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The European Competitiveness Fund: will it fulfill Europe's clean transition ambitions?

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The European Commission presented on 16 July 2025 its proposal for the next Multiannual Financial Framework (MFF) for 2028-2034. Drawing from the observation that "European spending is spread over too many overlapping programmes, many of which fund the same thing but with different requirements and difficulties in combining funding effectively",[1] the Commission proposed a new MFF structure with 14 programmes merged into the European Competitiveness Fund. This structural reform comes at a time of multiple challenges for the EU: environmental crisis, geopolitical tensions, security concerns, and loss of economic competitiveness.

This European Competitiveness Fund (ECF) was announced in the Competitiveness Compass and in the Clean Industrial Deal as a solution to boost competitiveness and support European investments for the transformation of the European economy. The ECF aims to address the three challenges highlighted in the Draghi report: closing the innovation gap; having a joint plan for decarbonization and competitiveness; and increasing security and reducing dependencies. Limited European funding will have to be distributed across competing priorities in the upcoming years. Examining how the ECF proposal articulates these priorities is helpful to apprehend the upcoming MFF negotiations over the next two years.

This *Issue Brief* examines whether the European Competitiveness Fund can be a driver for decarbonization and address the climate finance gap. It also investigates its governance challenges, and the introduction of a European preference principle.

[1] European Commission (2025). Competitiveness Compass Communication, p. 25.

KEY MESSAGES

As the investment needs for decarbonization amount to around €406-462 billion per year, the European Competitiveness (ECF) does not put on the table much additional funding for clean transition and industrial decarbonization (€26.2 billion over 7 years). Reaching climate and decarbonization objectives therefore requires for the EU to pool resources with Member States towards common priorities, design regulations that crowd in private investment, and continue exploring additional funding sources.

The shift in the European budget towards integrating environmental programmes within a fund focused on competitiveness risks weakening the financing of climate and environmental actions. To ensure environmental and climate ambition are appropriately prioritized in the ECF, the Commission should either adopt strong eligibility criteria for a high level of climate ambition in project selection, or safeguard specific funds dedicated to environmental objectives throughout the ECF budget.

The ECF has the potential to strengthen Europe's strategy to mitigate risks around supply chains and achieve objectives set in regulations such as the Critical Raw Material Act, through its focus on resilience. Enhancing circularity in industry can further reinforce the EU's autonomy for critical raw materials. The Competitiveness Coordination Tool or the Strategic Stakeholder Board of the ECF will be key tools to steer European industrial policy and refine these strategies.

The ECF provides an opportunity to refine the European preference principle, which is increasingly used in EU proposals and referred to timidly in the ECF. To be effective, instruments embodying such a principle should address key bottlenecks to target key dependencies along critical supply chains, based on an evaluation of downstream and upstream risks.

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The European Competitiveness Fund

The European Competitiveness Fund merges 14 programmes[2] which represented around 200 billion euros in the last MFF. The ECF is made up of four "policy windows" which correspond to the Union's priorities: Clean Transition and Industrial Decarbonization (€67.4 billion, including €41.2 billion from the Innovation Fund); Digital Leadership (€54.6 billion); Health, Biotech, Agriculture and Bioeconomy (€22.6 billion); Resilience and Security, Defence industry and Space (€131 billion). Two important funds are kept separate but tightly linked to ECF priorities: Horizon Europe, the EU's research innovation flagship programme, aimed at ensuring "a seamless investment journey from research to start-up, scale up, deployment and global manufacturing, from idea to market"[3] ; and the Connecting Europe Facility supporting European energy, transport and digital infrastructure. The funding for Horizon Europe will almost double, from €93.5 billion today to €175 billion, and the Connecting Europe Facility reaches €81.4 billion (including a fivefold increase for the amount dedicated to energy, from €5.84 billion to €29.9 billion) from €33.71 billion in 2021-2027.

With Horizon Europe, the ECF reaches €451 billion, or 22.5% of the total MFF budget (€2 trillion). If we exclude Horizon Europe and the Innovation Fund however, the ECF amounts to €234 billion, i.e. 12% of the total MFF.

Importantly, merging these programmes together does not guarantee the risk of overlap will disappear: the implementation of the ECF will be key to ensure this new budget articulation does reduce friction for projects to obtain funds.

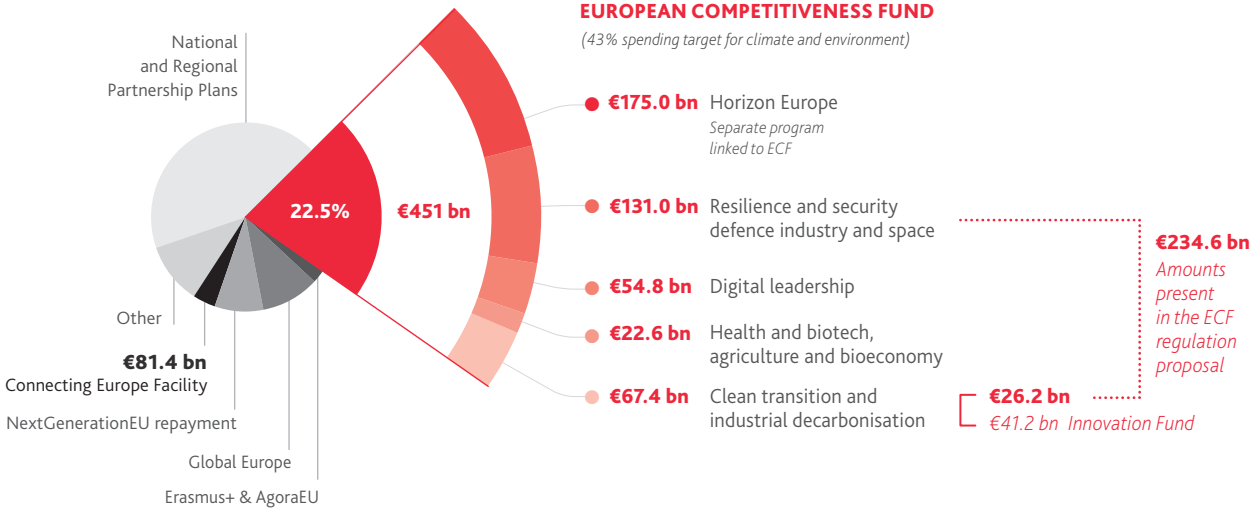
[2] InvestEU; Horizon Europe; Digital Europe Programme; Innovation Fund; LIFE; Connecting Europe Facility; European Defence Fund; European Defence Investment Programme (EDIP); EU Defence Industry Reinforcement Through Common Procurement Act (EDIRPA); Regulation on Supporting Ammunition Production (ASAP); Infrastructure for Resilience; Interconnectivity and Security by Satellite (IRIS); EU Space Programme; EU4Health; SME Pillar of the Single Market Programme.

[3] European Commission (2025). Regulation on establishing the European Competitiveness Fund (ECF), July 2025. p. 3.

European Competitiveness Fund in the Multiannual Financial Framework (MFF) 2028-2034

MFF proposal, €2 trillion for the EU Budget

(35% spending target for climate and environment)



1. BRIDGING THE INVESTMENT GAP FOR CLIMATE AND INDUSTRIAL DECARBONIZATION?

1.1. Insufficient funding to cover the investment gap

At first glance, the "Clean Transition and Industry Decarbonization" policy window is the second largest in size (defence is first with €131 billion). It represents €67.4 billion, including €41.2 billion from the Innovation fund[4], which leaves only €26.2 billion from the Competitiveness Fund. The Clean Industrial Deal had also announced €100 billion, to be managed through the upcoming Industrial Decarbonization Bank, and financed by the Innovation Fund, with additional revenues from parts of the ETS and the revision of InvestEU.

The Clean Transition policy window aims to: promote the uptake of decarbonization technologies by the industry; allow the decarbonization of energy supply; promote energy efficiency, renewable and clean energy solutions, and energy system flexibility; and develop lead markets for clean products. It does not however, with its €67 billion over 7 years, put a sufficient amount of money on the table to cover the well-documented climate investment gap, estimated to be around €406-462 billion per year.[5][6] The European 2040 Climate Target Plan Impact Assessment[7] further estimates that €340 billion will be needed between 2031-2040 to transform the four largest energy-intensive industries (chemicals, basic metals, non-metallic metals, paper), and €500 billion between 2025 and 2040. It further estimates that a total of €23 billion in investments over 2031-2040 will be needed to achieve the Net-Zero Industry Act's objectives and develop EU's clean manufacturing capacities for five key technologies: wind, solar PV, batteries, heat pumps and electrolysers. Finally, across the energy sector, investments in power plants, of which 80% would be in renewables, are projected at €140 billion over 2031-2050. As a result, there is a significant remaining gap for clean transition, climate and decarbonisation investments that will not be covered by the ECF.

Making decarbonization investments a priority may also be considered as a trade off with more European defence considering the war in Ukraine and growing geopolitical instability. Indeed, in the context of limited financial resources, climate investments can often be deprioritized in favour of defence investments. However, synergies and complementarities between strengthening defence and meeting climate goals may exist:[8] a clean energy system reduces vulnerability and dependence to fossil fuel imports; the defence sector could be a lead market for clean products; and joint efforts can be deployed to secure access to raw materials needed for defence and climate technologies (batteries for instance).[9] Aligning these agendas is possible but will depend on political will.

1.2. Pooling investments for common priorities and crowding-in private investment

Given the limited size of additional funding from the EU budget to cover the climate investment gap, Member States will also have to complement the EU budget. Pooling EU and Member States resources can help the EU target its investments towards common priorities, through mechanisms such as the Innovation Fund or Important Projects of Common European Interest (IPCEIs). Currently though, state aid for IPCEIs amounted to only €5.13 billion between 2019 and 2023.[10] To be effective, the resources associated with this mechanism would have to be significantly increased if they are to become a potential financial pooling mechanism to channel EU funding into common strategic industrial projects. IPCEIs, which today focus largely on pre-commercial innovation projects, could also be redirected towards industrial scale-up and technological catch-up, where Europe is struggling. This could be a solution to meet investment needs for energy infrastructure or securing strategic supply chains.

To mobilize further funding capacity, it will also be necessary to design instruments and regulations able to significantly crowd-in private investment. Private funding can be leveraged through a guarantee mechanism such as the InvestEU instrument, which in the Commission's proposal is now part of the ECF. InvestEU will aim to mobilize additional investments by providing guarantees to loans in the EU. An "Investment Committee" and an "Advisory Board" will have to examine proposals for financing and advise on the design of financial products and on the strategic and operation direction of the Instrument. The "policy windows" of the ECF are expected to contribute financially to InvestEU, but the connections between this instrument and the fund are still unclear at this stage.

1.3. Investigating additional funding sources for the EU

Even if resources are pooled to invest in common priorities and private investment is leveraged, it is very likely that the climate investment gap will not be covered through the solutions mentioned above; it is thus necessary to continue investigating

[4] The Innovation Fund aims to support the development of highly innovative technologies to decarbonize the European industry and reduce its greenhouse gas emissions. It exists since 2020, is meant to last until 2030, and is financed with revenues from ETS auctions.

[5] Agora Energiewende (2024). Investing in the Green Deal: How to increase the impact and ensure the continuity of EU climate funding

[6] I4CE (2024). European Climate Investment Deficit report: An investment pathway for Europe's future, February 2024.

[7] European Commission (2024). Impact Assessment (part 3) for the "Securing our future Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society" proposal, p.183

[8] IDDRI (2025). Sylvie Matelly, Construire une société européenne qui assume à la fois sécurité et environnement, July 2025.

[9] Bruegel (2025). Defence and climate: seven points for a common agenda, April 2025.

[10] European Commission (2024). State Aid Scoreboard 2024

additional funding solutions at the EU level, such as exploring the sale of future ETS revenues, or joint borrowing possibilities.

Assigning revenues from the future sales of Emissions Trading Schemes (ETS) quotas as collaterals for loans aimed at financing industrial policies can be a way to finance industry decarbonization. Member States could spend today funds corresponding to future revenues from ETS quotas. Japan was the first country to use this mechanism: it has issued 20 trillion yen (€115 billion) worth of Green Transformation (GX) Economy Transition Bonds as part of its GX Strategy. How much funding this could unlock would depend on the price of ETS allowances when they are auctioned. The European Commission highlights that it is very difficult to predict carbon revenues, but estimates with the current parameters and without substantial modifications €1,500 billion of total carbon pricing revenues between 2031 and 2050,[11] which would amount to around 500 billion for the MFF period. This figure assumes a stable ETS policy, which would also secure ETS revenues in the long run.

Joint borrowing could also finance EU's decarbonization investments, especially for European common goods such as energy grids or transport infrastructure, but this measure divides Member States today. NextGenerationEU was already a joint borrowing programme, representing over €800 billion, with €724 billion for the Recovery and Resilience Facility (RFF). The 2028-2034 MFF proposal similarly includes a €150 billion mechanism named "Catalyst Europe" aimed at backing Member States' loans with EU budget.[12] Joint borrowing could help encourage public investment in strategic areas in Member States by allowing them to borrow on capital markets for strategic projects. This instrument would be particularly useful for European common goods such as infrastructure, energy grids, research, and climate change. Common debt also generally allows countries to borrow at lower rates. However, joint borrowing is a controversial measure and is not unanimously welcomed by Member States.

2. GOVERNANCE CHALLENGES: PRIORITIZING ENVIRONMENTAL AND CLEAN INVESTMENTS, DEFINING STRATEGIC VALUE CHAINS AND SECTORS

Ambitious eligibility criteria for projects, as well as a clarified and strengthened governance will be key to ensure the ECF achieves two key objectives: supporting the clean transition and decarbonization of the EU, and allowing the EU to implement a strategic vision of value chains and sectors.

2.1. Ambitious eligibility criteria for clean transition and decarbonisation

"Climate mainstreaming" applies throughout the entire MFF, meaning there are spending targets for EU funds to be spent on climate investments. 43% of the ECF is expected to contribute to climate and environment objectives,[13] and 35% of the total EU budget should be dedicated to climate and environment objectives. Biodiversity, which currently has a separate target (30% for climate and 10% for biodiversity) would be included in this climate target in the new MFF. This will reduce the risk of "double-counting", but environmental NGOs are worried that financial resources will be spread thin across more objectives.[14] These spending targets send an important signal, but moving away from dedicated earmarked budgets to climate objectives can be less effective as actual spending can be lower than targets.[15]

The methodology of climate mainstreaming is also criticized and leaves room for improvement. The performance framework methodology used to evaluate the European budget faces serious limitations. It is an ex-post methodology assigning a coefficient (0%, 40%, 100%) to different projects funded by the EU contributing to climate change mitigation, climate change adaptation and resilience, environment and social objectives of the MFF. These coefficients are then used as weights to calculate what overall share of the EU budget goes towards actions addressing climate and environment and determine whether the EU has reached its spending targets. According to several analyses, the current MFF performance framework methodology is not based on scientific assessment, faces severe risks of greenwashing, and does not appropriately qualify harmful activities.[16] The Regulatory Scrutiny Board notes that the objectives of the ECF should further be defined according to the "S.M.A.R.T." method, and include evaluation and monitoring arrangements, as well as reflections on data collection.

A Do No Significant Harm Principle also applies to the entirety of the European budget. This principle, which originated from discussions around the Taxonomy, aims to exclude activities with potentially negative impacts on the environment from being funded. While it is a valuable principle, it does not guarantee the ECF will successfully target funds towards projects fostering the clean transition.

Eligibility criteria for projects being financed under the ECF will thus play a critical role to ensure funds are allocated to projects which contribute to reducing greenhouse gas (GHG) emissions. The key emphasis placed on flexibility by the Commission means that the ECF gives the possibility for a wide variety of actions to be financed, as long as they participate in its rather

[11] European Commission (2024). Impact Assessment (part 3) for the "Securing our future Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society" proposal, p. 183.

[12] European Commission (2025). https://ec.europa.eu/commission/presscorner/detail/et/statement_25_1851

[13] European Commission (2025). Regulation establishing a budget expenditure tracking and performance framework, July 2025.

[14] WWF (2022). WWF Briefing paper on the Performance Regulation, September 2025.

[15] European Parliament (2022). Climate Mainstreaming in the EU Budget: 2022 Update, April 2022, p. 45.

[16] Bruegel (2025). Greening the EU budget: why climate mainstreaming needs reform, February 2025.

large objectives (article 3).[17] As such, while climate investments and decarbonization are not a priority *per se*, they are nonetheless eligible for funding. The question will be how projects will be chosen to distribute the limited funds of the ECF: this is where eligibility criteria will play a key role.

The ECF will rely largely on its "work programmes", which will be adopted as part of the regulation as delegated acts. They may be set annually (providing more *flexibility*) or multi-annually (providing more *predictability*). These work programmes will allocate budget according to evolving priorities and set eligibility and award criteria to support the ECF's objectives. This proposed architecture leaves all the agency to the Commission which decides alone through delegated acts how money is spent through the ECF, with little clarity at this stage as to how projects will be selected and chosen. One of the options to ensure a high-level of climate ambition in EU funding directed towards investment would be to include ambitious criteria in work programmes for projects eligible to the Fund, prioritizing projects achieving decarbonization or circularity. The Innovation Fund for instance already includes a criteria looking at effectiveness of GHG emission reductions. Indicators considering impacts on climate adaptation, biodiversity and water should also drive the decision on whether to fund a project with EU funding or not. However, there are no guarantees that the Commission will choose to include these ambitious eligibility criteria in the work programmes as it is under no obligation to do so.

In the Commission's proposal, the existing LIFE programme (€5.4 billion) is merged within the European Competitiveness Fund. The current LIFE, historically dedicated to the environment, nature conservation and climate projects, covers a wide variety of actions. In the proposal, it is absorbed within the Clean Transition and Industrial Decarbonization policy window as "LIFE activities", which aim to "support bottom-up projects for the demonstration, testing and market uptake of innovative solutions and best practices in clean transition and industrial decarbonization and awareness raising on climate and environment to relevant governance level".[18] Under the current reshaping of LIFE within the ECF, some of its functionalities, particularly on Nature, will likely disappear as they do not fall under the clean transition and industrial decarbonization portfolio, nor under a competitiveness logic. This raises the question of where biodiversity projects would be financed under the MFF, as EU legislation requires this funding (Birds and Habitats Directives, Invasive alien species regulation). No funding is now earmarked for such projects, which has prompted NGOs to express concern that biodiversity and nature conservation projects will be sidelined because of the disappearance of a dedicated LIFE programme.[19][20]

In this budget, merging the LIFE fund into a broader fund focused on competitiveness rather than the environment could send a negative signal if it is not accompanied by safeguards to ensure greater environmental ambition.

The Commission should thus either adopt stronger strong eligibility criteria for a high level of climate ambition in project selection, or safeguard specific funds dedicated to environmental objectives throughout the ECF budget and not only within the Clean Transition and Industrial Decarbonization policy window. This would strengthen resilience and address security concerns, by reducing infrastructures' vulnerability and enhancing independence, while ensuring investments when there are significant environmental and economic co-benefits to unlock, such as in material circularity or dual uses between defence and climate.

2.2. Focusing on strategic value chains

The ECF also provides an opportunity to define and deploy a strategy to secure strategic value chains and sectors that are crucial for the EU's economic security and climate objectives. But effective and coordinated governance will be essential to ensure the EU focuses its efforts on the most strategic priorities and avoid dispersed and uncoordinated industrial policies, which risk leading to loss of industrial competitiveness, directionless investments, and fragmented innovation policies.

Through the ECF, the EU is trying to articulate directionality and a focus towards long-term competitiveness priorities. The Commission chose to structure the Competitiveness Fund around four policy priorities, either sectoral or linked to policy objectives. This is an attempt at implementing the notion brought up by the Draghi report[21] that the EU's financial resources should be targeted towards projects where EU brings most added value and that the EU should define strategic sectors to prioritize. This approach intends to go beyond a short-term fix to the current competitive disadvantages in Europe in energy prices or labour costs and demonstrates a forward-looking approach in the fund's design.

In particular, the EU has identified developing entire strategic value chains as a priority. The Resilience and Security, Defence Industry and Space policy window includes a section dedicated to resilience policy, which aims to "reinforce the strategic autonomy, economic security and resilience of the Union industry", by "strengthening the different stages of the raw materials value chain, including through diversification of the supply of critical raw materials from third countries". The ECF also includes a "Single market value chain builder" (article 16), to build "dedicated value-chains scale up calls" to support "both project preparation and crowding in of additional public and private capital" and "diversify sources of supply". This focus on strategic autonomy and resilience comes from the growing needs for critical materials needed

[17] European Commission (2025) Proposal for a regulation establishing the European Competitiveness Fund

[18] A "Facility" within the National and Regional Partnership Plans is also expected to fund "LIFE activites", including civil society actions.

[19] WWF (2025). Commission axes successful LIFE programme in EU budget proposal, July 2025.

[20] European Environmental Bureau (2025). A LIFE-threatening budget: Commission's MFF proposal risks quiet rollback of EU environmental funding – through budget lines, not headlines, July 2025.

[21] Draghi report (2024) : https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

for green technologies, at a time where China dominates the green technology market and holds most of the resources for green tech. The Union aims to reinforce its autonomy from other geopolitical blocks, especially China and the US, in a tense geopolitical global context.

The Union's focus on resilience in value chains must be accompanied by ambitious industrial circular economy practices to reinforce its autonomy for critical materials. Industrial decarbonization and improved material efficiency and material recycling must be thought of jointly. Circular economy can be a key driver for Europe's competitiveness and future investments must take this into account.

In order to support the environmental transition and to secure strategic value chains, the governance of the ECF will have to be clarified and strengthened, through two key mechanisms: the Strategic Stakeholder Board of the ECF and the Competitiveness Coordination Tool. The proposal refers to a "Strategic Stakeholder Board, which shall advise on the overall direction for the ECF, (...) on long-term competitiveness trends, (...) on areas of market failures and suboptimal investment situations that could be addressed in the implementation of the ECF, and (...) on the identification of strategic portfolios of projects within and across activities of the ECF". The Strategic Stakeholder Board could act as a steering instance to direct EU funding towards strategic funding from a competitiveness perspective.

2.3. Steering competitiveness in Europe: governance challenges

The governance of the Competitiveness Fund, through the Competitiveness Coordination Tool, will also be key to coordinate EU and Member States action, both to ensure the ECF is aligned with long-term competitiveness priorities, and to make strategic choices for sectors and value chains. This "Coordination Competitiveness Tool" (CCT), not detailed in the ECF regulation proposal, but mentioned in the mission letters of Commissioners Dombrovskis and Séjourné, should "translate EU-wide competitiveness objectives into coordinated national policies, ensuring public and private financing for each strategic priority".[22] The Draghi report recommended assigning this tool the task of coordinating all policies apart from fiscal policy (to be assessed by the European Semester) relevant to EU Competitiveness. The European Council would formulate and adopt EU-level strategic priorities to be addressed by the CCT, which would then be organized in "EU Competitiveness Action Plans". Pilot cases could include energy and transport infrastructure projects (such as electricity grids and storage and sustainable fuels and charging), digital infrastructure or other key manufacturing capacities.

However, as highlighted by the Regulatory Scrutiny Board, the mechanism behind the Competitiveness Coordination Tool remains vague, as well as its governance structure. Significant uncertainties remain around how funding and allocation decisions will be made, and around the principles guiding the definition of strategic priorities for investment. The CCT will most likely have to rely on analysis and expertise to support its decision, which could be a dedicated agency, a supporting entity, or within the Commission itself. Mobilizing a dedicated team and ensuring the CCT is able to access external knowledge and experts would be essential. The ECF further mentions that its Stakeholders Board will rely on an "observatory on emerging technologies". Ensuring cooperation between these different entities will be key for effective guidance and coordination.

Effective European coordination could accelerate project ramp-up if the tools proposed by the Commission are structured coherently. The ECF includes a new "EU Tech-Frontrunner" programme (article 17). It will take the form of industry-driven bottom-up calls to foster innovation. The ECF will also support IPCEIs directly through "top-ups for IPCEIs"[23] (article 19). It also introduces a "Seal of Competitiveness" (article 8), which aims to smooth award procedures by "certifying" projects compatible with competitiveness requirements. Strategic projects identified under CRMA (47 to date)[24] and NZIA will directly obtain this Seal. The Commission has already developed a similar tool, the "STEP Seal", which aims to act as a "badge of distinction" to give more visibility to promising clean and resource-efficient tech projects as well as digital tech, to attract EU and private finance. 130 projects have been awarded this STEP Seal in a first list of projects in December 2024,[25][26] but there is limited feedback about the effectiveness of this measure to date. The articulation with this existing STEP Seal is not specified in the ECF. Linking the Competitiveness Seal with these tools could be an opportunity for the EU to simplify and streamline the access to funding for European industrial projects, as long as the Commission avoids an unhelpful juxtaposition of overlapping initiatives, which creates additional hurdles for project holders.

3. AN OPPORTUNITY TO DESIGN AN EFFECTIVE EUROPEAN PREFERENCE FOR THE EU INDUSTRY

The Commission introduces the principle of European preference in the Competitiveness Fund with timid ambition. Article 10 of the ECF regulation describes a European preference principle which would allow the development of manufacturing and exploitation of strategic and sectors within the Union. Including the idea of European preference in the ECF opens

[22] Mission Letter for Commissioner Dombrovskis, September 2024

[23] So far, the EU has approved 345 IPCEIs projects, representing €37.5 billion in state aid, and €66.8 billion in private investment.

[24] European Commission (2025). Selected strategic projects under CRMA, March 2025.

[25] European Commission (2024). First list of STEP Seals, December 2024.

[26] STEP Seals are awarded by the Commission when projects meet STEP objectives under the following programmes: Innovation Fund, Digital Europe Programme, European Defence Fund, EU4Health programme, and Horizon Europe.

the debate on whether EU funds should be targeted to protect European industries, even if in its current wording, the ambition of this European preference principle is limited, and more of a suggestion than an obligation. It introduces the idea that project beneficiaries could have to fulfil some of the following criteria: being established, using facilities or performing activities in the EU; sourcing supplies and components from European entities; not being dependent on an entity based in a third country for decision-making; not transferring research results to a third country during the five years following the end of the project. To protect European strategic industries, the level of ambition concerning European preference within the ECF could be ramped up.

This debate around whether the EU should introduce a European preference principle comes at a time of growing challenges for Europe, notably linked to the inflow of cheaper clean techs on its market, such as solar panels or electric cars from China. Subsidies aimed at encouraging demand for these clean technologies have so far not been restricted to European technologies, sparking the concern that European public subsidies have funded and favoured foreign technologies. The idea is that introducing European preference criteria for EU funding could help secure investments in European value chains while avoiding subsidizing imports of cheap technologies from third countries.

Some legislations already include this principle: a secondary legislation of the Net-Zero Industrial Act (NZIA) of May 2025[27] imposed Member states to take a resilience criteria into account in public tenders, aiming to lower the dependence from third countries (especially China) for key technologies. As part of the Clean Industrial Deal, the Commission also adopted a new State Aid Framework and announced a revision of the Public Procurement Framework to introduce European preference criteria in EU public procurement for strategic sectors. Previous European legislation also already requires projects to be based within Europe: NZIA mentions in its article on selection criteria that Member States shall recognize as net-zero strategic projects net-zero technology manufacturing projects located in the Union, and the Innovation Fund "focuses on highly innovative technologies and flagship projects within Europe".[28]

This European preference principle can be a useful tool for industrial policy but only if it is well-designed to take into account potential trade-offs and identify strategic sectors. The trade-offs to be considered must be assessed in light of the strategic challenges facing each value chain: it might make more sense from an economic and environmental perspective to import cheaper solar panels from China, but ensuring Europe has a productive capacity for strategic technologies such as batteries or electrolyzers could be critical to avoid dependencies. The exact aspect of the value chain being targeted should be made explicit: looking at the origin of materials and components, at the technologies themselves, at whether products are assembled in Europe and therefore creating European jobs, and whether added value is captured on European soil. Following this logic, an effective preference criterion should address key bottlenecks to target key dependencies along the supply chain of products on the basis of an evaluation of downstream and upstream risks. For example, for a car, it should look at not only where the car is assembled, but also at where critical materials are sourced from, looking at critical parts such as battery components at every step of the value chain. Being precise on exactly the form and aim of a European preference will be important in upcoming discussions so as to avoid international retaliation and to maximize its impact.

[27] European Commission (2025). Commission Implementing Regulation, May 2025.

[28] European Commission: https://climate.ec.europa.eu/eu-action/eu-funding-climate-action/innovation-fund/what-innovation-fund_en

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