform to benefit from these economies of scale and accelerate the electrification of their fleets;

- **Securing industrial investment** through multi-year purchase commitments, giving manufacturers and suppliers the visibility needed to modernise their production lines and develop new adapted models;

- **Establishing transparent and inclusive governance**, involving manufacturers, suppliers, public authorities, trade unions, NGOs and user representatives. This collective governance would guarantee the defence of the general interest and alignment with social and environmental objectives;

- **Structuring all policies in favour of the electric vehicle** through precise specifications integrating strict environmental criteria (carbon footprint, recyclability, durability) and production requirements (European content, working conditions, battery location). This framework could then serve as a basis for all public support schemes for electric vehicles: social leasing, purchase subsidies, ecological bonus, favourable taxation, fleet electrification obligations...

By simultaneously structuring supply and demand, this initiative would create the conditions for a competitive European industrial sector, while guaranteeing a just and accessible transition for all.

**See Péron M. and Wainstain R. (2025) Towards a green and transformative public procurement in the European Union : the case of electric cars, Institut Veblen pour les réformes économiques, September.*

Pooling Purchases at Relevant Scales

Beyond harmonising criteria, pooling public purchases between Member States would achieve the critical mass needed to influence industrial trajectories and limit current fragmentation. This coordinated approach would strengthen the Union's negotiating power with suppliers and favour the emergence of competitive European industries. Coordination must adapt to sector-specific characteristics: at the European level for strategic industrial sectors (batteries, hydrogen, low-carbon steel), and at the territorial level for local ecosystems such as food supply.

Innovation and Industrial Transition

Strategic use of "pre-commercial" public procurement, notably in the health sector, demonstrates the potential of this instrument to stimulate innovation and R&D through targeted purchases. This model could be extended to technologies critical for ecological transition, enabling support for the development and scale-up of still-immature but strategic solutions. By articulating public procurement, industrial projects and territorial strategies, the EU can create virtuous ecosystems where public purchases durably structure future sectors.

Deploying a Coherent Revision of Trade Policy

In his report, Draghi recommends strategic use of trade policy, aligned with the Union's other objectives. Conducting industrial policy today means confronting the reality of global geoeconomic rivalry, fought as much through subsidies as through standards, public procurement access conditions or tariff barriers. In this context, the EU cannot be content to be a referee. It must be able to defend its short and long-term interests without reneging on its ecological commitments or trampling the multilateral framework of international trade.

Under-Used Trade Defence Tools

Faced with increased competition from the United States and China, notably in clean technologies, the European Union has gradually strengthened its trade defence instruments to protect its strategic sectors. The objective is to offer targeted protection to preserve emerging industrial sectors, guarantee fair competition conditions and support European climate ambitions.

The EU first modernised the main instruments in its toolbox: anti-dumping measures (countervailing duties in cases of sales at abnormally low prices); anti-subsidy measures (countervailing duties where foreign producers benefit from undue public support); and safeguard clauses (import restrictions in the event of a sudden surge threatening a European sector).

These tools are activated following a Commission investigation, either on complaint from European industries or proactively (ex officio). Their implementation also depends on a Union interest test, which must reconcile the protection of a sector with the effects on consumers and the broader economy.

Three specific uses appear relevant for the ecological transition:

- **Supporting the deployment of low-carbon technologies** (solar panels, batteries, electric bicycles…), while balancing low prices against the development of a European industry;
- **Supporting fragile European sectors**, by more frequently initiating investigations when unfair practices threaten the scale-up of key technologies;

- **Deterring polluting practices**: integrating environmental criteria into the targeting of measures and requiring European industrial commitments in return for the protection granted.

While attitudes are shifting on the need to protect fragile European sectors, conditionality requirements for European industrialists have not yet become part of European practice.
The EU has also expanded its arsenal with more recent and innovative instruments:

- **The Anti-Coercion Instrument (2023/2675)**, which enables rapid and sufficiently comprehensive countermeasures to be dissuasive when a State attempts to influence European or Member State policy;
- **The Foreign Subsidies Regulation (2022/2560)**, which prevents heavily subsidised non-EU companies from winning European public contracts;
- **The 2021 Regulation on the enforcement of trade rules**, which authorises retaliation when partners fail to comply with dispute settlement decisions between States.

Yet the EU currently hesitates to use these instruments, or even to signal that it could do so, as was evident in the recent negotiations with the United States.

The EU Is Increasingly Departing from Multilateral Rules

At the same time, the EU seems ready to depart considerably from multilateral rules in certain circumstances that remain quite opaque. The asymmetric political deal struck with the United States in July, providing preferential tariff and regulatory treatment for American economic actors, follows the US in its exit from the multilateral trading system, at the risk of weakening the EU's position in relations with the rest of the world.

The EU has also announced highly protectionist measures on steel. On 7 October 2025, the European Commission presented a proposal to replace temporary safeguard measures on steel imports (currently at 25%) with permanent duties of up to 50% for volumes beyond a national quota. While such duties would give the European industry temporary reliefand facilitate the transition to a decarbonised steel sector, implementation decisions could heighten trade tensions and undermine confidence in the multilateral trading system.

The Commission also plans to renegotiate the EU's tariff commitments at the WTO in order to apply these duties autonomously, without going through the classic trade defence instruments. The treatment of partner countries with preferential agreements, as well as that reserved for the United States, nonetheless remains uncertain. The proposed duties would thus offer temporary relief to European industry and facilitate the transition towards a decarbonised steel sector, but the decisions relating to their implementation could heighten trade tensions and undermine confidence in the multilateral trading system

New Free Trade Agreements, But No New Model

Despite these shifts, the EU has not updated its entire approach. It does not carry a legible and coherent reform of multilateral rules and continues to negotiate free trade agreements whose content remains unchanged. In addition to the deal with Mercosur, another is ready with Mexico, while negotiations continue with India, Malaysia, the Philippines, Thailand, the United Arab Emirates and Australia. These agreements risk increasing imported emissions and the pesticide footprint of European consumption, without offering developing countries genuine opportunities to capture more value added in supply chains.

Retreating on Market Access Conditions

The EU is also retreating from recent advances in protecting its market against environmental and social dumping, in the name of European competitiveness and under pressure from third countries, starting with the United States.

While the simplification of the Carbon Border Adjustment Mechanism has preserved its essence, the commitment made by the Commission to the US administration to "work towards additional flexibilities" casts doubt over the next steps — all the more so as other partner countries are requesting similar treatment. The due diligence directive, which was to oblige companies to prevent human rights violations and environmental damage in their subsidiaries and among their subcontractors, has been stripped of its substance — notably through the drastic reduction in the number of companies covered, the narrowing of due diligence obligations to direct suppliers rather than the entire value chain, the abandonment of the obligation to adopt and implement a climate transition plan, and the removal of the creation of a harmonised European civil liability regime. The regulation on imported deforestation will also be postponed by at least a year, if not weakened further.

Rather than methodically dismantling the market access instruments it had just equipped itself with in the name of simplification, the EU should on the contrary be ambitiously implementing them. The integrity of its international sustainability commitments and its ability to convince citizens of the coherence and robustness of the European model depend on it.

The Clean Trade and Investment Partnerships: more of the same?

Following the 2024 elections, Clean Trade and Investment Partnerships (CTIPs) were announced as a flagship policy of the new mandate. But these supply security instruments amount above all to a repackaging of various past EU initiatives in the field of raw materials, without superseding ongoing trade negotiations. The Commission President and the South African President did indeed sign the first CTIP at the EU-South Africa Summit in late November 2025.

The drive to secure access to certain critical resources for the ecological transition should encourage the EU to promote sustainable and equitable extraction, by favouring local processing so that producer countries can capture more value added. But this is not the logic underpinning the recent clauses of the new "raw materials" chapters in trade agreements — such as those in the agreements with Mexico or Chile — which restrict this possibility without imposing binding obligations on human rights or the environment. The chapter in question notably provides for a ban on export monopolies, running counter to measures adopted by Mexico in 2022 to nationalise lithium extraction for example, as well as a ban on export prices higher than those charged on the domestic market. Add to this that foreign investments made in this sector, as in all others, will benefit from protection through investment arbitration.

Moreover, the purchase of some of these resources must not generate conflicts of use, as illustrated by the tensions already identified around South African green hydrogen between local industrial demand and the EU's import ambitions.

Insufficient and Poorly Directed Investment

A Massive Investment Wall and Persistent Political Blockages

The need for massive investment in competitiveness and strategic autonomy has become the central theme of the second Von der Leyen Commission. Estimated at nearly €800 billion per year by Draghi, financing needs are colossal. The political ambition is, however, difficult to translate into concrete measures. The Draghi report also advocates for common European investments financed through mutualised debt issuance, similar to the NextGenerationEU recovery plan adopted in 2020 and expiring in 2026.

The European Parliament has expressed its support, but the political will is currently lacking in European capitals, which retain the final say on all decisive questions. The eurozone thus remains a monetary union without a fiscal union, deprived of the means to coordinate monetary and budgetary policies enjoyed by our international competitors. The budget reform proposed by the Commission is generating considerable tension around the distribution of existing funds, while bringing few additional resources: 1.15% of European GDP for the years 2028–2034, essentially at the same level as the previous period.

At Member State level, financial pressure is mounting and coincides with the restoration of Stability Pact rules in January 2025, subsequently relaxed for defence spending. The conflict of objectives is evident and the financial equation will be difficult, notably for the most indebted States such as France, which is reducing investments in key areas such as energy transition.5

Attracting Private Investment at What Price?

Unable to overcome these political blockages, the Commission is banking on two other types of measures to facilitate and guide investment: the Savings and Investments Union (SIU) project presented in spring 2025, and the increased use of European public funds as guarantees or co-financing to attract more private investment. It seems unlikely, however, that these measures will suffice to cover financing needs, which are indeed substantial. The Draghi report estimated them at between €750 and €800 billion in additional spending per year, or 4.5% of EU GDP, to restore the competitiveness of European industry and put Europe on track to meet numerous objectives already adopted or under discussion: energy transition and industrial decarbonisation, defence and security, and the reduction of dependencies in strategic sectors. These estimates summarise and draw on numerous previous studies and should be treated with caution, given that the scale of analysis and sectoral scope vary considerably from one study to another; they nonetheless signal the necessity of a considerable financial effort.[7]

With public debt financing blocked at the European level and constrained at the national level, it is understandable that the main policy initiatives aim to further mobilise private financing. The Draghi, Letta and Noyer reports all see in the SIU — which effectively relaunches the Capital Markets Union project initiated by the Juncker Commission in 2014 — a way to "repatriate" the abundant European savings currently directed towards US financial markets, and to invest them more productively in Europe. Yet bringing asset management back to Europe is far from straightforward in a globalised economy where financial flows are unregulated and the United States plays the role of a global financial centre. Above all, this does not in itself guarantee a different allocation of funds from the current one, which depends primarily on the relative returns of different projects. In the area of climate action, for example, one estimate suggests that only

5 See Couppey-Soubeyran J., Coussin M., Faivre A., and Kalinowski W. (2025): "*Who holds the public debt? A key question for sustainability*", Institut Veblen pour les réformes économiques, September.

one third of projects have a sufficient risk-return profile to attract private investors; the remainder will have to come from public funds.[8] [10]

This profitability problem manifests differently from one sector to another, but also affects other domains — for example, the defence industry or energy transition and transport infrastructure. All the more so given that, despite years of debate and a series of action plans and legislative measures, the EU still lacks an effective sustainable finance framework. The recent wave of Omnibus packages further weakens the capacity of existing tools to direct private investment where it is needed.

An Increased Risk of Financial Instability

The measures envisaged under the SIU thus appear inevitably insufficient and carry numerous risks, starting with the inadequacy, dispersal and misallocation of funds. The core idea of the Draghi report was to give European economic policy a direction by pursuing a more interventionist approach. Investments can play this role insofar as they are themselves oriented towards strategic objectives and coordinated with the other elements discussed above: selection of sectors deemed strategic, establishment of external protection measures and internal conditionalities, and so on. Yet these elements are still not in place, and the first measures adopted concern above all simplification and deregulation — for example, the transformation of transition plans from a binding obligation into a voluntary decision for companies. For its part, the SIU introduces few elements to guide the direction of investment.

A second risk consists in multiplying factors of financial instability. In the case of the SIU, the idea of "unblocking" financing translates notably into relaunching bank securitisation, justified by the need to increase banks' financing capacity. Securitisation was at the heart of the great financial crisis of 2007–2008, and European supervisors had already expressed doubts about the Commission's proposal. The equation is further complicated by the wave of financial deregulation and the abandonment of climate objectives in the United States, which is creating similar pressure in Europe in the name of the "competitiveness" of the European financial sector. TotalEnergies' decision to open its listing on the New York Stock Exchange illustrates the enduring appeal of US financial markets, now freed from obligations to account for climate risks.

Strengthening and Increasing European Financing Towards Ecological and Social Priorities

Despite these weaknesses, the strong political mobilisation around investment needs also offers present and future opportunities. Even now, certain reforms proposed under the SIU are promising:

- The SIU encourages long-term investment through "European long-term savings and investment accounts," with fiscal incentives aimed at directing savings towards strategic areas. Since taxation falls within Member States' competence, the European Commission has confined itself to issuing recommendations, inviting Member States to "encourage providers to include investment choices enabling retail investors to direct their investments towards the EU economy and thus contribute to achieving the EU's strategic priorities, notably the digital, ecological and social transition and the strengthening of the Union's security and defence" (C(2025) 6800);

- The Commission proposes to strengthen the role of European supervisors, which could reduce one of the barriers to the integration of investment fund markets and thereby lower the cost of financial intermediation;

- The harmonisation of ESG standards at EU level increases the transparency of financial products, even if the strength of this signal risks being diluted by contrary trends (such as the Omnibus packages on taxonomy and CSRD, and the forthcoming one on investment).

As for the increased use of European funds to finance loan guarantees, this represents as many opportunities as risks. The mid-term review of the current European budget, adopted in September 2025, already authorises a transfer of credits allocated to Member States under the cohesion fund and regional funds — and in certain cases the Just Transition Fund — to the InvestEU programme, enabling States to use them as financial leverage, in the spirit of the original "Juncker Plan" from which InvestEU derives. This financial engineering aims to attract private investment through blended finance logic, also involving public financial actors such as the European Investment Bank (EIB) and the European Stability Mechanism (ESM).

"The harmonisation of ESG standards at EU level increases the transparency of financial products, even if the strength of this signal risks being diluted by contrary trends."

Member States will be able to use these funds to co-finance their actions across numerous domains: support for decarbonisation industries, energy production, infrastructure investment, energy renovation of buildings, circular economy, the automotive sector... The regulation places particular emphasis on investments contributing to the objectives of the Strategic Technologies for Europe Platform (STEP), created in 2024 to support the development or production of "critical technologies" as well as "the safeguarding and strengthening of their value chains," targeting digital technologies, clean and resource-efficient technologies, and biotechnologies including medicines.

Strengthening and Increasing European Financing Towards Ecological and Social Priorities

The possibility of reallocating existing funds is understandable given the difficulty of finding alternative sources of financing, but the trade-offs made by each Member State must be closely monitored and evaluated, notably by the European Parliament. For example, cohesion funds and other European funds already made it possible to support Member States' action on climate; the mid-term review retains this objective but encourages States to allocate funds to the components that contribute most to the growth and competitiveness of the decarbonisation industry. By applying this criterion to climate policy, States risk reducing other necessary missions that are more distant from the concerns of industrial competitiveness.

The measure is intended to amplify the action of long-term investors such as the EIB, but it is worth noting that the EIB is not making full use of its existing financing capacity: over the past ten years its loan portfolio has grown by only 1.5% — compared to 73% for the World Bank or 71% for the European Bank for Reconstruction and Development — and it currently holds approximately €190 billion in lending capacity that could be deployed immediately in compliance with existing leverage and liquidity ratios.[10] There are therefore other factors beyond public guarantees that explain the weakness of long-term investment in Europe.

In the future, additional measures will undoubtedly be needed to strengthen public financing, which in most cases involves the European Central Bank.[11] In parallel, the EU will also need to find external financial protections against the risk of a growing regulatory gap between the EU and the United States in particular — for example through taxation of financial flows at the EU's borders, regulation of offshore financial centres within the EU itself, or enhanced protection of strategic investments

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Conclusion

Within the framework of European industrial policy, the “green” turn is built on fragile environmental foundations, falls short of the integrated vision of environmental issues called for by the Green Deal, and is poorly resistant to the assaults of political forces opposed to ecological transition. Already little present in the Draghi report, the social and ecological compass of the European Union is progressively disappearing from second Von der Leyen Commission texts. Only a call for “decarbonisation” remains — certainly strategic both for defining tomorrow’s competitiveness and for combating climate change, but wholly insufficient in the face of environmental, social and geopolitical crises.

The trade war launched by Trump since his return to power and the deployment of Chinese imperialist strategies both reinforce the urgency of a coherent and strong EU response and the obstacles it must face. But without structural change to economic rules, without serious consideration of environmental imperatives, without rigorous definition of political priorities, governance modalities, trade policy strengthening and investment direction, European industrial policy will remain a slogan.

Basing the EU’s response on its assets — its climate leadership, the regulation of its internal market, its capacity to anticipate climate upheavals — rather than on an escalation of deregulation remains the most desirable path for building tomorrow’s industry.7

6 Paduano, S., and Leon, B. (2025). *Europe’s Priorities Need Money. The European Investment Bank Has It*, working paper.
7 See Couppey-Soubeyran et al. (2025), op. cit.