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# A New Deal is out in the EU: will it deliver on its clean and industrial promises?

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Responding to the intense EU debate on the future of its industry, the long-awaited [Clean Industrial Deal \(CID\)](#) is finally out along with an [action plan for Affordable Energy](#) and an initiative that aims at [simplifying EU legislation](#). This blog post highlights five priorities for the CID to deliver on its promises in the coming months.

## Combining the green and competitiveness agendas

The CID's message is clear and welcome. It aims to deliver on the ambition to combine the EU green and competitiveness agendas, following the [Draghi report](#) and the [Competitiveness Compass](#) presented in January. In an unprecedented challenging geopolitical environment for EU countries, it kick-starts several policy debates combining trade, competition, innovation and energy policy to improve the "business plan" of the European economy with the appropriate granularity to secure investments in the clean economy. Importantly, it sketches out a much-needed acceleration of the circular economy and electrification of industrial energy demand, setting ambitious aspirational targets. The details of the announced proposals and initiatives to come and the result of the following political

discussion will weigh heavily on EU's ability to meet its environmental as well as economic and security challenges.

At the centre of this agenda lies the idea that EU countries should jointly define their economic and industrial priorities, and then adapt the policy mix according to these priorities. The economic case is clear. Only a common approach can allow the EU to maximize the potential of its regions' resources and energy endowments and allow economic actors, especially clean innovators, to reap the full benefit of the [EU common market](#), a clear asset in the competition between different economic blocks. The deepening of the European common strategy is a "no-regret" solution on paper.

But will the Europeans be up to the task? The paradigm shift for a Union that has for a long time refrained from using industrial policy and has treated public policy in silos (trade, competition, innovation, energy and macroeconomic) should not be underestimated. The adoption of the Green Deal and the COVID-19 crisis already helped crack the traditional consensus. The adoption of the [net-zero EU target](#) and subsequent change in the climate and energy framework led economic actors to develop green projects, innovate, accelerate the deployment of needed infrastructure and envision the decarbonization of industrial clusters. The [EU recovery fund](#) and the [innovation fund](#) and the objectives of the new [Green Deal Industrial Plan](#)'s objectives on cleantech and raw materials helped unleash funding for publicly supported green industrial policies. In short, Europeans have the tools in their hand to take the leap, but much will depend on their ability to maintain the political support and strike the needed compromises.

## Priority #1: Clean transition is the solution to a thriving EU industry

A common challenge of industrial policy is to define and stick to its objectives. In the face of the rising voices calling for the weakening of environmental policies in Brussels, a first important step should be to position the CID in continuity with the policies adopted by the previous Commission and as a way to implement the Green Deal objectives. The net-zero climate objective establishes a clear direction on which to build the EU industrial strategy and its long-term competitiveness. Going backwards will only bring uncertainty to economic actors.

The link made in the CID to the decarbonization objective is an important step in confirming the direction—a swift presentation by the Commission and approval by legislators of the -90% 2040 climate objective should further consolidate it. It matters domestically to investors, and internationally to partners who expect the EU to fulfil its international commitments in line with the Paris Climate Agreement to confirm their own net-zero strategy or to benefit from the innovations and decreases in costs the EU commitment to the transition will bring globally.

## Priority #2: Environmental regulation can generate long-term competitiveness

Europe has much to gain to be seen as a reliable place for innovators and investors in low-carbon solutions whose business case depends on environmental standards. As for now, this is clearly a departing advantage from the US. The CID focus on lead market creation is an important step in this direction as securing demand is a powerful and effective tool to derisk investments and favour innovative solutions.

The crucial factor will be that environmental, social and security transformative ambitions are adequately reflected in policy details, such as the development of environmental and circular standards on products, public and private procurement rules, or the innovative idea of social leasing of clean goods. In particular, Europe's shift towards a stronger "buy-European" strategy should leverage the significant potential of creating a [high-value resource industry based on circularity to the benefit of EU manufacturing industry](#).

## Priority #3: Securing the investment part of the deal

Making sure investments flow in the right direction also requires financial solutions to reduce the risk for investors and innovators and bring new products to market. The CID provides several ideas including the announced €100 billion Industrial Decarbonization Bank, the upcoming competitiveness fund framework to be presented in the context of the Multiannual Financial Framework (MFF), the increased mobilization of the European Investment Bank and the revision of state-aid rules. Given a clean-tech [funding gap of €50 billion](#) between 2028 and 2034, a clear focus on innovative, net-zero and circular solutions is necessary. These funds should offer credible certainty over the long run to investments and their additionality clearly demonstrated, as the proposal mentions the mobilization of resources from the existing innovation fund and contributions from Member States.

Blending of national and EU funds is encouraged, however the CID does not clarify what should be financed by the EU vs Member States. The debate on the fairness across EU regions and territories of the industrial transformation will therefore continue. The next MFF proposal should offer responses to this distributional question and address the necessity to compensate for the discontinuation of the recovery fund (€170 bn between 2028 and 2034) for EU clean investments. The CID does not offer either any ready instrument to deal with the distributional impacts of this new industrial revolution, although building on the experience of the [Just Transition Fund](#) in preparation of the MFF is mentioned. The setup of an observatory of the just transition can provide much needed basis for debate, but solutions cannot wait for years, as the social impacts of the industrial transformation are already felt on the ground and are politically explosive.

## Priority #4: Addressing the governance question

The Draghi report points to the patchy EU industrial policies compared to other major economies. Europe now needs to design its own industrial policy approach. Ideally, such common approach would need to be based on a prospective diagnosis of the geography of the EU and its regions' economies and specializations, acknowledging the continent scarce natural and energy resources. In practice, the approach needs to adapt to the tough reality of politics and the urgency of action.

Interestingly, the EU has been moving more towards a vertical industrial policy with the [clean transition dialogues](#), the [Strategic Dialogue on the Future of the Automotive Industry](#), and those announced on steel industry and chemicals; more of these sectoral dialogues will follow according to the Commission. This evolution has value in overcoming EU policy silos and historical barriers in European action. The proposals to develop sectoral plans is useful in this context on two conditions. First, if the setup fully integrates long-term transformation objectives and does not focus only on short-term fixes. Second, if it fully integrates the evolution of technologies and new actors that challenge the status quo and develop more environmentally and socially ambitious proposals. Making the most of vertical approaches would mean to draw meaningful sectoral roadmaps that could inform policy design today and serve as a basis to assess delivery on objectives over the long run.

Going forward, the EU needs governance solutions that will help solve trade-offs across Member States, ensuring their essential buy-in and set the right balance between the EU and State level policies. These solutions should help coordinate on market rules and trade, further discuss alignment of electricity prices for industry beyond the guarantees to long-term contracts proposed in the CID and assess the use of preferential treatment for selected strategic industries. In short, Europe desperately needs a place where strategic choices can be debated and agreed on in a coordinated manner. The competitiveness coordination tool, surprisingly not referred to in the CID, could potentially serve this purpose with the support of [appropriate analyses and indicators](#) and supported by a strengthened energy union governance framework extended to cover industry.

## Priority #5: Building a renewed vision of international partnerships

On the international stage, the EU recognizes both that the world has changed and the ongoing geoeconomic race. In this context, it should not shy away from promoting its model and build partnerships on access to resources as well as on innovation and industrial ecosystems with a view to opening markets for EU technologies. While the EU [Carbon Border Adjustment Mechanism](#) is controversial and imperfect, it has also triggered useful discussions on industrial decarbonization abroad. EU market access is an asset, and Europe can use it to incentivize other countries to develop a cleaner industry through more assertive trade policy.

In many ways, the CID marks the end of an illusion, that of Europe being a leading developer of solutions implementing the transition at home and reaping the benefits of innovation. The green race started years ago, and other regions, especially China, have taken the technological lead while Europe lacks the trusted economic partners to fulfil the needs of its own clean industry. As a response, Europe should develop international partnerships in two different ways: differentiating its offer to make it more attractive to third party countries especially on developing innovation ecosystems elsewhere; and developing industrial cooperation with the aim of supporting the EU industry to catch-up on technologies such as batteries with China.

All in all, the CID could mark an important inflexion point for the EU and the real start of a common green industrial policy. The EU needs to move beyond the fog of the necessary but too abstract competitiveness debate and define the key value chains and technologies where it wants to specialize in, as well as the ones it wants to protect for security or social reasons and resolve internal distributional dilemmas. Maintaining the transformative ambition all across the announced initiatives will be essential to achieve its objectives and a shared responsibility of EU institutions, Member States and European stakeholders in the coming months and years.

