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GOVERNANCE FOR EUROPEAN INDUSTRIAL POLICY

COORDINATION, STRATEGIC PLANNING AND FISCAL CAPACITY

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EXECUTIVE SUMMARY

After decades on the margins, industrial policy has returned to the centre of the EU's priorities. The pandemic, the war in Ukraine, the energy shock and intensifying technological competition with the USA and China have turned competitiveness, decarbonisation and strategic autonomy into existential objectives. The Union's capacity to pursue them has not kept pace. Fiscal capacity remains predominantly national; the common budget stands below 1% of EU GDP; and the instruments of intervention are dispersed across programmes, institutions and levels of government. This policy study argues that the principal obstacle to an effective European industrial policy lies in the weakness of the mechanisms through which limited resources are selected, coordinated and evaluated. Without such mechanisms, even a substantial increase in funding would yield results below its potential.

The diagnosis

The policy study identifies four interconnected shortcomings. The first concerns the vertical dimension of governance – the relationship between the Union, member states and the regions. Under Article 173 of the Treaty on the Functioning of the European Union (TFEU), the Union supports and coordinates national policies, and its capacity to diagnose problems far exceeds its capacity to translate diagnosis into binding decisions on resource allocation. The regions programme investment through Smart Specialisation Strategies, yet they remain at the margins of the instruments the Commission treats as industrial policy proper. The second is the unresolved tension between the logic of the single market and the selectivity that industrial policy requires. The loosening of state-aid control, culminating in the 2025 Clean Industrial Deal State Aid Framework (CISAF), authorises more national intervention while leaving its distribution to the fiscal space of individual member states. Germany, France and Italy absorb around 70% of aid to Important Projects of Common European Interest (IPCEIs), while five member states have never participated directly in one. The third is horizontal fragmentation among national industrial policies, which produces duplication, subsidy races and firms of suboptimal scale. The fourth is the dispersion of European instruments themselves: a project moving from research to production at scale may have to change instrument, authority and evaluation criteria several times.

Part I: A new governance architecture

The policy study proposes an architecture that absorbs existing functions within a single locus of direction. At its centre is an Industrial Strategy Board coordinated by the Commission. It would bring together the relevant Directorates-General, member states, regions (through the European Committee of the Regions) and representatives of the European Parliament's ITRE Committee, and the Joint European Forum for IPCEI would be embedded within it. Priorities would be selected on five explicit criteria through a political decision subject to periodic review. They would be organised along three strategic axes (innovation, transition and interconnection) and translated into missions. National and Regional Industrial Pacts would turn missions into agreed commitments. European resources would follow these commitments through a European Industrial Fund, towards which the European Competitiveness Fund (ECF) should evolve. A cross-cutting conditionality rule and a common Strategy Dashboard would link resources to results. Three enabling conditions complete the architecture: democratic accountability through structured parliamentary reporting; administrative capacity, treated as a resource to be built in the weakest administrations; and an additional common

fiscal capacity of 1% of EU GDP, funded by new own resources and common borrowing tied to missions, which could become an ordinary component of the European financial architecture, including through a European Debt Agency.

Part II: The ECF

The Commission's proposal of 16 July 2025 merges 14 programmes into a €234 billion fund. Together with Horizon Europe and the Innovation Fund, it provides around €450 billion for 2028-2034, roughly 0.34% of EU GDP. The clean transition and digital leadership windows together receive €118.9 billion, including €41.2 billion from the Innovation Fund: around €17 billion a year, far below the estimated investment needs. The proposal moves in the right direction, yet its multiple boards, committees and policy windows – and its overlaps with Horizon Europe, the Innovation Fund and the Connecting Europe Facility – risk reproducing the fragmentation it seeks to overcome. It also widens the Commission's discretion over allocation, eligibility and exceptional procedures without commensurate safeguards or independent oversight. Its reliance on de-risking also leaves the direction of the transition largely to private profitability, with the risk that public money subsidises private returns without securing lasting industrial capacity, quality employment or balanced regional development. The policy study proposes targeted corrections:

- Binding boundaries between instruments, based on technology readiness and investment stage;
- Minimum eligibility, ownership and access-rights requirements set in the regulation itself, with the restriction on transferring results to third countries extended from five to 10-15 years and stronger clawback provisions;
- Social, environmental and territorial conditionality;
- Tighter safeguards on fast-track procedures;
- A stronger role for the European Investment Bank (EIB);
- Differentiated co-financing rates for IPCEIs;
- Greater resources for ecosystem building, with minimum funding, service and geographical coverage requirements for support to start-ups, SMEs and scale-ups;
- Above all, a borrowing capacity of up to €750 billion over the Multiannual Financial Framework (MFF) period, around 0.6% of GDP a year.

Part III: Reconciling fiscal rules and state aid

With European fiscal capacity constrained, the Union's industrial strategy will remain largely dependent on national budgets in the short term. Here, the two rulebooks pull in opposite directions. Through IPCEIs and successive frameworks culminating in the CISAF, the Commission has turned state-aid control into an instrument for steering national subsidies towards common priorities. The reformed Stability and Growth Pact, however, provides no exemption in its net expenditure path for investment serving EU strategic objectives, and thus denies many high-debt member states the fiscal room to use that latitude. Subsidy capacity thus tracks fiscal strength rather than project merit, fragmenting the single market and eroding the credibility of the Union's priorities.

The policy study proposes excluding two kinds of national spending from the net expenditure path: aid already approved under CISAF and national contributions to approved IPCEIs. This would happen through a coordinated activation of the national escape clause under Article 26 of Regulation (EU) 2024/1263, capped at 1.5% of GDP per year and tied to CISAF's horizon: the flexibility would lapse with the framework in 2030, unless a comparable one is adopted. The reform requires no Treaty change and no new instrument. It builds on the precedents set for defence in 2025 and for energy security in 2026, while giving green industrial policy a dedicated and

stable framework. Its design meets the concerns of fiscally conservative member states: DG COMP determines eligibility ex ante; the deviation is capped and reversible by design; and compliance can be monitored through the state-aid scoreboard and the European Semester. CISAF's provisions on social and territorial conditionality would allow member states and social partners to tie the additional fiscal space to quality jobs, fair wages and regional development.

INTRODUCTION

Simone Oggionni

After decades on the margins of the European economic agenda, industrial policy has returned to the heart of the Union's priorities (Manzella and Panucci, 2025). The pandemic, the war in Ukraine, the energy crisis, the reorganisation of global value chains, and intensifying technological competition with the USA and China have accelerated a process already underway since the 2008 financial crisis. These changes have brought a question that the European institutional architecture was not fully designed to address back to the fore: how to define and govern a common industrial strategy in a Union where fiscal capacity remains predominantly national; the common budget is limited; and intervention instruments are fragmented across multiple programmes, institutions and levels of governance.

The 2024 Letta and Draghi reports gave authoritative form to a diagnosis already widespread in the literature on European political economy (Bulfone, 2023; McNamara, 2023): the Union's competitive gap with respect to the USA and China reflects an insufficient level of investment and, to an equally significant degree, dispersion of the instruments through which investment is financed and implemented. A third factor compounds the first two: without a clear and stable hierarchy of priorities, the expected return on long-term investment remains uncertain and, from a Keynesian perspective, resources shift towards liquid financial assets (Masini and Nania, 2023).

Two policy problems follow from this diagnosis. The first concerns the availability of resources: funding for European industrial policy remains limited, and its expansion is constrained by member states' veto power over decisions on the common budget and common debt. The second concerns the institutional architecture: the plurality of actors involved (the European Commission, member states, the European Investment Bank (EIB) and the regions); the persistent tension between the European and national levels; and the multiplicity of sectoral programmes make it difficult to bring interventions together in a common design and to give investors a stable strategic direction, the absence of which, as noted, discourages long-term investment. This policy study focuses on the second problem. Our thesis is that the principal obstacle to strengthening European industrial policy lies in the weakness of the mechanisms through which resources – themselves limited – are selected, coordinated and evaluated. Even a significant increase in resources would risk yielding results below their potential in the absence of a structure capable of selecting priorities, coordinating instruments, linking commitments to resources and learning from results.

The European Commission's proposal to establish a European Competitiveness Fund (ECF), presented on 16 July 2025 as part of the 2028-2034 Multiannual Financial Framework (MFF), moves in this direction. The ECF aims to bring together numerous currently separate programmes within a structure more clearly oriented towards competitiveness, innovation and strategic investment. In light of this proposal, the central question this policy study seeks to answer is how European governance should be organised so that still-fragmented resources can be transformed into a coherent, selective and verifiable industrial policy.

The policy study is organised in three parts. The first analyses the main institutional and financial constraints that limit the effectiveness of European industrial policy and proposes a reorganisation of governance around an Industrial Strategy Board, National and Regional Industrial Pacts, and a common monitoring infrastructure. The second focuses on the ECF, assessing its architecture and identifying institutionally and politically realistic corrections,

from stronger conditionality and safeguards on fast-track procedures to endowing it with a substantial borrowing capacity of its own. The third addresses the financial dimension, with particular attention paid to the relationship between the European fiscal framework and the loosening of state-aid rules, and proposes excluding national aid already approved under the Clean Industrial Deal State Aid Framework (CISAF) and the framework for Important Projects of Common European Interest (IPCEIs) from the net expenditure path of the Stability and Growth Pact (SGP), through a coordinated activation of the national escape clause provided for under existing law.

The thread linking the three parts is the construction of an effective European structure for governing industrial policy. It is this capacity to transform dispersed resources and instruments into coherent collective action that will ultimately determine whether the return of industrial policy translates into a lasting strengthening of European competitiveness.

PART I: TOWARDS A NEW GOVERNANCE FOR EUROPEAN INDUSTRIAL POLICY

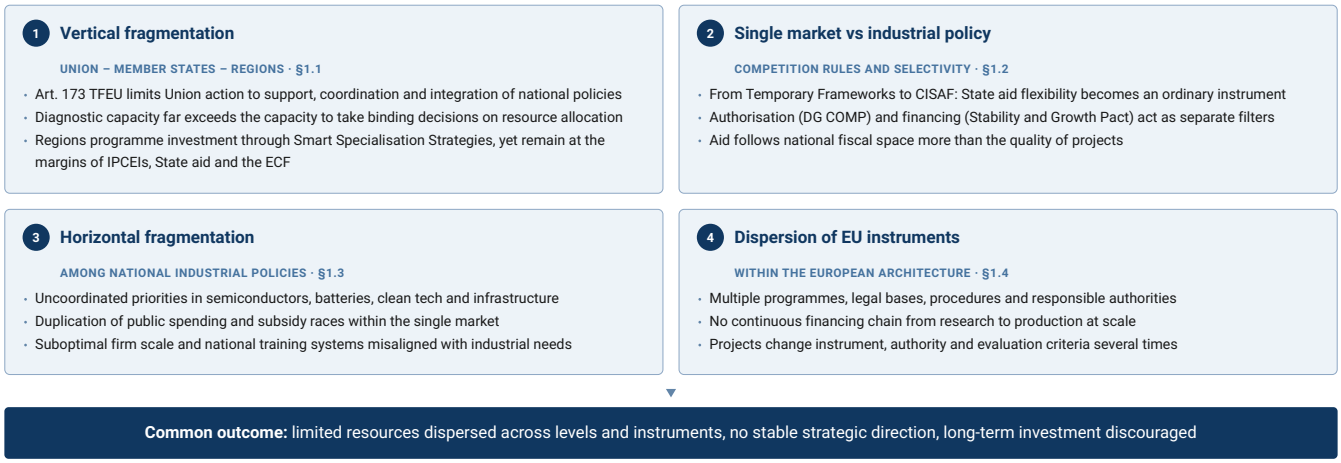
Simone Oggionni

1. The diagnosis: The limits and contradictions of the current framework

The ineffectiveness of European industrial policy stems from the combination of four shortcomings that are analytically distinct but closely interconnected (Box 1). Each of them is outlined briefly below and analysed in detail in the sections that follow. The first concerns the vertical dimension of governance – the relationship between the Union, member states and the regions: on one hand, it limits the European level's capacity to exercise a strong and coherent strategic direction; on the other, it fails to fully harness the potential of the regions as proximity actors (Section 1.1). The second relates to the unresolved tension between the logics of the single market and competition and those of industrial policy, which are also examined here in relation to the progressive loosening of the state-aid regime (Section 1.2). The third concerns horizontal fragmentation, driven by limited coordination among member states' industrial policies, which fosters duplication, widens asymmetries and fuels strategies that are not always consistent with common objectives (Section 1.3). The fourth concerns the fragmentation of the instruments through which the Union pursues its industrial objectives: the multiplicity of programmes; the diversity of legal bases; the heterogeneity of procedures; and the distribution of responsibilities across different instruments and decision-making levels make it difficult to bring European intervention together within a unitary, coherent and recognisable strategy (Section 1.4).

Box 1. Four shortcomings of European industrial policy

Analytically distinct, closely interconnected



Source: authors' elaboration with the support of AI tools.

1.1 Institutional fragmentation and the weakness of strategic direction

Under Article 173 TFEU, Union action in industrial matters is one of support, coordination and integration of national policies. The Commission sets common regulatory conditions, promotes coordination and mobilises resources through European programmes, but it does not hold a general competence comparable to that of a state in defining and implementing industrial policy. This arrangement reflects the very genesis of European integration, which is built primarily around the internal market and the protection of competition rather than around a centralised function of economic direction.

The problem has become more evident as the Union has, in recent years, chosen to pursue ambitious and closely interdependent objectives – from decarbonisation to digitalisation, from research to the resilience of value chains – while being forced to do so through a heterogeneous set of regulatory, financial and coordination instruments. The most recent literature describes this arrangement as mission-oriented in its objectives but hybrid and fragmented in implementation: priorities are relatively stable, while their implementation remains dispersed across different programmes, instruments and levels of governance (Hornkohl and Pelekis, 2025).

The Commission's own coordination venues confirm this gap. The Industrial Forum, established to support the March 2020 European Industrial Strategy, gathers information and fosters dialogue between the Commission, member states and businesses, without binding steering powers or autonomous programming capacity. This reflects a pattern of a general nature: the Union's diagnostic capacity – gathering information, coordinating dialogue among actors, identifying problems – is significantly greater than its prescriptive capacity, that is, its ability to translate diagnosis into binding decisions on resource allocation.

Alongside the difficulties stemming from the relationship between the Commission and member states, and from the Commission's own capacity to act, there is tension affecting the regional level of governance. Although they are, in many member states, the natural nodes of integrated industrial ecosystems – where human capital, production chains, research centres and infrastructure combine effectively (Eurofound, 2018) – the regions occupy an asymmetric role, depending on the instrument in question. Through the Smart Specialisation Strategies (S3) and the associated entrepreneurial discovery process, since 2014 they have held a genuine programming role in selecting investment priorities for research and innovation, co-financed by the European Regional Development Fund, the second-largest fund by allocation in the Union budget after the European Agricultural Guarantee Fund of the Common Agricultural Policy (Foray, 2015; Pugh, 2018; Gianelle et al., 2024). In this sense, S3 already constitute a form of place-based industrial policy built around territories' comparative advantages, with substantial financial resources behind them. This programming margin does not, however, guarantee alignment with the industrial priorities actually defined, or definable, at the European level: through its own entrepreneurial discovery process, a region may legitimately select production specialisations that do not coincide with common strategic objectives, incurring a structural risk of misalignment that the process itself, as designed, has no means to correct. On top of this, in the field of instruments the Commission regards as more properly "industrial policy" (IPCEIs, state aid and now the ECF), the regions remain on the margins of priority setting, relegated to a largely executive role.

The two tracks – the shared programming of S3 and the centralised management of industrial policy instruments proper – remain poorly coordinated with one another, and the most recent literature describes the former as being progressively eroded by a recentralisation of cohesion policy, which tends to constrain precisely those regional programming margins that S3 had consolidated (Molica et al., 2025). This gives rise to tension between cohesion policy objectives and industrial policy objectives, with significant implications for the Union's overall strategic coherence (Letta, 2024).

1.2 The unresolved tension between competition, the single market and state intervention

The weakness of strategic direction is intertwined with a second source of tension also embedded in the very architecture of European integration: that between the logic of the single market and competition, which rests on supposedly neutral and uniform rules, and the logic of industrial policy, which presupposes the possibility of selectively supporting specific actors, sectors or technologies according to politically determined goals. The evolution of the state-aid regime shows how this tension was initially managed through temporary derogatory instruments. The Temporary Framework adopted during the COVID-19 pandemic, followed by the Temporary Crisis Framework introduced in response to the 2022 energy shock and subsequently absorbed into the Temporary Crisis and Transition Framework (TCTF), progressively widened the scope for national intervention, while initially remaining tied to an emergency logic. The TCTF, in particular, introduced a matching-aid clause, allowing national governments to match the support a firm could obtain by relocating its activity outside the Union, in response to the competitive pressure exerted by the subsidies of the US Inflation Reduction Act (IRA; Di Carlo et al., 2025).

With the experience accumulated through these successive frameworks, however, a different understanding gradually emerged: the flexibility tested during crises could also be used to support structural transformations, from decarbonisation to the reorganisation of value chains (Hornkohl and Pelekis, 2025). This shift was institutionalised through the CISAF, which replaced the emergency logic with a medium-term regulatory horizon, valid until 2030 and directly linked to the objectives of the green and digital transition (see Section 7.2). This amounts to a change in the very function of flexibility, which moves from an exceptional response to an ordinary instrument accompanying Europe's industrial transformation (Di Carlo et al., 2026).

The problem is that this transformation makes it harder to reconcile two objectives that the state-aid regime was originally designed to hold together. On one hand, loosening constraints increases the risk of subsidy races and competitive distortions among member states; on the other, keeping them tight could leave European firms exposed to competition from extra-EU actors backed by more aggressive industrial policies. Flexibility thus solves the problem of authorising national intervention, leaving both its distribution and its coherence with a common industrial policy open. The state-aid regime, governed by Articles 107-108 TFEU, continues to have as its core function the protection of competitive conditions in the single market, while industrial policy requires precisely the capability to differentiate support according to strategic priorities (Jansen, 2016; Millot and Rawdanowicz, 2024).

The difficulty becomes even more evident when one considers a state's capacity to finance aid, beyond its compatibility. Authorisation of an intervention by the Commission's Directorate-General for Competition (DG COMP) under Articles 107-108 TFEU does not imply that the state has the resources necessary to implement it. The actual ability to disburse aid depends on national fiscal space, which, in turn, is shaped by the level of public debt, budgetary room for manoeuvre and market financing conditions. The widening of regulatory margins can thus produce deeply asymmetric effects: states with greater fiscal capacity can support their strategic sectors more quickly and more extensively, while those more constrained by debt face limits e ven when they have industrially comparable projects. Competition to attract investment thus risks depending on states' spending capacity rather than on the relative quality of projects, weakening the goal of convergence towards common industrial priorities (Letta, 2024; Di Carlo et al., 2024). Over time, these asymmetries tend to become cumulative. States able to finance their strategic sectors strengthen their productive base and, with it, their future fiscal capacity, while others fall further behind. Flexibility in state aid thus risks widening gaps in GDP per capita among member states, running counter to the Union's cohesion objective and eroding the shared sense of strategic direction on which a common industrial policy depends.

This asymmetry is further reinforced by the fact that state-aid discipline and fiscal discipline operate through separate procedures. Competitive compatibility is assessed by DG COMP, while the sustainability of related spending falls under the SGP, as reformed in 2024, and its net expenditure path, which introduces no specific treatment for spending required to finance authorised state aid. The two constraints thus act as distinct and cumulative filters: the first determines whether a state may grant aid; the second, whether it can afford to do so. Part III proposes a corrective measure targeted precisely at this second level, addressing the relationship between fiscal rules and already-authorised state aid (see Section 9).

The issue also concerns the institutional capacity to make effective use of existing instruments. The General Block Exemption Regulation (GBER) has acquired a central governance role in the state-aid regime, and the literature traces its expansion to a problem of administrative capacity: after the 2004 Eastern enlargement, the Commission was no longer able to directly manage the growing volume of notifications, and progressively expanded exempted aid categories to concentrate its oversight resources on the largest and potentially most distortive cases (Bulfone et al., 2026; Pesaresi and Peduzzi, 2018). GBER has thus decentralised the application of a significant part of the discipline to member states, while eligible categories, market failures and the criteria for calculating the funding gap remain defined at the European level. Administrative decentralisation, in other words, does not amount to shared industrial programming.

IPCEIs bring this combination of financial and institutional constraints into particularly sharp relief. Between 2018 and 2025, 11 IPCEIs were launched, comprising 345 projects and mobilising over €100 billion in combined state aid and private investment. The distribution of these resources remains heavily concentrated: Germany is the most active country, with 90 project participations and 34.7% of the state aid disbursed; Germany, France and Italy together absorb around 70% of the aid, while Bulgaria, Cyprus, Latvia, Lithuania and Luxembourg have not directly participated in any IPCEI (Fontana, 2025). This concentration reflects fiscal space and the administrative capacity that IPCEIs require to build transnational coalitions, negotiate with the Commission and structure projects that meet complex requirements. In the absence of adequate European co-financing, project selection may thus depend as much on member states' financial and administrative capacity as on the industrial merit of the projects themselves (the ECF's potential to co-finance IPCEIs is discussed in Section 6.6; the exclusion of national IPCEI contributions from fiscal rules is proposed in Section 9.1).

Finally, a problem of decision-making speed compounds this issue. IPCEIs are designed to support investment at the technological frontier, yet forming and approving the consortia takes between 18 months and two years. In the context of accelerated technological competition, such a lag can reduce the strategic value of the intervention: the technology identified as a priority at the time of selection may have already lost some of its relevance by the time support actually becomes available. The question, therefore, concerns how much the Union can spend and which projects it can authorise, and whether existing governance is able to select and support strategic investment in a timely manner, without making that capacity dependent on the financial and administrative resources available to individual member states.

1.3 The fragmentation of national policies

Alongside these tensions is a further, horizontal, form of fragmentation: that among the industrial policies of individual member states, which often remain uncoordinated even when pursuing convergent objectives. Each state defines its own sectoral priorities, business-support instruments and investment-attraction strategies, including in areas where national priorities could significantly coincide or converge – semiconductors, batteries, clean technologies, energy and digital infrastructure – generating duplication of public spending on similar objectives and, in some cases, fiscal and regulatory competition among member states.

The result is also a reduction in the Union's overall bargaining power vis-à-vis extra-EU actors.

The absence of coordination among national industrial policies produces negative externalities within the single market. When member states compete individually to attract the same investment – a battery plant, a semiconductor gigafactory – competition can turn into a subsidy race (Jäger and Redeker, 2025, pp. 10-11), while the lack of integration among production chains reduces the technological spillovers that greater cooperation among states would make possible: projects that remain confined within national borders forgo opportunities for mutual learning and economies of scale in applied research that a fully integrated production chain could instead generate.

The problem also concerns the scale of European firms. Economic research has documented how the fragmentation of national markets contributes to a suboptimal scale for European firms, even in sectors where the Union, taken as a whole, would have the resources and capabilities needed to compete with the USA and China. The simple sum of 27 imperfectly integrated national markets does not automatically produce a continental market with the same scale and depth as that of the USA or China (Hodge et al., 2024).

Alongside the fragmentation of capital sits that of skills. The green and digital transition also requires a rapid, large-scale recomposition of the skills available in the European workforce. Education and vocational training systems, however, remain organised almost entirely at the national level, with a persistent mismatch between training supply and industrial needs that no current European instrument is able to correct systematically (Durazzi et al., 2024). The consequence is that a strategic supply chain may have adequate financial resources – through IPCEIs, state aid or private capital – and still lack the skilled workforce needed to develop it: a bottleneck on the skills supply side that no level of investment alone can offset if national training systems do not converge on the same industrial priorities.

1.4 A maze of programmes: The dispersion of European instruments

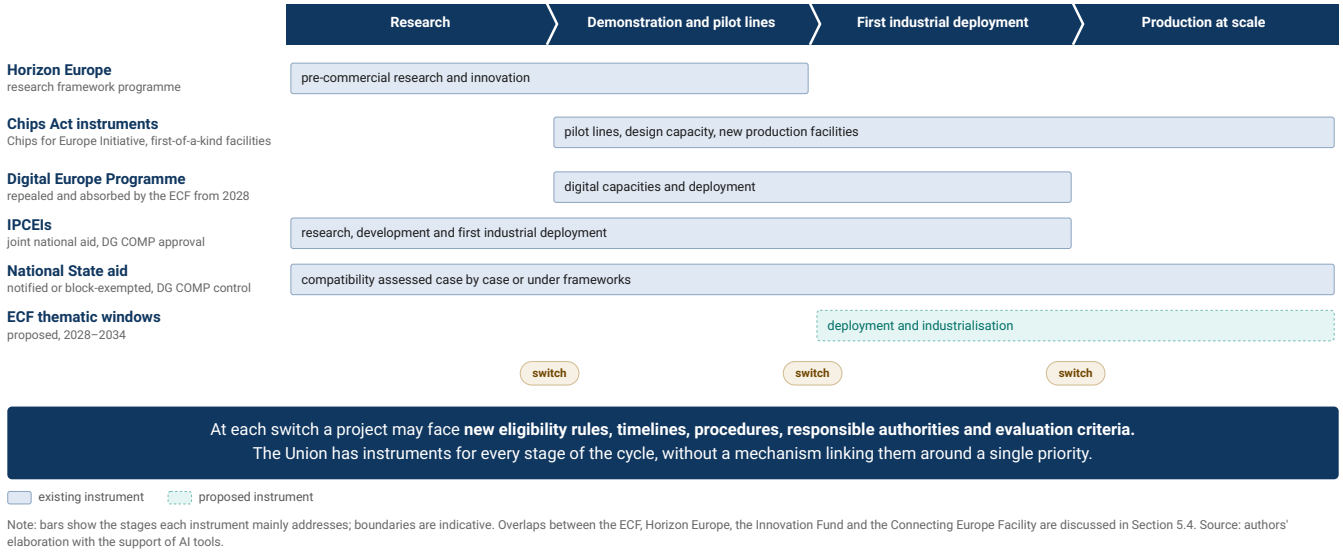
Finally, there is a level of dispersion internal to the European architecture itself. Even where member states share an objective, the Union tends to pursue it through a multiplicity of programmes that do not form a coherent sequence throughout the industrial cycle (for an example, see Box 2). The case of semiconductors is emblematic. A member state seeking to develop a national supply chain must navigate simultaneously the state-aid regime, the Digital Europe Programme, the instruments provided under the Chips Act, any applicable IPCEIs and the thematic windows of the future ECF (the overlap of which with Horizon Europe, the Innovation Fund and the Connecting Europe Facility (CEF) is discussed in Section 5.4).

Each of these instruments has its own eligibility rules, timelines, procedures and governance criteria. The result is higher administrative cost and, above all, difficulty in building a coherent financing chain from research to production (Resende Carvalho, 2025).

Compounding the access problem, and even more significantly, is the problem of continuity of support. A project requiring financing throughout the entire development cycle – from research to the demonstration phase and then production at scale – may be forced to change instrument, responsible authority and evaluation criteria multiple times. This produces a form of fragmentation that is as much administrative as it is strategic: the Union has numerous instruments for intervening at different stages of the industrial cycle but not always a mechanism able to link them around a single priority and accompany a project from innovation through to market diffusion.

Box 2. A maze of programmes: the case of semiconductors

Instruments a member state must navigate to build a national supply chain (indicative coverage)



Note: bars show the stages each instrument mainly addresses; boundaries are indicative. Overlaps between the ECF, Horizon Europe, the Innovation Fund and the Connecting Europe Facility are discussed in Section 5.4. Source: authors' elaboration with the support of AI tools.

2. A new architecture for European industrial policy

Section 1 reconstructed the reasons for the weakness of European industrial policy, so this section develops the central proposal of Part I of the policy study: to build a governance architecture capable of bringing together instruments, resources and competences currently distributed across different institutional levels and sectoral programmes within a common strategic framework.

The proposal is situated, first and foremost, within the framework of the Treaties as they stand. A significant part of the governance reforms outlined here can in fact be achieved through a more coherent and ambitious use of the competences, instruments and margins of flexibility already available. Wherever a proposal requires a formal amendment to the treaties, this is explicitly indicated. The decision to concentrate the proposal mainly within the existing treaties does not imply that the current constitutional architecture is sufficient in every respect; it reflects, rather, the conviction that a substantial part of the reorganisation of European industrial policy need not necessarily await a comprehensive treaty revision.

It is the most recent legal literature that details the existing room for manoeuvre (Dermine and Patrin, 2024). Article 173 TFEU could be interpreted, or amended, to strengthen European capacity to act in strategic sectors. Articles 107 and 108 TFEU could provide for targeted derogations and accelerated procedures for mission-oriented projects or projects of common European interest, reducing the authorisation timelines that represent a significant operational constraint. A reform of Article 4(2) TFEU could explicitly **include industrial policy among the Union's shared competences**, reducing the current asymmetry between the importance of European industrial objectives and the limited scope of the relevant legal competence. That this is not merely a matter confined to academic debate is shown by the resolution adopted by the European Parliament on 22 November 2023, following the Conference on the Future of Europe, which proposed a shared competence in industrial matters explicitly modelled on the precedent of Article 194 TFEU on energy (Lazzerini, 2023). Article 310 TFEU, concerning budgetary balance, could likewise be amended to allow for permanent forms of common financing and mission-oriented instruments not limited to exceptional circumstances.

A separate issue concerns the decision-making process on the Union's financial resources. **Extending qualified-majority voting to strategic decisions currently subject to unanimity** – particularly in the field of own resources and the MFF – would constitute a reform of particular significance. As noted in the introduction and developed in Section 3.4, the limits of European fiscal capacity do not depend on the volume of available resources alone. Even a larger budget would continue to run into distributive conflicts among member states if the fundamental decisions on its constitution and use remained subject to national veto. In our view, extending qualified-majority voting would represent the structural solution to the veto problem in building a common fiscal capacity.

This policy study does not, however – as noted – treat this as a precondition for the entire architecture proposed. Much of the strategic coordination, priority-setting, integration of existing instruments and cooperation among states can be built through the instruments already provided for under the treaties and through forms of differentiated integration (Box 3).

One final clarification is needed with respect to the diagnosis set out regarding the fragmentation of current governance. The proposal introduces several new, and decisive, institutional mechanisms, having identified the proliferation and fragmentation of instruments as one of the causes of the weakness of European industrial policy. The aim is rationalisation: the new mechanisms proposed here are not added alongside existing ones, but absorb their dispersed functions within a single locus of direction. Every new body introduced replaces, or brings into coherence, functions currently distributed across different programmes and institutional venues.

Box 3. Room for manoeuvre: existing Treaties and Treaty change

What can be built now and what would make the architecture permanent

Achievable within the existing Treaties

Can proceed immediately

Steering	Industrial Strategy Board coordinated by the Commission, with the Joint European Forum for IPCEI embedded (§2.1, §2.4)
Commitments	National and Regional Industrial Pacts; cross-cutting conditionality (§2.3)
Instruments	Integrated funding line for the technological risk cycle; corrections to the ECF (§2.2, Part II)
Monitoring	Strategy Dashboard, decision traceability and parliamentary reporting (§2.3, §3.1–3.2)
Flexibility	Enhanced cooperation for willing member states (Art. 20 TEU; Arts. 326–334 TFEU)
Fiscal rules	Exclusion of approved CISAF and IPCEI aid from net expenditure via the national escape clause (Art. 26, Reg. (EU) 2024/1263; Part III)

Requires Treaty change

Longer-term horizon

Art. 4(2) TFEU	Industrial policy as a shared competence, as proposed by the European Parliament on 22 November 2023 on the model of Art. 194 TFEU (energy)
Art. 173 TFEU	Stronger European capacity to act in strategic sectors (by interpretation or amendment)
Arts. 107–108 TFEU	Targeted derogations and fast-track procedures for mission-oriented projects and projects of common European interest
Art. 310 TFEU	Permanent common financing and mission-oriented instruments beyond exceptional circumstances
Decision rules	Qualified-majority voting on own resources and the MFF: the structural answer to the national veto

Treaty change is **not a precondition**: most of the architecture can be built now, in preparation for the reforms that would make it permanent.

achievable within the existing Treaties requires Treaty change

Source: authors' elaboration with the support of AI tools, based on Dermine and Patrin (2024) and Lazzerini (2023).

2.1 Multilevel governance: Commission, Industrial Strategy Board, states and regions

The starting point for governance reform is a redefinition of the relationship between the three levels of government. The framework to be achieved is that of a networked ecosystem in which the Union, member states and regions form interdependent nodes of a single institutional architecture. Draghi (2024a) moves in a similar direction, through the proposal for a Competitiveness Coordination Framework grounded in a strong political mandate from the European Council and a strengthened executive capacity for the Commission. The Commission has taken up this proposal in the Competitiveness Compass (European Commission, 2025a) through the Competitiveness Coordination Tool (CCT), currently being tested on a set of strategic value chains through joint projects involving the EU, member states and industry. This policy study shares the need for greater strategic coordination. It proposes, however, to develop this approach through a logic of co-construction, in which European direction is combined with national implementation capacity and with knowledge of territorial production specialisations.

The institutional framework should be built around **an Industrial Strategy Board coordinated by the European Commission**. From a formal legal standpoint, the Board would operate as a technical-strategic steering structure: responsibility and ownership of executive decisions would remain entirely with the Commission, which would answer for them before the relevant political bodies. The Industrial Strategy Board would constitute the standing forum for consultation and proposal through which the Commission would recommend priorities; assess the coherence of plans; and coordinate action among its own internal structures, member states and the regions.

The technical-strategic character of the Board nonetheless raises the question of democratic accountability, which the proposed architecture addresses through a structured relationship with the European Parliament and, in the first instance, with its **ITRE** Committee (Industry, Research and Energy): its **representatives** would **sit permanently on the Board**, as part of the composition set out below, while the Board would report periodically to Parliament. Both mechanisms are developed in Section 3.1.

The Commission's central role requires, first of all, a strengthening of internal coordination. European industrial policy involves competences spread across DG GROW, DG REGIO, DG RTD, DG COMP, DG ECFIN and DG BUDG. Fragmentation among these structures is a contributing cause of the dispersion criticised above. In its ordinary configuration, the Board would perform a coordinating function among the DGs most involved in industrial policy, research, cohesion and innovation, together with representatives of member states, the regions and the European Parliament's ITRE Committee. For assessments requiring an integrated composition across industrial policy, competition and financial resources, it could convene in an extended formation, involving DG COMP, DG ECFIN and DG BUDG, together with the EIB Group for matters concerning financial instruments. The regions would be represented through a limited number of members designated by the European Committee of the Regions on a rotating basis, to balance territories with different production specialisations and levels of development.

Within this configuration, the Commission and the Industrial Strategy Board would have a greater capacity to coordinate the translation of the political mandate – which remains, pending a reform of the Union's federal architecture, a matter for intergovernmental negotiation – into missions, participation criteria, instruments and implementation mechanisms.

Building a European steering capacity of this kind inevitably runs up against the question of member state sovereignty. A genuinely common industrial policy requires a greater degree of integration than currently exists, but top-down centralisation would be politically difficult and, as noted, conceptually mistaken. The solution proposed is therefore a gradual, incentivised process of integration, the pace

of which may differ from one mission to another: member states would retain legal and administrative ownership of their own instruments, while entering into agreed commitments – **in the form of National Industrial Pacts**, as discussed in Section 2.3 – with respect to the missions in which they choose to participate. The Commission, through the Industrial Strategy Board, would assess the coherence of these commitments with mission objectives and, on that basis, determine the allocation of resources.

Differentiated integration is also an instrument to draw on. Where not all states are willing to participate in a given initiative, a group of member states could proceed through enhanced cooperation (Article 20 of the Treaty on European Union and Articles 326-334 TFEU), which remains open at any time to other member states and may neither undermine the internal market nor constitute a barrier to trade or a distortion of competition between member states (Article 326 TFEU). This also limits the cost of gradualism: where a group of member states is ready to proceed on a mission, it need not wait for the others, while the USA and China decide and implement their industrial strategies at speed.

The regions, for their part, constitute fundamental active nodes of this architecture. Through their own innovation, training, industrial development and cohesion policies, they are called upon to contribute to the construction of **Smart Industrial Regions** – territorial ecosystems in which public resources, businesses, SMEs, universities and research centres are coordinated around the development of specific production and technological capabilities (Eurofound, 2018). Given this central role, they are represented in the Industrial Strategy Board, as set out above.

The European function would thus be to connect territorial programming to continental priorities, without replacing it, to prevent individual regional specialisations from remaining confined to purely local or national strategies.

2.2 From priorities to missions: Strategic selection and programming

The coordination logic set out above requires a shared framework of priorities within which to integrate different instruments and verify coherence among objectives, resources and results. The Union has already experimented with mission-based forms of programming, notably through the Horizon Europe missions, the design of which drew on Mazzucato (2018), and, in a different field, through the instruments linked to the green transition and the Green Deal Industrial Plan. The problem to be addressed is the insufficient integration of this mission-oriented, programming-based logic into the European governance architecture. Innovation, sustainability, economic security and production capacity continue to be addressed through different programmes and institutional venues, without a sufficiently clear system of common priorities.

If the envisaged logic starts from the selection of priorities – the production and technological capabilities on which to concentrate public resources, coordination and investment capacity – what remains to be clarified are the criteria by which this selection should take place. Priorities, first of all, must be periodically reviewed, on a predictable cycle, since technologies, value chains, geopolitical conditions and strategic dependencies change over time. Selection cannot, however, be entrusted to a technical, or worse an algorithmic, automatism: indicators can inform the decision, but the choice of overarching priorities remains, necessarily, political in nature.

The process should be structured as follows. The Industrial Strategy Board should carry out a periodic assessment of European capabilities, external vulnerabilities and technological opportunities. On the basis of these analyses, the Commission – acting through the Board it coordinates – should take responsibility for defining strategic priorities and the associated missions, through a reasoned proposal to be put to all relevant political bodies, in accordance with their respective decision-making prerogatives.

This assessment should rest on five main criteria, which build on the design principles set out by Rodrik (2008): public support should target new activities, defined independently of the sector to which they belong, with clear potential for spillovers and demonstration effects.

The first is the potential for technological and productive transformation: priority should be given to activities capable of generating new capabilities and producing diffusion effects across other supply chains. The second is systemic relevance. Strategic status may attach not only to final products or sectors, but also to infrastructure and enabling technologies on which a broader set of economic activities depend. The third is the degree of external dependence and geopolitical vulnerability, which is assessed through supply concentration, the substitutability of suppliers, control over critical segments and exposure to disruptions in value chains. The fourth is Europe's capacity to build or consolidate a productive and technological advantage. Industrial policy must naturally contribute to building new capabilities, but selection must take account of the scientific, productive and infrastructural competences from which Europe can realistically start. The fifth is the contribution to broader transformation objectives, including decarbonisation, the quality and level of employment, and the capacity to regenerate territories and supply chains. These criteria are close – though arising from distinct premises – to the notion of "key industries" developed in the debate on European strategic autonomy centred on market power, centrality to future innovation, breadth of spillovers and the criticality of hard-to-source components (Dullien and Hackenbroich, 2022). Our own proposal starts from the political economy of governance; that notion starts from the geoeconomic analysis of value chains and economic security. The two perspectives converge in identifying the same distinctive features of what merits public support.

Priorities, selected according to these criteria and, ultimately, according to a principle of political choice, should be organised along **three strategic axes: innovation; transition; and interconnection**. Specific missions – with objectives, time horizons, indicators and instruments consistent with the nature of the capabilities to be built – should be defined within each axis.

The first axis concerns innovation and the building of new technological capabilities. Here, Europe does not start from a position of weakness in terms of resources devoted to pre-industrial research: Horizon Europe has an allocation of €95.5 billion for 2021-2027, of which over €10 billion is earmarked for the European Innovation Council (EIC), the instrument already dedicated to financing high-risk, high-impact innovation, and the Commission has proposed almost doubling the programme to €175 billion for 2028-2034. The problem lies, however, in managing existing resources. As noted in Section 1.4, a project moving from research to demonstration and scale-up may have to change instrument, procedure and evaluation criteria several times; within Horizon Europe itself, the funding for pre-commercial research, which is spread across the programme's general pillars and the EIC instruments dedicated to scale-up and commercialisation, remains administratively separate. Horizon's application mechanism is also under growing strain, with success rates for projects in steady decline – from 16.4% in 2024 to 14% in early 2026 – and an administrative burden that risks undermining its selective effectiveness.

The proposal put forward here is a rationalisation of existing instruments: **an integrated funding line covering the technological risk cycle** – from pre-commercial research (R&D&I) to early stage scale-up – through differentiated risk segments. Industrial deployment would then fall within the European Industrial Fund (EIF) described in Section 2.3, so that each stage of the cycle has a single, clearly identified instrument. In the high-risk research segment, the experience of the US DARPA offers a useful reference for certain features of its organisation: the funding of high-uncertainty programmes; a focus on well-defined technological objectives; competitive selection; and continuous evaluation of results (Bonvillian, 2018; Azoulay et al., 2019; Bulfone et al., 2024; Terzi et al., 2023, pp. 855-856). The EIC has already moved in this direction by

introducing programme managers inspired by this model; the integrated funding line would extend that approach to the entire high-risk segment. In the early stage scale-up segment, subsidised finance should be combined with equity instruments to accompany the transition from technological innovation to production capacity and reduce the risk that a lack of capital pushes Europe's most promising firms towards relocation or acquisition by external operators. In both segments, support should go to technologies and programmes selected through open competition, avoiding the pre-selection of individual firms, as in the most successful US experiences (Hufbauer and Jung, 2021).

Two conditions determine whether this approach can work in Europe. The first is demand. DARPA's effectiveness depends on a condition that is hard to transfer: the presence of a public customer, the US Department of Defense, able to absorb the technologies it finances. In the European context, this function can be partly performed by the demand-side instruments discussed in Section 2.4, from European preference in public procurement to lead-market policies. The second is a stable public mandate. The Joint European Disruptive Initiative, launched in 2018 as a Franco-German initiative, shows the limits of attempts to adapt the DARPA model outside the Union's architecture: as an independent foundation, it depends mainly on private funding, in the absence of a stable public European mandate.

The second axis concerns the transition and transformation of the supply chains needed for the decarbonisation of the European economy. European resources should be directed towards reducing emissions and building the industrial capacity needed to produce the technologies, infrastructure, and goods required for the transition. A funding channel already exists in this direction and can be strengthened: a substantial share of Emissions Trading System (ETS) auction revenues flows directly into the EU Innovation Fund, one of the largest programmes in the world for financing low-emission and net-zero technologies, with a projected allocation of around €40 billion for 2020-2030 (for 2028-2034, the Commission proposes €41.2 billion to be integrated into the ECF framework; see Section 5.1). The proposal put forward here is to expand this channel – possibly integrating it with revenues generated by the Carbon Border Adjustment Mechanism (CBAM) – to finance, more systematically, investment consistent with the productive transformation required by climate objectives.

The third axis concerns interconnection. Building European industrial capacity requires shared infrastructure and networks capable of linking research, innovation and production on a continental scale. This axis should cover research infrastructure; high-performance computing capacity; technological networks; and the platforms through which universities, research centres and businesses can co-operate.

A central component of this axis is European cloud capacity. Cloud computing, access to computing power and data management have become infrastructure on which a growing share of innovation and production capacity depends. The goal is to develop a European ecosystem of interoperable infrastructure and services, moving towards **a coordinated public cloud environment**.

2.3 From missions to implementation: Pacts, resources, conditionality and monitoring

Once priorities have been defined and organised into missions, the challenge becomes translating them into concrete commitments. This requires linking programming, national and regional responsibilities, European resources, and results verification.

The main instrument connecting European strategy to national implementation should be the National Industrial Pacts. The pacts should translate the missions each state chooses to join into a defined, agreed set of commitments: planned investment; production capabilities to be developed; innovation objectives; implementation timelines; national contribution; and expected results.

Financing these commitments requires a dedicated European instrument – **the EIF** – put forward here as the architecture towards which European industrial policy should evolve, within a broader reform perspective. The relationship between the EIF and the ECF – the proposal already put forward by the Commission in July 2025 – is evolutionary rather than alternative, since the ECF is the instrument actually under negotiation, and Part II of this policy study proposes targeted corrections to it. Within the broader reform horizon envisaged here, the Commission and the Industrial Strategy Board should, on the basis of the pacts, assess the coherence of national plans with mission objectives and determine the allocation of EIF resources. In this way, **European financing would follow, rather than precede, the definition of commitments**, remaining tied to previously identified responsibilities and results.

Regional Industrial Pacts would constitute the territorial level of this architecture, allowing the implementation of missions to be linked to regional production specialisations and to the cohesion, innovation, training and industrial development instruments available at the territorial level. Here too, the function of the pacts would be to translate the objectives of the national pact into coherent territorial interventions, without altering the legal and administrative ownership of regional and national competences.

Public financing should be accompanied by a **cross-cutting conditionality rule**, applied to support instruments in a manner proportionate to the nature of the interventions. Mazzucato and Rodrik (2026) show how such conditions may cover production and investment, employment and working conditions, research and innovation, the location of production capacity, environmental standards, the sharing of returns from publicly funded research, and reinvestment obligations, a diagnosis echoed in the broader political economy literature on conditionality (Bulfone et al., 2025). A similar approach is already present in CISAF, which explicitly opens the door to social conditionality, inviting member states to define and apply it together with social partners – a precedent that strengthens both the institutional feasibility and the desirability of the framework proposed here. For the purposes of this proposal, conditionality should combine performance objectives – relating to the productive, technological, employment or environmental results required of beneficiaries – with governance requirements aimed at ensuring transparency, cooperation, reinvestment and – where appropriate – the sharing of benefits arising from public support.

The entire cycle should be tracked through a **Strategy Dashboard**, conceived as a common platform for monitoring and data integration. Today, the monitoring of funding and results tends to remain scattered across different programmes, instruments and authorities. The dashboard should integrate monitoring of EIF resources, the commitments and results defined in the National and Regional Industrial Pacts, IPCEI project progress, state-aid data already collected in the Commission's state-aid scoreboard, and information on national fiscal sustainability monitored through the European Semester. Beyond bringing together information currently produced separately, the dashboard would make it possible to verify whether mobilised resources are actually generating the capabilities identified as priorities and, at the same time, to identify persistent gaps in implementation capacity between states and territories. A dedicated implementation support function, integrated into the implementation system, should address this second problem. Where the dashboard revealed delays or weaknesses stemming from insufficient administrative, project-design or technological capacity, the Commission could activate partnerships between states and regions by providing technical assistance, knowledge transfer and the dissemination of good practices.

2.4 IPCEIs and the building of European production capacity

IPCEIs represent one of the most important instruments already available for supporting European industrial cooperation. Their governance has changed significantly in recent years: with the establishment of the Joint European Forum (JEF) for IPCEI, strategic priorities no longer emerge

solely from the bottom up, from individual national or company-led initiatives, but are discussed and agreed primarily at the EU level, within the JEF itself; only at a later stage do member states act, through national calls, to build the coalitions that will give rise to transnational consortia.

The problem, in this case, is not the absence of upstream direction, but its placement: the JEF operates as the venue for selecting IPCEI priorities without being structurally embedded within a broader European industrial strategy framework. Its choices thus risk mainly reflecting the availability and initiative of whichever coalitions of states and firms happen to emerge, rather than an explicit programming of the capabilities to be built.

The new architecture should respond to the need for structure and coherence by **embedding the JEF within the Industrial Strategy Board**, so that the priorities it defines remain anchored to the strategic axes and missions described in the preceding sections, rather than constituting a parallel and autonomous selection channel. In this way, the construction of individual IPCEI projects would respond to an explicit programming of the capabilities to be developed, rather than mainly reflecting the availability of state and business coalitions at a given moment. IPCEIs should, finally, also be integrated into the common conditionality system and into the Strategy Dashboard, to avoid parallel monitoring and evaluation systems.

Rounding out this discussion of IPCEIs, it should also be noted that, in some sectors, global competitiveness requires a scale of production, technology and finance that individual national firms can hardly reach on their own. More coordinated European programming can help create the conditions for the consolidation of industrial partnerships and, where necessary, for the emergence of entities capable of operating on a continental scale. Defining common priorities makes it possible to aggregate public demand and investment around shared objectives, reducing uncertainty for private operators and making the future size of the market more predictable. This effect can be reinforced through complementary instruments, such as **European preference criteria in public procurement**, common standards, European content requirements, and lead-market policies capable of creating initial demand for strategic technologies and products.

Taken as a whole, the architecture set out here corresponds to a single, coherent cycle. European institutions define strategic direction; the Commission ensures its steering through the Industrial Strategy Board; priorities are organised into strategic axes and missions; missions are translated into National and Regional Industrial Pacts; on the basis of the commitments made, EIF resources are allocated; implementation is subject to conditionality and monitoring; IPCEIs and other forms of industrial cooperation, finally, contribute to turning objectives into European production capacity; and the Strategy Dashboard monitors the entire cycle and feeds into the revision of decisions.

3. The enabling conditions: Legitimacy, administrative capacity and fiscal capacity

The architecture set out in Section 2 does not automatically produce a greater European capacity to act. A governance framework can define priorities, responsibilities and instruments without guaranteeing that decisions are legitimate, can actually be implemented, or that the necessary resources are available. Its effectiveness therefore depends on three enabling conditions: legitimacy; administrative capacity; and fiscal capacity.

Legitimacy concerns the ability to exercise, transparently and in a controllable manner, the discretion required by a selective industrial policy. Administrative capacity concerns the ability to translate European priorities into programmes, investment and verifiable results. Fiscal capacity, finally, concerns the ability to support interventions with resources that are sufficiently large, stable and predictable.

3.1 Legitimacy and accountability: Making industrial discretion controllable

An industrial policy built through forms of programming necessarily grants public institutions a greater degree of discretion than one based solely on horizontal rules. The selection of technologies, supply chains and strategic projects cannot be fully predetermined by general rules. The problem is not, therefore, to eliminate discretion, but to ensure that its exercise is legitimate, transparent and controllable.

Section 2 has already set out the main governance mechanisms through which this discretion should be exercised. The bilateral, performance-based pacts proposed follow the template Dermine (2024) identified as the EU's emerging "planning method", a governance technique that, while boosting national ownership and effectiveness, blurs the allocation of responsibility between the Union and member states and raises genuine constitutional and democratic concerns. What remains to be verified here is their democratic sustainability. The greater the selectivity of public intervention, the more it must be possible to reconstruct the reasons for a decision, identify those responsible, and subsequently verify the consistency between stated objectives and results achieved.

The guiding principle should be that of **decision traceability**. For strategic interventions, it should be possible to identify the mission objective pursued, the rationale for public intervention, the resources mobilised, the main conditions attached to support and the expected results.

Within this framework, the involvement of the European Parliament, which should be the first actor to gain greater prominence, should be organised along two distinct dimensions of democratic legitimacy: input and throughput. On the input-legitimacy dimension, the architecture outlined in Section 2.1 extends the same principle as that applied to the regions to the European Parliament: the permanent participation of representatives from the ITRE Committee within the Industrial Strategy Board would guarantee stable parliamentary representation from the very stage at which priorities and missions are defined. On the throughput-legitimacy dimension, the Board should appear periodically before Parliament for structured reporting on the missions selected, the criteria for resource allocation and the results achieved, enabling Parliament to obtain comparable information on major interventions; access independent evaluations; and periodically verify the coherence among strategic priorities, resources employed and results achieved. This distinction is not merely analytical: the most recent research on the democratic accountability of European industrial policy shows that existing parliamentary oversight remains partial today. The Commission often responds on procedural grounds, but rarely provides the substantive information needed for a genuine assessment of merit (Diessner and Petit, 2026).

Legitimacy also depends on the quality of the process through which priorities are defined. Businesses, SMEs, universities, social partners, civil society and territorial authorities hold information that European institutions cannot fully obtain through their own administrative apparatus. Their involvement in defining and reviewing missions can thus improve both the quality of information and the legitimacy of decisions. This participation must, however, be organised to prevent access to institutions – and, in particular, to the work of the Industrial Strategy Board – from translating into a disproportionate ability to shape their choices.

Two experiences offer useful guidance. At the national level, Portugal's Industry 4.0 programme was accompanied by a consultation of around 120 stakeholders and a strategic-evaluation project coordinated by several government agencies, including the Competence Centre for Planning, Policies and Foresight of Public Administration (PLANAPP; Kolesnichenko and Oosterwijk, 2024, p. 17). At the European level, the Industrial Forum should continue to operate as the venue for engaging with external stakeholders – businesses, SMEs, universities and social partners – distinct in nature and composition from the Industrial Strategy Board, the linchpin of institutional governance. Strengthening the forum – through periodic reporting

to the European Parliament and a more balanced representation of territorial and social actors – could consolidate the legitimacy of the entire process of defining lines of intervention.

3.2 Evaluation and learning: From reporting to governing industrial policy

Legitimacy also depends on the ability to verify the effects of decisions taken. Section 2 has already introduced, through the Strategy Dashboard, the common infrastructure for monitoring and evaluation. What is needed here is to clarify its function within the decision-making cycle.

An industrial policy cannot be judged effective simply because it has spent the resources available, financed a certain number of projects or mobilised private capital. These indicators measure programme activity, but do not establish whether an intervention has actually changed European production capacity, strengthened the resilience of supply chains or reduced strategic dependencies.

The evaluation system should therefore distinguish three levels. The first concerns execution: resources committed and spent; implementation timelines; compliance with conditions; and project progress. The second concerns industrial performance: investment mobilised; additional production capacity; skilled employment; technology diffusion; and supply-chain integration. The third concerns strategic impact: the reduction of critical dependencies; the strengthening of European production capacity; the resilience of supply chains; and the contribution to strategic autonomy.

The Horizon Europe missions model, based on the distinction between output, outcome and impact, offers a useful methodological reference. The Strategy Dashboard should adopt this logic, linking resources deployed, intermediate results and strategic effects. Its value, however, lies in making information usable for decision-making rather than in adding a further layer of reporting. Alongside traditional metrics of investment, growth and employment, the system should therefore make the vulnerabilities the missions are meant to address observable: supply concentration; available production capacity within the Union; supply-chain bottlenecks; supplier substitutability; and capacity for expansion in strategic sectors.

Evaluation must also be compatible with the uncertainty inherent in technological investment. A mission-oriented programme cannot be built on a logic in which every project must necessarily reach its original objective. A high-risk project may fail relative to a specific technological trajectory and still produce knowledge, infrastructure or skills that can be reused elsewhere.

It thus becomes essential to distinguish between the failure of a project and the failure of a mission. The former may be a normal part of experimentation; the latter concerns the inability of the overall portfolio of interventions to make progress towards the strategic objective.

From this distinction follows a dynamic conception of milestones and conditionality. These should identify points at which it is possible to decide whether to continue, adjust, scale back or discontinue an intervention, making monitoring a component of resource allocation and not merely of reporting (Rodrik, 2004; Kattel and Mazzucato, 2018).

The decisive shift is from static accountability to institutional learning. Under incomplete information and technological uncertainty, evaluation allows errors to be identified, resources reallocated and missions adapted, making decisions controllable and enabling institutions to learn from them.

3.3 Administrative capacity: The invisible condition of implementation

The quality of governance also depends on the capacity of the administrations tasked with putting it into practice. An institutional structure may correctly define priorities, responsibilities and instruments and still fail if the actors responsible for implementation lack the competences needed to select projects, manage procedures, collect data and evaluate results.

This issue is especially significant in the European context, because administrative capacity is strongly asymmetric. Member states and regions differ widely in their competences, resources and institutional traditions. An industrial policy that entrusts a significant share of implementation to national and territorial levels must therefore treat administrative capacity as an institutional resource to be built, not as a given condition.

The risk is one of cumulative selection. States and regions with greater project capacity can more easily access European instruments, build partnerships and accumulate experience; those with weaker administrative capacity may instead remain on the margins, even where they hold industrial potential.

Strengthening administrative capacity should be an explicit Union priority, supported through dedicated projects and directed first and foremost at the weakest points in the network. The goal is to ensure that national administrations have sufficient capacity to carry out functions essential to common governance: strategic design; economic and technological evaluation; data management and analysis; results monitoring; and the operational management of interventions. In this way, administrative strengthening would become an instrument for reducing capacity asymmetries among states and territories and for ensuring more balanced participation in European industrial policy.

3.4 Fiscal capacity: From exceptional to permanent

A legitimate and administratively capable governance framework also ultimately lacks credibility if it does not have the necessary resources.

The Union budget today stands below 1% of European GDP, an order of magnitude incompatible with structurally transnational investment. The ongoing negotiation on the 2028-2034 MFF offers a useful benchmark for calibrating the ambition of this proposal: the package of new own resources put forward by the Commission – combining shares of ETS and CBAM revenue, a new corporate contribution, and the revision of certain existing levies – is worth around €58 billion a year, just over 0.3% of the Union's GDP. Even assuming full approval of this package, the common budget would remain well below the threshold needed to support an industrial policy on an adequate scale. This policy study proposes **increasing common fiscal capacity by a further 1% of GDP**: a target that would require own resources roughly three times those currently under negotiation, and which should therefore be understood as a medium-term structural reform goal, not an incremental extension of the current negotiating package. This additional fiscal capacity should be underpinned by a more robust system of own resources, including wealth taxes, taxation of financial transactions and capital gains, harmonisation of the corporate tax base, carbon pricing, and taxation of digital services (Skyrman, 2026), as well as by non-tax revenues. Following Florio (2026), these could also derive from the valorisation of European public capital: public-mission enterprises operating in strategic sectors and public ownership of the knowledge and intellectual property generated by publicly funded research, consistent with the return-sharing conditionality set out in Section 2.3, would allow returns currently captured by private oligopolies to flow back into the European budget. Common borrowing and the mobilisation of private capital should complement these resources.

But the point that matters most, even before the sizing of financing needs, is that the revenue base be stable, elastic and sufficiently insulated from recurring intergovernmental negotiation. Without this predictability, a mission-based industrial strategy – which requires multi-year commitments on infrastructure, research, production capacity and training – cannot be credibly planned.

NextGenerationEU (NGEU) shows that the Union can mobilise resources on a scale well above the ordinary European budget, but its exceptional and time-limited nature is incompatible with long-term strategic investment, which requires continuity and multi-year return profiles. The question thus becomes how to move from an exceptional fiscal capacity to a permanent one. NGEU-type common

borrowing, tied to the missions of Section 2, can be the first building block of such permanent capacity (see Section 6.3), provided its repayment is anchored to the new own resources.

It is in this context that the proposal for a European Debt Agency, put forward by Amato et al. (2024), belongs: an institution capable of progressively absorbing part of eurozone member states' debt by issuing its own securities on the primary market and granting perpetual loans, with terms differentiated according to each country's fundamentals. A dedicated legal analysis has identified possible compatibility of the model with the existing treaties, drawing on Articles 125 and 310 TFEU and pointing to Article 352 TFEU as a possible legal basis (Famà and Panascì, 2025). For the purposes of this policy study, the value of the proposal lies in showing that common borrowing capacity can become an ordinary component of the European financial architecture – keeping investment financing, macroeconomic stabilisation and the mutualisation of sovereign liabilities distinct – rather than in treating it as the only possible configuration.

Greater borrowing capacity should be accompanied – though this lies beyond the specific scope of this policy study – by wider mobilisation of private capital and a strengthening of already-available European instruments. The EIB, the Savings and Investments Union (including the completion of the Capital Markets Union), and risk-sharing instruments such as InvestEU can help expand the scale of investment mobilised.

The fiscal capacity discussed here concerns the European level alone. At the national level, the SGP, as reformed in 2024, compresses the budgetary space available to member states to finance industrial investment, the burden of which falls largely on them given the limited size of the common budget. This creates a double constraint – insufficient spending capacity at the European level and restricted fiscal space at the national level – which calls for a stronger common fiscal capacity together with an intervention on the relationship between fiscal rules and state aid. Part III of this policy study is devoted to this second aspect.

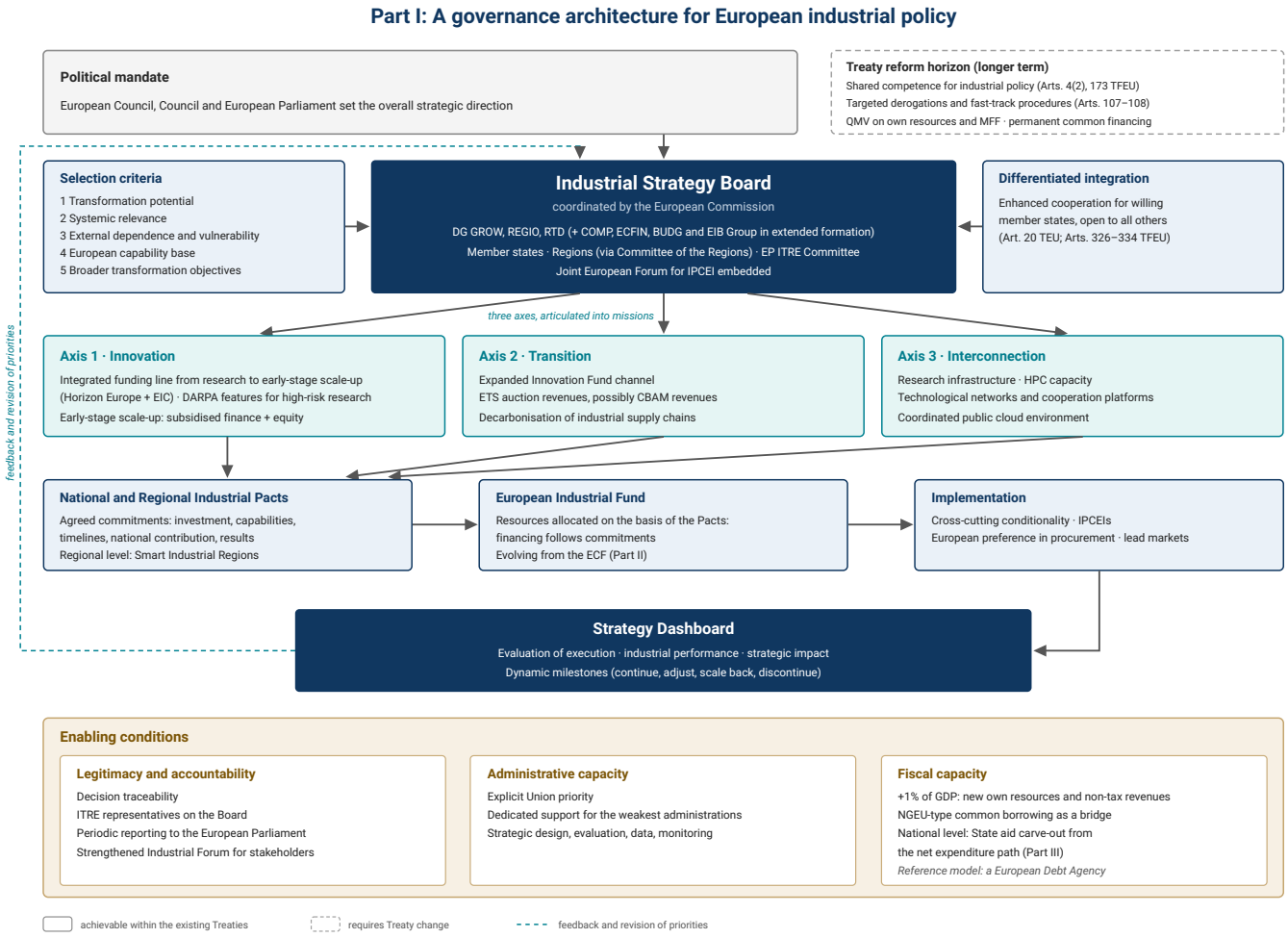
3.5 Feasibility and sequencing of the reform

The proposed architecture (Figure 1) does not require that all reforms be carried out simultaneously. Distinguishing between what can be built within the existing institutional framework and what requires a more ambitious political and legal step is essential to the project's feasibility.

Within the existing treaties, it is possible to establish the Industrial Strategy Board and embed the JEF within it, integrate funding for the technological risk cycle within a single line, strengthen accountability and evaluation mechanisms, develop National and Regional Industrial Pacts, use the Strategy Dashboard as common monitoring infrastructure, strengthen the technical capacities linked to IPCEIs, consistently extend the conditionality already tested in European instruments, and build more even administrative capacity across states and regions.

Parts II and III of this policy study offer concrete examples of reform achievable at this level. The introduction of the corrections proposed within the framework of the ECF is the first illustration of this. Likewise, the proposal – discussed in Part III – to **exclude state aid already approved by the Commission under CISAF and the IPCEI framework from the calculation of net expenditure relevant to the SGP** requires no treaty amendment and no new financial instrument, but instead draws on a clause already present in existing law: the national escape clause provided for under Article 26 of Regulation (EU) 2024/1263. This is thus a fully achievable reform that can proceed immediately, operating in parallel with – and, to some extent, in preparation for – the longer-term interventions that require different political and institutional conditions.

Figure 1. The governance architecture proposed in Part I.



Source: authors' elaboration with the support of AI tools.

PART II: THE PROPOSAL FOR THE ECF: POTENTIAL AND LIMITS

Rosalba Famà and Antti Ronkainen

4. The Draghi report and the relaunch of EU competitiveness

Part I identified the fragmentation of European industrial policy instruments as one of the principal obstacles to an effective common strategy and singled out the corrections to the proposed ECF as the first concrete illustration of the governance reforms achievable within the existing treaties. This part takes up that task: it examines whether the ECF, as proposed by the Commission in July 2025, corrects or instead reproduces the pathologies of fragmented direction, dispersed instruments and weak strategic coordination diagnosed in Section 1 and identifies the targeted amendments needed to bring the fund closer to the architecture set out in Section 2 of Part I, and in particular to the EIF, towards which, as argued in Section 2.3, the ECF should evolve.

As noted in the introduction, the Draghi report set the diagnostic premises underpinning this work as a whole. Requested by Commission President von der Leyen, the Draghi report on "The future of European competitiveness" offers an analysis of the productivity gap between the EU and other major world economies and its causes (Draghi, 2024a, 2024b). Draghi warns of changing circumstances: the EU is losing some of the external factors that underpinned its economic model – cheap energy from Russia; open global trade based on shared rules; a so-called "peace dividend", thanks to US protection within the NATO framework (Draghi, 2024a). It then outlines "A competitiveness strategy for Europe". Its main assessment rests on productivity: EU productivity converged to 95% of the US level by 1995, then began falling, dropping below 80% by the 2020s, with roughly 70% of the remaining per capita GDP gap attributable to lower productivity. Slower productivity growth has, in turn, been linked to slower income growth and weaker domestic demand across Europe. Draghi traces this largely to one sector – Europe's failure to build and scale digital technology companies during the first internet-driven productivity wave; excluding the tech sector, EU productivity growth over the past 20 years is broadly comparable to that of the USA.

Hence, the key message of the report is the following: without a return to productivity growth, Europe "will not be able to become, at once, a leader in new technologies, a beacon of climate responsibility and an independent player on the world stage", and may be forced to give up on financing its social model altogether (Draghi, 2024a).

On the financing dimension, the report's headline figure is an additional €750-800 billion in investment per year by 2030, lifting the EU's investment share of GDP by around five percentage points to levels last seen in the 1960s and 1970s – a scale the report explicitly contrasts with the Marshall Plan, which added only 1-2% of GDP annually to recipient economies (Draghi, 2024b).

Draghi concludes that fiscal incentives and some form of joint EU financing are unavoidable, including, in specific cases, for breakthrough research, defence procurement and grid interconnectors, and relaunches the idea of a common debt issuance modelled on NGEU, the pandemic recovery tool (Draghi, 2024a). Indeed, the proposal for an ECF is the result of the discussion developed through this key policy document. This part aims to assess how, under the proposed next MFF, the issue of relaunching EU competitiveness is addressed.

5. The Commission proposal for an ECF: A legal analysis

In July 2025, the Commission presented its proposal for the 2028-2034 MFF. As part of the Commission's recent MFF-related proposals, key reform initiatives include simplifying the budget structure, shifting towards performance-oriented funding and making significant investments in defence. The €750 billion NGEU fund, introduced during the COVID-19 pandemic to address the socio-economic consequences of the pandemic crisis, inspired the Commission's proposal in several respects (Famà et al., 2026).

First, the Commission proposes merging the two largest budget headings – the agricultural and cohesion funds – into a single "mega fund" worth €865 billion with resources distributed based on national and regional partnership plans (NRPPs; Rubio and Alcidi, 2026). As with the NGEU, funding would be allocated on a performance basis, with disbursements conditional on the achievement of objectives agreed upon with member states within these new NRPPs (Famà et al., 2026).

Second, the Commission's proposal envisages more permanent joint-borrowing mechanisms: a €395 billion EU Crisis Mechanism, allowing rapid response to large-scale emergencies and a €150 billion Catalyst Europe loan facility for broader strategic priorities (Famà et al., 2026). Unlike the NGEU, neither of these instruments would involve grants but only preferential loans for member states.

Finally, the Commission proposed a new ECF as part of the next MFF to increase investments (European Commission, 2025b; hereafter "ECF Regulation"). Within this section, we focus on the ECF proposal.

5.1 Goals, architecture and financial capacity of the ECF

As the title suggests, the ECF's general objective is to "increase European competitiveness", especially in strategic sectors and technologies. A recent analysis from the Commission shows that, thanks to its stronger focus on EU competitiveness with the ECF, the next MFF might have a leverage effect of at least 1.35% of EU GDP, a number considerably higher than that under the current MFF (European Commission, 2026a).

The ECF pursues a broad set of targets also named "general objectives" (Article 3 ECF Regulation) that include fostering innovation and the industrial deployment of strategic technologies; enhancing economic security and resilience; mobilising public and private investment; improving access to finance across the business life cycle; aligning research, innovation and industrial policies; developing critical infrastructure and skills; reinforcing the single market; and supporting a fair, green and digital transition.

Within these broad goals, the ECF proposal identifies specific ones, so-called "windows". Specifically, the ECF's funding would be channelled through four "policy windows" corresponding to new industrial priorities: resilience and security, defence industry and space (€125.2 billion); clean transition and industrial decarbonisation (€67.4 billion, of which €41.2 billion is from the Innovation Fund and €26.2 billion is from the ECF); digital leadership (€51.5 billion); and health, biotechnology, agriculture and bioeconomy (€20.4 billion). The distribution of resources among the windows reflects the current order of priorities of the Commission.

The resilience and security, defence industry, and space window promotes strategic autonomy by supporting critical raw materials, defence industrial capabilities, space systems and civil security technologies. The window on a clean transition and industrial decarbonisation aims to strengthen Europe's green industrial transformation through investments in clean technologies, renewable energy, sustainable transport and energy infrastructure. The third, digital leadership, enhances technological sovereignty of the EU through investments in artificial intelligence, cybersecurity, digital infrastructures, and the digital transformation of businesses and public administrations. The window on health, biotechnology, agriculture and bioeconomy focuses on strengthening Europe's health, food and biological

resilience by supporting pharmaceutical production, biotechnology, innovative bio-based industries and sustainable agriculture. Together, these windows translate the fund's general objectives into concrete investment priorities.

The Commission proposes a major restructuring of the EU's funding architecture for competitiveness by merging more than ten existing funding programmes into a single ECF with a budget of €234 billion, while almost doubling the budget of Horizon Europe to €175 billion. In addition, although the €41.2 billion Innovation Fund would remain formally outside the MFF, it would be integrated into the ECF framework. Also, while Horizon Europe would stay as a legally distinct programme, the proposal closely links it to the ECF through shared work programmes and a mandatory dedicated component designed to ensure strategic coherence between research, innovation and industrial investment. Together, the ECF, Horizon Europe and the Innovation Fund would provide an envelope of approximately €450 billion for European industrial policy, representing around 22.5% of the proposed next MFF, and approximately 0.34% of EU GDP. However, the negotiating box recently circulated by the Irish presidency suggests cutting the amounts (Council of the European Union, 2026); the figures of the revised negotiating box are discussed in Section 7.

Beyond the numbers allocated under the EU budget, the ECF remains open to receiving additional funding (Art. 5 ECF Regulation). This might come from external entities, such as international financial institutions or third countries, from funds allocated under the NRPPs (the new "mega fund"), and/or it might self-finance thanks to the revenues it will likely produce.

As for the type of support the ECF offers, the current proposal makes use of a broad spectrum of financial instruments, mainly grants, but also loans, equity, quasi-equity, blending finance combining grants and loans, procurement, and guarantees (see Chapter II of the ECF Regulation). Guarantees would allow so-called investment de-risking and amplify the leverage effect of the EU budget beyond its size. Taken together, this mix of instruments is referred to as the ECF toolbox.

The ECF is expected to contribute to addressing the issues identified above, including Europe's innovation gap. At the same time, it aims to create an ecosystem for innovation, start-ups and scale-ups, and to reduce the Union's dependence on external sources for critical technologies and strategic resources, thereby strengthening Europe's security, resilience and long-term competitiveness.

5.2 The legal construction of the ECF

The ECF will rest on two legal acts: one deciding on its financial envelope; one on its functioning. On one hand, the ECF will be included in the regulation establishing the next MFF. This regulation is adopted unanimously by the Council, with the consent of the European Parliament for a seven-year term. The MFF Regulation decides the amount allocated to the ECF instrument. On the other hand, the ECF will be adopted as a regulation following the ordinary legislative procedure followed by the Council and the European Parliament. The latter regulation "creates" the ECF and establishes the rules for its functioning and management. Its budget must equal the amounts indicated in the MFF Regulation.

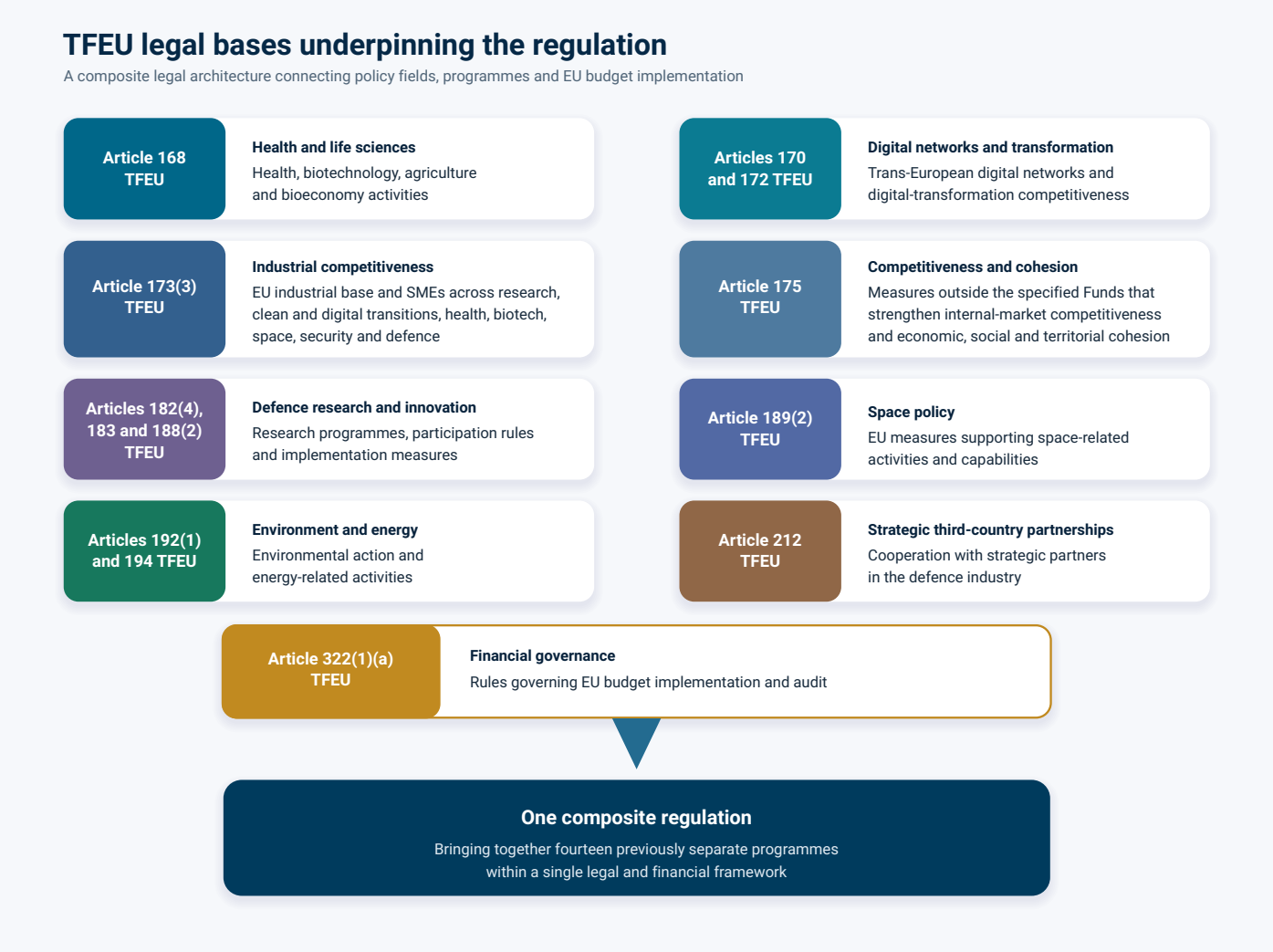
The ECF Regulation proposal rests on a complex legal architecture, a reflection of the fact that the ECF brings together funds that used to be distinct and linked to their specific policy areas. Because the ECF Regulation spans health, digital infrastructure, industrial competitiveness, cohesion, defence, space, environment and energy, the proposal relies on a number of separate legal bases, each anchoring the relevant part of the fund. Precisely, Article 168 TFEU covers health, biotechnology, agriculture and bioeconomy activities; Articles 170 and 172 TFEU ground digital trans-European network development and digital-transformation competitiveness, respectively; Article 173(3) TFEU – the Treaty's core industrial-competitiveness provision – underpins support for the EU's industrial base and SMEs across research, the clean and digital transitions, health, biotech, space, security and defence; Article 175

TFEU provides the legal basis for measures outside the funds referred to therein to strengthen competitiveness across the internal market, while promoting economic, social and territorial cohesion; Articles 182(4), 183 and 188(2) TFEU cover defence research and innovation; Article 189(2) TFEU addresses space policy; Articles 192(1) and 194 TFEU ground environmental and energy-related activities; and Article 212 TFEU supports partnerships with strategic third countries on defence industry. Finally, Article 322(1)(a) TFEU supplies the financial rules governing budget implementation and audit. This composite construction allows a single regulation to bind together 14 previously separate programmes.

However, it must be highlighted that this architecture is very unusual under EU law. As such, it cannot be ruled out that this approach may raise constitutional concerns, as it risks distorting the treaty architecture governing the individual funds.

Figure 2 provides a graphical representation of the legal architecture underpinning the proposal for the ECF Regulation.

Figure 2. Legal bases of the proposed ECF Regulation.



Source: authors' elaboration based on European Commission (2025b).

To consolidate several existing EU funding instruments into a single framework (Art. 85 of ECF Regulation), the ECF proposal is that, as of 1 January 2028, several programmes will be repealed, either in full or in part, with their objectives and funding integrated into the new Competitiveness Fund. As anticipated, the creation of the ECF seeks to simplify the EU's fragmented funding landscape, in line with the consolidation objective advocated by Draghi (European Commission, 2025b). Indeed, the ECF would bring expenditure currently dispersed across 14 EU programmes under a single rulebook; among these, it repeals the following programmes in their entirety:

- EU4Health Programme (Regulation (EU) 2021/522), which supports Union action in the field of health;
- Digital Europe Programme (Regulation (EU) 2021/694), dedicated to strengthening Europe's digital capacities;
- European Defence Fund (Regulation (EU) 2021/697), supporting collaborative defence research and capability development; and
- LIFE Programme (Regulation (EU) 2021/783), the EU's principal funding instrument for environment and climate action.

In addition, the ECF proposal repeals most provisions of the European Defence Industry Programme, while expressly preserving Articles 20 and 21 and Chapters III and IV, which will continue to apply.

The ECF proposal also provides for the partial repeal of the Union Space Programme (Regulation (EU) 2021/696). Specifically, Titles I, II and III, Articles 26-34 and 43, together with Titles VI, VII, VIII and X, are repealed, whereas the remaining provisions continue to apply.

Similarly, the ECF proposal partially replaces the Union Secure Connectivity Programme (Regulation (EU) 2023/588). Chapters I-IV, Articles 24-26 and 28-29, as well as Titles VII-X, are repealed, while the other provisions remain in force.

Overall, the ECF proposal seeks to streamline the existing framework by incorporating key policy priorities within a single investment mechanism, while preserving selected provisions where continuity is necessary. In addition, special attention is devoted to coordination and coherence between initiatives funded under the ECF and other EU funding streams to avoid overlap and duplication (Art. 7 ECF Regulation).

5.3 Governance and implementation of the ECF

The governance of the ECF is rather innovative. It creates a new model that combines centralised management with original features and novel actors involved in investment decisions. To begin with, the ECF mixes both direct and indirect management of EU funding. Under direct management, the Commission would award grants and conduct procurement procedures in accordance with the Financial Regulation. Indirect management would apply principally to loans, guarantees, equity investments and other financial instruments entrusted to a "community of implementing partners" operating through an open-architecture model. Particularly, the latter sees the EIB Group, which comprises the EIB and the European Investment Fund, as one of the main implementing partners of the ECF.

In several respects, the ECF takes the current InvestEU programme as a model. Under the current MFF, InvestEU consists of an EU budgetary guarantee used to mobilise public and private investment through the EIB Group, the national promotional banks, and other eligible financial institutions. The ECF proposes to replicate this model. However, in the new ECF architecture, the Commission is central for its governance, while implementing partners, particularly the EIB Group, expert bodies and member state committees, are involved at different stages of the investment process, as explained below.

a) Indirect management and the relationship with InvestEU

One of the novelties of the ECF is the proposal to scale up InvestEU. In fact, when the ECF adopts indirect management, the instrument draws on an InvestEU-style guarantee system. The EIB Group would consequently retain an important role as both an implementing and an advisory partner. It would contribute to the delivery of the guarantee, participate in designing a scale-up facility together with national promotional banks and support the ECF's project-advisory activities.

The proposal nevertheless appears to modify the institutional position enjoyed by the EIB under the present InvestEU framework. Whereas the current InvestEU Steering Board exercises a steering function, the corresponding ECF body would be merely advisory (renamed "Advisory Board for the ECF InvestEU Instrument"), and the EIB would not hold a formal seat in the bodies responsible for setting the fund's priorities. Its influence would therefore be exercised primarily through implementation and technical advice rather than through formal participation in strategic decision-making.

If the InvestEU model is to become a principal delivery mechanism for the ECF, we advise restoring a stronger role of the InvestEU Board, also to value the expertise of the EIB in investment assessments. In other words, there is a case for embedding the EIB's added value more firmly in the fund's governance: the EIB could be given a formal consultative role in the preparation of work programmes and financial products, accompanied by an obligation for the Commission to explain any significant departure from its technical assessment. Such an arrangement would preserve the Commission's political responsibility while ensuring that investment decisions benefit from the EIB's financial expertise.

b) Boards and bodies of the ECF

The ECF proposal establishes several bodies performing distinct functions at different governance levels, such as the Strategic Stakeholders Board, the Independent Investment Committee, the above-mentioned Advisory Board for the ECF InvestEU Instrument and window-specific bodies. Their functioning and goals are clarified below:

- The **Strategic Stakeholders Board** would advise the Commission on the ECF's general direction, long-term competitiveness trends and market failures that its instruments could address. Its members must be experts and would be appointed by the Commission through open calls for renewable four-year terms.

- The **Independent Investment Committee** would assess financing and investment proposals submitted by implementing partners under the InvestEU-style guarantee. Unlike the other bodies, it would perform a gatekeeping function in relation to individual financing proposals.

- The **Advisory Board for the ECF InvestEU** Instrument, comprising one representative from each implementing partner and each member state and chaired by the Commission, would advise on the design and implementation of financial products. Its role would be advisory rather than equivalent to the steering function exercised by the present InvestEU Steering Board.

- Sector-specific bodies would provide expertise within individual policy windows. In the resilience and security, defence industry, and space window, for example, the **Defence Industrial Advisory Board** would advise the Commission on the long-term strategy for defence-related investment. It would comprise representatives of the member states, the Commission and the High Representative in their capacity as head of the European Defence Agency.

This structure seeks to combine stakeholder participation, independent investment assessment, member state representation and sectoral expertise. At the same time, the technical or intergovernmental composition of these bodies suggests that they may exert considerable influence over both investment priorities and procurement decisions. Their mandates, composition and interactions should

therefore be clearly distinguished, particularly because most of them would advise the same institution – the Commission – at different stages of implementation.

A related innovation is the **Competitiveness Seal**. Projects that successfully complete an ECF award procedure would receive this quality label, while strategic projects recognised under the Critical Raw Materials Act, the Net-Zero Industry Act and the Critical Medicines Act would obtain it automatically. The seal is intended as a signal for member states, implementing partners and institutional investors that a project has undergone an EU-level assessment. It may therefore facilitate access to alternative or complementary funding where ECF resources are unavailable. Its effectiveness will nevertheless depend on whether national authorities and investors treat it as a credible and sufficiently selective indication of project quality.

c) Work programmes and comitology

Moving to the fund's financial management, the ECF would be implemented through annual or multiannual "work programmes" adopted in accordance with Article 110 of the Financial Regulation. A work programme is both a financing decision and a programming instrument: it must identify, among other matters, the applicable basic act and budget line, the available resources, the objectives pursued, the priorities to be financed, and the relevant management methods. Under the ECF proposal, these work programmes would be adopted by the Commission through implementing acts under Article 291 TFEU. The comitology system established by Regulation (EU) No. 182/2011 would therefore enable member states to supervise the Commission's exercise of its implementing powers.

The proposal provides for a **General ECF Committee**, composed of member states' representatives and chaired by the Commission, to address the fund's overall objectives and matters extending over several policy windows. It also establishes committees for the individual sectoral windows, including clean transition; health, biotechnology, agriculture and bioeconomy; digital technologies; the defence industry; resilience; space; and the security industry. These committees may operate in different configurations or establish specialised subcommittees. The proposal also allows for the participation of observers where appropriate and expressly envisages the involvement of the European Defence Agency and the European External Action Service in the Defence Industry Committee.

d) Institutional balance and accountability

This architecture confirms the Commission's central position within the ECF. The proposed regulation defines the fund's objectives and financial envelopes in broad terms, while many choices concerning priorities, eligible interventions and the distribution of resources would be made subsequently through work programmes and other implementing measures. The exercise of implementing powers could therefore significantly shape the substantive direction of the ECF.

Comitology gives member states a tool for controlling this process, while the advisory bodies provide technical, sectoral and stakeholder input. Neither mechanism, however, fully substitutes for parliamentary scrutiny. The European Parliament would participate in adopting the regulation introducing the ECF but would have no vote on the committees responsible for its operational implementation. This is particularly significant where work programmes do more than execute predetermined legislative choices and effectively determine which technologies, sectors or projects receive priority and, ultimately, funding.

The resulting concern is not merely that the Commission would exercise extensive powers, but that the distinction between political priority-setting and technical implementation may become difficult to maintain. The broader the objectives established in the regulation introducing the ECF, the greater the discretion left to the Commission and the bodies advising it. If, on one hand, this permits greater flexibility, on the other, it may weaken the premise underlying comitology that implementing acts merely give effect to policy choices already settled

by the legislature and leave the Commission limited discretion at this stage.

The governance framework should therefore be accompanied by stronger transparency and accountability safeguards. These could include publication of the advisory bodies' composition and CVs, agendas, opinions and conflict-of-interest declarations; reasoned explanations of investment and programming decisions; systematic reporting to the European Parliament; parliamentary hearings on annual and multiannual work programmes, which would give operational form to the throughput legitimacy discussed in Part I; and clear performance indicators, enabling a comparison between the fund's objectives and its actual allocation of resources. Such measures would preserve the operational flexibility of the ECF while making the Commission's exercise of its powers more accountable, as results could be assessed against clearer benchmarks and contested.

5.4 Risks of fragmentation and overlaps

The ECF deliberately aims to create a continuum from research to commercialisation and simplify the EU funding landscape by merging many relatively small programmes, each with its own legal basis, earmarks, management structures and committees. However, the proposal leaves a significant set of interfaces between the ECF, Horizon Europe, Innovation Fund, NRPPs and other EU instruments. If the boundaries between the funding instruments are not sufficiently clearly defined, overlap and fragmentation risks can lead to competing funding streams pursuing the same projects, technologies and investment stages (Jarlebring, 2025).

The most significant overlap risks are associated with the close relationship between the ECF, Horizon Europe, the Innovation Fund and the CEF. Although the proposal assumes that Horizon Europe remains the main research framework, with the ECF focusing more on deployment and industrialisation, this division is not sharply defined in the ECF proposal. The more the ECF is given flexibility to respond to market failures and strategic priorities, the more difficult it becomes to determine which programme should fund which stage. As the ECF does not actually eliminate the old funding structure, a potentially complicated relationship between ECF and Horizon Europe creates a risk of institutional overlap of priority setting and governance structure. This could result in the duplication of similar calls under Horizon Europe and the ECF, programme shopping of applicants choosing the instrument with more favourable conditions, or unclear accountability in determining whether an intervention is primarily research or industrial policy.

The ECF also has similar objectives to the Innovation Fund and the CEF. As both the ECF and the Innovation Fund support industrial decarbonisation and clean technologies, the Commission has to decide at the work programme level which projects belong to the ECF and the Innovation Fund. Similarly, both the ECF and the CEF can be relevant to energy, transport and digital infrastructures. Although the ECF can support decarbonisation, modernisation and expansion of the transport, energy and digital infrastructure, the CEF should support trans-European networks. For example, an electricity-grid project can be simultaneously defined as clean-transition, network and energy-security project. Instead of eliminating overlap, the ECF may create a system of duplicate funding in which substantially similar projects can be financed through different instruments. Moreover, if the legal boundaries of the instruments and their objectives are not sufficiently precise, the ECF could increase the need for strategic bargaining over which instrument should support these borderline projects.

The four policy windows can also create fragmentation inside the ECF itself. The proposal anticipates cross-window portfolios, as the Strategic Stakeholders Board can advise on strategic portfolios "within and across activities" of the ECF (ECF Regulation, Article 14(4)). This indicates that the four windows would not necessarily be treated as separate policy silos. Hence, the same project could compete for funding from different policy windows, which could produce overlapping calls, competing priorities, different evaluation criteria and attempts

by beneficiaries to position projects under the most favourable window.

Lastly, the Commission is trying to create one fund but a complex governance system around it (see Section 5.3). As discussed above, the proposal creates a Strategic Stakeholders Board, an Independent Investment Committee, an Advisory Board for the ECF InvestEU Instrument, and several committees for policy windows and joint evaluation committees. The proposal states that different committee configurations will focus on different sectors when adopting work programmes, which creates a risk that the ECF will develop into an alliance of different policy silos under a common legal roof. This would reproduce some of the fragmentation that the ECF is intended to eliminate.

Additionally, the ECF planning process would draw on the CCT, the European Semester, sectoral strategies, national plans and an integrated strategy report, so the proposed governance system of multiple boards and coordination bodies could itself become the source of fragmentation. As consolidating financial resources does not necessarily mean consolidation of decision-making procedures, the Commission's responsibility for successfully coordinating the funding instruments, policy windows and their management bodies would be essential to avoid fragmentation and overlap. Also, the work programmes would become key components – the real cornerstones – of this sophisticated governance architecture.

We propose establishing clearer regulatory boundaries and responsibilities between the ECF and other EU funding instruments supported by mandatory cross-programme coordination and transparent funding-allocation criteria. Most importantly, binding criteria should be established to define the respective roles of the ECF, Horizon Europe, the Innovation Fund and the CEF based on technology readiness levels, investment stages, policy objectives and project characteristics, while allowing clearly justified exceptions. Also, a common strategic framework should be introduced across the four ECF policy windows, including harmonised evaluation criteria, joint calls for cross-sectoral projects and clearly defined responsibilities for different management bodies to prevent competing priorities and fragmented funding decisions. Above all, the Commission should be required to coordinate work programmes across funding instruments and ECF policy windows; systematically assess potential overlaps; clarify the mandates of their respective management bodies; and publicly report on funding complementarities, duplication risks and coordination outcomes. In the longer term, these coordination functions could be absorbed by the Industrial Strategy Board and the Strategy Dashboard proposed in Part I (Sections 2.1 and 2.3).

6. A political and economic assessment of the ECF and proposals for its improvement

This section discusses the ECF from a political economy perspective. Based on the analysis provided in Section 1 of Part I, we propose several measures to develop European industrial policies by strengthening the ECF's eligibility criteria, governing industrial policies by conditionalities and multiplying the fund's fiscal capacity. Additionally, the section analyses ownership and access-right conditions, accelerated and targeted actions, the ECF's ability to support IPCEIs, and ecosystem building; ultimately, it provides measures to strengthen the Commission's current proposal.

6.1 The eligibility criteria must be specified

The ECF's two mechanisms of funding aim to mitigate investment risks and incentivise stakeholder engagement to support strategic technologies and sectors. First, repayable instruments (loans, guarantees, equity, quasi-equity and blended finance) are designed as de-risking tools to crowd-in private capital to scale up commercially viable projects. Second, non-repayable grants are used to support directly earlier-stage or non-commercial projects, like research, defence R&D or skill development. De-risking and grant-based funding are not fixed in the proposal, as the annual work programmes will determine the selected instruments.

The ECF funding is aimed at companies (especially SMEs and start-ups), larger industrial or strategic firms, universities, and research organisations. Rather than being recipients, member states play a coordinating and/or co-funding role and financial intermediaries (EIB and banks) act as pass-through channels for funding.

While at the beginning the ECF proposal refers to entities established in member states (ECF Regulation, Article 9(2)(a)), at a later stage, it extends eligibility to associated third countries and, under certain circumstances, even to non-associated countries where the financing is "essential" for contributing to the ECF's objectives (ECF Regulation, Article 9(2)(d)). As protective mechanisms are set at the work-programme level, it would be up to the Commission's discretion to decide whether participation, transfer, supply or control restrictions were imposed or which projects were considered essential.

Third-country participation is most sensitive since the ECF's largest policy window is the resilience and security, defence industry, and space one. Although the eligibility criteria are consistent with pursuing competitiveness and strategic autonomy together, the proposal sets only a five-year restriction for recipients to transfer results or access rights to an ineligible third country without penalty. Five years is a relatively short period for the life cycle of strategic technologies, like semiconductors, defence systems and critical infrastructure.

We suggest the following clarification to strengthen the ECF's eligibility criteria.

Instead of leaving participation, transfer, supply and control restrictions to be determined solely by work programmes, binding minimum eligibility criteria should be established at the regulatory level. Beneficiaries of substantial ECF funding should be required to demonstrate how their investments will generate lasting economic, technological and industrial benefits within the EU. Participation and control restrictions should be made mandatory for projects involving strategically sensitive technologies, critical infrastructure and defence-related activities.

Additionally, clearly defined and verifiable criteria should be introduced to determine when the participation of entities from non-associated third countries is essential to achieve the ECF's objectives. The proposed five-year restriction on transferring project results and access rights to ineligible third countries should be extended to reflect longer life cycles of strategic technologies, potentially to 10-15 years. Stronger clawback provisions should be introduced, requiring beneficiaries to repay public funding if strategically important production, research activities or intellectual property are relocated outside the EU.

6.2 Conditionality should guide European industrial policies

According to the Commission (European Commission, 2026b), public funds cannot be deployed as the primary funding source for closing the EU's investment gap, but rather as a strategic lever to mobilise private investment. In the Commission's view, the ECF is designed to reduce the risks and improve investment returns, so that private investors will voluntarily provide the necessary capital for strategic objectives. Rather than the EU deciding directly what should be built, where investment should go and which activities should be phased out, the ECF is intended to make investments sufficiently attractive to private investors.

The Union's approach of de-risking can be criticised, as it gives private capital too much control over the strategic transitions of the EU (Gabor, 2023; Gabor and Braun, 2025). De-risking lets profitability determine the ultimate direction of the transition, and this circumstance might generate large amounts of investments without necessarily producing the optimal structural transformation. Additionally, de-risking can produce a situation where the Union absorbs downside risks while private capital captures much of the upside. Moreover, as de-risking is constrained by profitability, it lacks sufficient tools to ensure equitable outcomes. In its current form,

the ECF proposal does not pay much attention to what happens if private profitability conflicts with these broader public objectives. Hence, the proposal's reliance on de-risking and private capital, in the absence of strong conditionality and of a prior strategic selection of priorities (Sections 2.2 and 2.3), is its main strategic weakness.

We suggest strengthening the ECF's conditionality design, including positive social, environmental and territorial criteria to be incorporated into the ECF award criteria.

As the EU is about to use a significant amount of public money to boost its competitiveness, it should use conditionalities much more purposefully to ensure that private finance also serves public policy objectives (see Mazzucato and Rodrik, 2026; Bulfone et al., 2025). Conditionality may concern the economic behaviour of funded projects and firms. By conditioning subsidies, loans, grants and tax breaks to firms, industrial policies can be pursued to serve broader public goals instead of being unconditional corporate welfare. Conditionality is also discussed in Section 2.3 (Part I) and Section 9.6 (Part III) of this policy study.

Currently, the ECF's conditionality design reflects the Commission's strategic shift towards economic and strategic priorities. Horizontal conditionalities, such as the rule of law, fundamental rights (with the so-called Charter-enabling condition) and the do no significant harm (DNSH) principle, apply across the whole fund based on the Financial Regulation, the current Common Provisions Regulation and the Conditionality Regulation (Famà, 2025a). In addition to the eligibility criteria described above, the ECF funding is explicitly conditioned to strategic technologies developed, manufactured and exploited in the Union. Hence, clear EU preference and funding channelled through four policy windows of specific industrial priorities allow much more interventionist industrial policy objectives than conditions normally associated with EU funding. However, these forms of conditionality are rather weak for generating socially inclusive, environmentally transformative and territorially balanced value (see Bertram et al., 2026; Lévy and Berghmans, 2025; Steiert, 2026; ECA, 2026; COR, 2026; European Economic and Social Committee, 2025).

In its current shape, ECF funding is not conditioned to social outcomes, as projects do not need to demonstrate quality employment, social inclusion or worker benefits. Despite the DNSH principle applying horizontally across the fund, projects are not required to demonstrate a substantial contribution to decarbonisation or biodiversity. Although 43% of all ECF expenditure is earmarked to promote climate objectives, these objectives are vaguely defined and the methodology for measuring progress is based more on expected rather than proven impacts.

Territorial conditionality is almost non-existent, as any regional impact assessment is not systematically required. The ECF would likely favour projects with large firms, excellent universities, established industrial clusters and existing supply chains. As these are concentrated geographically, a project that is excellent from a competitiveness-oriented perspective might nonetheless be harmful from a regional perspective.

Finally, the social dimension could be strengthened, especially by making quality jobs, skills and workers' rights explicit conditionality criteria, providing incentives to invest in workers' qualifications and linking ECF funding more strongly with quality employment. Environmental criteria should be a determining factor in project selection in which environmental performance affects whether and how much projects are funded. The climate spending target should have clear and measurable objectives and should be tied to ex ante performance-based indicators. Lastly, the ECF funding should systematically be screened for preventing funding that would worsen territorial inequality. Hence, territorial criteria should be made part of work programmes, calls and project selections and territorial impact assessments should be included in the evaluation benchmarks.

Moving to its practical operationalisation, territorial, social and environmental conditionality should be deployed by adopting a new Common Provisions Regulation, a legal act that so far has

applied horizontally to several EU funding streams (Regulation (EU) 2021/1060). This way forward would ensure a single, uniform and binding rulebook. As an alternative, conditionality can be included within the design of calls as a condition to access funds, hence affecting the public procurement process. This way of proceeding might, however, risk jeopardising a uniform application of the conditions, while allowing a more tailored approach.

6.3 The ECF's fiscal capacity should be multiplied with joint debt

The Commission has estimated that the next MFF's capacity to mobilise investment will increase compared to the current MFF, with direct investment of over €570 billion for the ECF, Horizon Europe and the Innovation Fund combined (European Commission, 2026a). Although – if adopted as proposed – the next MFF would multiply tenfold the EU's defence funding during the period of 2028-2034, the ECF proposal does not devote much new funding for green and digital transitions. The combined pot of €118.9 billion for a clean transition and digital leadership, of which €41.2 billion comes from the Innovation Fund, during the next seven-year budget period would constitute annual spending of €17.0 billion on green and digital transitions.

This would fall significantly short of estimated investment gaps in these sectors. The Commission has estimated that achieving the Union's 2030 GHG reduction target would require additional annual investments of €477 billion (3% of GDP; European Commission, 2023). The International Energy Agency, the Institute for Climate Economics (Calipel et al., 2024) and Agora Energiewende (Baccianti et al., 2024) have estimated roughly the same investment gaps, although there is considerable uncertainty in quantifying investment needs for decades to come. As mentioned above, the Draghi report called for an additional annual investment of €750-800 billion (4.5% of GDP) to restore the EU's competitiveness, support the green and digital transitions, and strengthen the continent's security. Since the subsequent agreement among NATO members to increase defence spending to 5% of their GDP, the European Central Bank estimate, according to which the annual investment gap is about €1.2 trillion until 2031 (Andersson et al., 2024), should be regarded as a lower bound. Of this, the share of public funding would be about €510 billion and that of private funding €690 billion annually.

If the member states' fiscal leeway to increase their own spending or the EU budget was very constrained, one efficient way to increase the size of the ECF would be to make full use of the EU's joint-borrowing "dormant" capacity (see Famà, 2025b). Since the COVID-19 pandemic, the EU has utilised joint debt on several occasions, like NGEU and the Support to Mitigate Unemployment Risks in an Emergency (SURE) for economic stimulus, and the Security Action for Europe (SAFE) for joint defence projects, as well as for EU financial assistance to Ukraine (Famà, 2025b).

Based on these previous debt instruments, the Commission has proposed three new instruments that would institutionalise common borrowing as a permanent tool for geopolitical and strategic objectives as part of the next MFF. First, the Global Europe heading includes the Ukraine Support Loan facility that enables a total of €100 billion in loans for Ukraine. Second, the national and regional partnership heading includes the Catalyst Europe instrument through which member states can obtain additional loans worth €150 billion for investments and reforms of their NRPPs. To ensure the combined borrowing capacity of €250 billion, the Commission has proposed to raise the own-resources ceiling from 1.4% to 1.75% of EU gross national income. The proposed instruments allow the Commission to borrow from the capital markets and lend it further. Like previous debt instruments, the so-called headroom of MFF's own-resources ceiling functions as a guarantee to investors that the EU can raise additional resources from the member states to repay the loans if needed.

Third, the Commission has proposed a pre-commitment to increase the own-resources ceiling by 0.25%, which would allow an almost €400 billion crisis mechanism to lend to member states in a major crisis. If existing MFF programmes do not

have adequate resources to address "severe crisis, hardship or threats", the Council could adopt a specific decision to activate this crisis mechanism. Due to different design, risk allocation and maturity structures, the proposed permanent headroom of an additional 0.35% allows for a smaller borrowing capacity than the 0.25% crisis headroom.

As the current ECF proposal is nowhere near sufficient to fill Europe's public investment gaps, we propose to multiply the ECF's fiscal capacity by granting it the authority to borrow from the capital markets.

This could be done by granting the ECF the ability to borrow up to €750 billion from the capital markets to support broader European industrial policy objectives. Spread over the 2028-2034 period, this would amount to roughly €107 billion a year, about 0.6% of EU GDP, and would thus represent the first step towards the additional common fiscal capacity of 1% of GDP proposed in Part I (Section 3.4). Debt repayment should be anchored to new own resources (see Section 3.4) and could be partly linked to the revenues generated from these EU-related investments. With the phasing out of NGEU, the ECF could be developed into a permanent and sufficiently large fiscal capacity that the EU currently lacks (see Fabbrini, 2019; Amtenbrink and Markakis, 2023; Heimberger, 2026).

Based on the Commission's own extraordinary-loan architecture, this would require the headroom of the own-resources ceiling to be increased by about 0.5%. However, as headroom does not constitute a simple borrowing envelope, the higher leverage and lower risk design of the loan instrument would require smaller headroom, while more conservative leverage and a stronger guarantee lead to more significant headroom and new own resources.

From an economic perspective, a key factor would be whether the ECF could also provide its borrowed funds to projects as grants or only as loans, as the Commission has proposed for Global Europe, Catalyst Europe and the crisis mechanism. As the ECF provides grants to beneficiaries, institutionalising common borrowing for grants is legally much more complex than the Commission's current proposals of common debt for loans. Joint borrowing for grants would arguably require an amendment of the EU's own-resources decision, which is a cumbersome procedure requiring unanimity of member states and approval by national parliaments (see Grund and Steinbach, 2023; Leino-Sandberg and Lindseth, 2026). This, in turn, could give rise to political opposition among member states that oppose an increase in intra-Union income transfers.

6.4 Ownership and access-rights conditions should be clarified

Under the ECF proposal, ownership and access-rights conditions depend on the form of support and policy area. For three policy windows of a clean transition, digital leadership, and health and biotech, the proposal does not include ownership-related provisions, but states that the Commission is empowered to determine ownership and access conditions at the work-programme level, coherently with the rules of Horizon Europe (ECF Regulation, Articles 15, 33, 36 & 37). This implies – we assume – that these areas would follow the standard model in which the beneficiary that creates the results owns them.

However, the Commission might establish specific rules concerning ownership, exploitation and dissemination, transfer and licensing, and access rights to results at the work-programme level. The general recipient ownership of grant-based support makes participation attractive, which is consistent with the ECF's ambition to induce private investments. Although recipients will generally have the ownership, they can still be compelled to license non-exclusively to third parties on "fair and reasonable" terms and may be subjected to foreign-transfer controls, which can meaningfully disincentivise private participation.

For the remaining policy window – resilience and security, defence industry, and space – the proposal sets stricter conditions. For defence and civil security, the ECF proposal states that procurement results belong to the EU, whereas grants give the

Union royalty-free access and licensing rights (ECF Regulation, Articles 54 & 81). Regarding space activities, the Union owns all tangible and intangible assets created, developed or purchased (ECF Regulation, Article 70(1)). However, if support is provided through grants, prizes or pre-commercial procurement; the activity is not fully financed by the EU; or the activity concerns certain publicly regulated services restricted to government-authorised users, the Union gets only royalty-free access rights for its own use and the right to require recipients to grant non-exclusive licences to third parties on fair and reasonable terms (ECF Regulation, Article 70(2-3)).

We suggest the following clarifications to the ECF's ownership and access-rights conditions. Clearer minimum ownership, licensing and access-rights requirements should be defined at the regulatory level rather than leaving these conditions solely to the Commission's discretion at the work-programme level. Additionally, the work programmes should specify conditions on intellectual-property access rights and transfer controls ex ante and justify why any restrictions are proportionate to the level and nature of public support. Mandatory public-interest licensing provisions for substantially EU-funded technologies should be introduced to ensure that publicly financed innovations can be accessed and utilised on fair and reasonable terms. Finally, ownership and access rights should be linked to the proportion of public funding, granting the EU stronger access, licensing or ownership rights for fully or predominantly publicly financed projects.

6.5 Accelerated and targeted actions and exceptional funding must be clearly defined

The ECF also includes several innovations for developing the EU funding instruments and fostering European industrial policies. Potentially, one of the ECF's most consequential innovations is to introduce a special mechanism for "accelerated and targeted actions" that allows the Commission to depart from the ordinary funding procedures (ECF Regulation, Article 20). If the action is considered to be (a) necessary and appropriate for the programme's objectives; (b) duly justified by an imperative public interest and/or time-sensitive; and (c) cannot be effectively implemented under the normal rules, work programmes can deploy any of the following mechanisms to award grants:

1. Targeted intervention: invite beneficiaries to submit a proposal without a competitive call, fund seal-holding proposals that had not previously received funding, or extend existing actions to add beneficiaries or activities.

2. Accelerated intervention: make an award decision based on preliminary checks and allow supporting documentation to be supplied three months afterwards.

3. Inducement intervention: waive eligibility criteria temporarily, including establishment requirements.

4. Two-stage bottom-up procedures: open calls for expression of interest with the funding instrument decided only after evaluation.

Article 20 of the ECF proposal gives additional discretion to the work programmes; however, the Commission's role is central, as it adopts the work programmes by implementing acts. Although accelerated and targeted actions relax specific procedural steps, the ECF's proposal sets some safeguards, particularly for the last three mechanisms: accelerated intervention has fixed timelines; inducement intervention withholds pre-financing until eligibility is verified; and the two-stage procedure runs a competitive, criteria-based evaluation.

Targeted intervention is the least constrained of the four, as identifying beneficiaries has essentially no procedural formula attached beyond the core discretion test. Moreover, the core discretion-limiting test is solely qualitative and self-applied by the Commission at the work-programme level. As the Commission is simultaneously responsible for defining the strategic priorities, designing the work programme and implementing the funding mechanisms, the protection against arbitrary

or inconsistent usage depends largely on the Commission's self-restraint, despite several transparency requirements.

To reduce possible governance risks, we suggest that the current relatively open-ended criteria governing access to exceptional funding should be defined more clearly.

The concepts of "imperative public interest", "critical time-sensitivity" and their conditions, should be defined more concretely and objectively. Additionally, the Commission must be obliged to demonstrate why the normal procedures would prevent the objective from being achieved before bypassing them. Most importantly, we advise that accelerated and targeted actions should include independent ex-ante assessment (e.g., by the advisory boards), although in a simplified form, of whether selected projects should be allowed to bypass the normal competitive procedures in the first place. Moreover, it is particularly relevant that, unless security interests are at stake, documents are rendered publicly available to increase transparency and accountability of the fast-track procedures.

6.6 The ECF's ability to support IPCEIs should be widened

The proposal also allows the ECF to support exceptional state-aid projects that have previously been fully financed from national budgets. The ECF proposal permits funding to be layered into IPCEIs (ECF Regulation, Article 19). IPCEIs are large-scale transnational projects supported by state aid granted solely by member states to research, innovation and industrial deployment in key economic sectors where the private market alone cannot absorb high financial or technological risks (European Commission, 2014). The national funding of IPCEIs is addressed in greater detail in Part III (Section 9).

The ECF can support projects directly participating in IPCEIs already approved by the Commission, which could reduce the reliance on national treasuries. The ECF funding could also ease the fiscal-capacity constraint if the approved top-up amounts are material relative to typical IPCEI project sizes. Additionally, the ECF can support follow-on projects based on IPCEI results conditional on significant private investment. The ECF can therefore streamline the IPCEI model's investment cycle, as projects can continue from an already-approved demonstration phase into industrial deployment and commercial scale-up, without necessarily requiring a fresh multi-year approval process.

However, as the proposal does not shorten the 1.5-2-year approval timeline nor alter national co-financing requirements, large firms and fiscally strong member states are likely to benefit most from ECF top-ups and follow-on funding. Current IPCEI functioning has been particularly criticised for the long approval processes and extensive administrative burdens, which have been detected to be too costly for SMEs. Additionally, the requirement for national co-funding has resulted in the exclusion of poorer member states (Schmitz et al., 2025). Unfortunately, the changes the ECF would introduce do not address these bottlenecks for the next generation of IPCEIs.

To include smaller countries, SMEs and mid-caps, we propose that the ECF's project formation and approval stages should be improved. National co-financing requirements should be reduced by introducing differentiated ECF co-financing rates for IPCEIs considering member states' fiscal capacity and regional development needs. Combined with the exclusion of national IPCEI contributions from the net expenditure path proposed in Part III (Section 9.1), this would lower both the financial and fiscal barriers to participation. This would serve the cohesion objective, which is transversal in the EU legal architecture. The Commission should identify priority areas for additional IPCEIs and make dedicated funding windows and simplified application procedures for SMEs, mid-caps and start-ups, including technical assistance and reduced administrative requirements. Regional cohesion requirements should be strengthened by introducing territorial impact assessment and regional participation criteria for ECF-supported IPCEIs. To turn IPCEIs from an exceptional state-aid instrument into a more systematic European industrial-policy architecture, the ECF needs to be

developed in tandem with the JEF for IPCEI, which the Commission established in 2023 to streamline and improve large-scale, cross-border industrial and innovation projects (Allen et al., 2025; European Commission, 2026c). As proposed in Section 2.4, the JEF should in turn be embedded within the Industrial Strategy Board.

6.7 Financing for ecosystem building should be increased

In addition to conventional funding instruments, the ECF is designed to foster an ecosystem for start-ups, scale-ups, frontrunners and value-chain builders. This is a welcome feature. Although the proposal introduces several mechanisms (e.g., the Scale-Up Facility, project advisory services, business support services and reskilling initiatives) to support these objectives, it allocates only €11 billion for ecosystem-building, and it remains very vague in the way it wants to operationalise it in practice.

Additionally, its functioning model builds on the existing EU for Business Network and the InvestEU Advisory Hub model, which risks importing these networks' known unevenness in quality and geographic reach rather than fixing it. Lastly, targeted tools are discretionary without minimum frequency or resourcing requirements. The Commission is the formal legal actor, but nearly all actual delivery is entrusted to a diffuse network of external partners coordinated through work programmes and the lighter advisory-procedure committee track.

Although the proposal acknowledges the current shortcomings of the ecosystem, in its current form, it does not remedy them.

We suggest increasing the budget allocated to this very important function and better specifying how the ecosystem will be built. The ECF should establish minimum funding allocations, service provision requirements and geographical coverage targets to ensure that SMEs, start-ups and scale-ups across all member states, particularly in less-developed regions, have equal access to advisory services, local one-stop shops and targeted business support. The Commission should also define clear responsibilities, performance indicators and monitoring requirements for implementing partners, including regular evaluations of service quality, geographical accessibility and the effectiveness of ecosystem-building measures.

PART III: STRUCTURAL MISALIGNMENT IN EU INDUSTRIAL POLICY AND HOW TO FIX IT

Paul Dermine and Donato Di Carlo

7. The structural misalignment between supranational rules and member states' capacity to fund EU industrial policy

Part II has closely examined the case for an ECF and, more generally, for consolidated supranational funding to finance the Union's new industrial policy strategy (see also Famà et al., 2026). Supranational fiscal policy, however, continues to divide member states. Expanding fiscal capacity for industrial policy at the EU level would be the most desirable outcome, but at the time of writing (autumn 2026) it is unclear whether negotiations over the next MFF will endow the ECF with the scale the strategy requires. Ahead of the October 2026 European Council, the Irish presidency circulated a revised proposal cutting €141 billion (in 2025 prices) from the Commission's original figure, a reduction of 8% conceded to the net contributors led by Germany. The distribution of those cuts is instructive: agricultural and regional spending was trimmed by only 3%, from €946 billion to €914 billion, preserving an 11% increase on the previous framework, whereas the heading covering innovative firms and defence absorbed a 13% reduction, from €522 billion to €456 billion (Tamma, 2026b). Where savings had to be found, the traditional policies were protected and the competitiveness agenda was not, which counsels caution about the endowment the fund will eventually command.

Realism thus commands us to assume that the Union's industrial strategy will, in the short term, remain largely dependent on national sources of public funding. The current macroeconomic environment is undeniably challenging, and in times of rising interest rates and geopolitical upheavals, national fiscal capacity appears particularly constrained. Still, the success of Europe's industrial strategy primarily rests on the Union's ability to support and coordinate national funding schemes along collective objectives and priorities. Against this background, Part III turns to the vertical tension between supranational fiscal and state-aid rules and member states' capacity to fund EU industrial policy through national state aid in a coordinated manner.

In brief, this part addresses a contradiction at the heart of EU economic governance. To finance the green transition, the Union has made it easier for member states to subsidise their industries, [i] above all through the 2025 Clean Industrial Deal State Aid Framework (CISAF); yet the Stability and Growth Pact (SGP), reinstated in 2024, denies many high-debt member states the budgetary room to use that latitude. The Union thus signals where member states should spend, while its fiscal rules prevent many of them from doing so, so that state aid risks tracking national fiscal space rather than the merits of projects, fragmenting the single market and weakening the credibility of the Union's own priorities. We propose to reconcile the two rulebooks by excluding national aid already approved by DG COMP under CISAF or as an IPCEI from the net expenditures against which compliance with the pact is assessed, through a coordinated, capped and time-limited activation of the national escape clause that existing law already provides. The reform is:

1. economically desirable because it would also allow fiscally constrained members to take part in industrial policy, rather than leaving subsidy capacity to follow pre-existing fiscal strength;

2. politically feasible, since national fiscal spending would be exempted from the SGP only for clearly defined strategic EU priorities as defined, vetted and monitored by DG COMP;

3. legally feasible because the Union has already used the same clause to accommodate higher

defence and energy spending – a precedent this part of the policy study builds on; and

4. potentially socially inclusive, because CISAF invites member states to attach social and territorial conditionalities to the aid they grant, and to design them with social partners, so that the enlarged fiscal space can be made to deliver a measurable collective return rather than unconditional transfers to firms.

The argument unfolds in three steps. It first sets out the policy problem, showing how the loosening of state-aid control by the Commission and the reinstatement of the SGP by the Council have pulled national industrial policy spending in opposite directions. It then traces the consequences of this misalignment for the single market, for public investment and for the credibility of the Union's strategic priorities. It finally develops the proposal and assesses its economic desirability and its political and legal feasibility, drawing on the defence precedent.

7.1 The return of subsidies: The political and institutional context

Industrial policy has returned to the heart of economic governance across advanced economies, and the EU is no exception. Long the archetype of a *regulatory state* that disciplined national intervention rather than steering markets itself, the EU has shifted towards a more interventionist stance under the pressure of geopolitical rivalry, security concerns, the twin green and digital transitions, and intensifying competition over strategic technologies and critical minerals (Di Carlo et al., 2026). Its agenda now turns to decarbonisation, digitalisation, defence, resilient supply chains and open strategic autonomy.

A central feature of this return worldwide is the growing use of subsidies, which the OECD finds have reached their highest levels since the 2008-09 global financial crisis: across 15 key industrial sectors, subsidies amounted to $108 billion in 2024, or 1.3% of firms' sales revenue, a rise the OECD judges structural rather than cyclical (OECD, 2026). The USA has mobilised hundreds of billions of dollars for clean-tech and semiconductor manufacturing through the IRA and the CHIPS and Science Act of 2022 (Maggor, 2026), while China has long underwritten its industries with state support on a scale exceeding that of other major economies, three to eight times the level received by OECD-based firms between 2005 and 2024 (DiPippo et al., 2022; OECD, 2026; Frydel and Rudzińska, 2025). Matching these efforts by geopolitical competitors requires public funding, both to subsidise firms and to crowd-in private investment where the market falls short. The decisive question for Europe is therefore not whether to finance industrial policy ambitions, on which there appears to be broad consensus, but how to mobilise the resources.

Mobilising subsidies has always been harder in the EU than elsewhere, because the Union's inherited economic constitution was built to constrain industrial policy rather than to facilitate it. Its three layers – the fundamental freedoms of movement, competition and state-aid control and the fiscal discipline of the Economic and Monetary Union were designed to discipline discretionary national intervention and to protect the level playing field, expressing an ordoliberal preference for binding rules over policy discretion (Grégoire, 2024, pp. 718-720). Within this framework, matching the scale and speed of other jurisdictions in mobilising subsidies is difficult at both the European and national levels, for distinct but connected reasons.

In the Union's multilevel polity, funding for industrial policy can come from two sources: fiscal capacity at the European level, meaning the common EU budget and jointly issued debt, or the national budgets of member states. The European channel remains underdeveloped. The EU budget funds innovation through Horizon and has increasingly folded industrial and sectoral objectives into cohesion policy (Molica et al., 2025), but it still lacks a fiscal capacity for industrial policy comparable to the US programmes under the IRA or the CHIPS Act. Building such a capacity is politically hard, because creating or expanding the Union's own resources requires unanimity in the Council, and thus grants each member state a veto (Scharpf, 2001, §2.2). Unanimity

is difficult to secure among members that differ markedly in fiscal capacity, productive structures and the interests of national social partners, and whose electoral cycles are asynchronous. Successive attempts have accordingly stalled: a €100 billion fund floated in 2019 came to nothing, and the 2022 European Sovereignty Fund was scaled back, against the resistance of a coalition of fiscally conservative ("frugal") member states, into the Strategic Technologies for Europe Platform, its envelope cut to some €1.5 billion from the €10 billion initially proposed and largely redirected towards defence (Di Carlo et al., 2025, p. 8). The latest such effort, the ECF proposed for the 2028-2034 MFF, is the subject matter of Part II of this policy study.

With the European fiscal channel blocked, the Union has pursued industrial policy "by other means": not through constitutional redesign but through the conversion of the legal resources it already controls (Dermine and Patrin, 2026). The central instrument is the Commission's exclusive competence over state aid, the EU term for subsidies granted by member states. Rather than finance industrial policy directly, the Commission enables member states to finance it from national budgets, while attaching conditions *that give directionality* to public spending and align it with common priorities. Bulfone, Di Carlo and Seidl (2026, p. 1) describe this as a "rules-as-tools" strategy, in which the Commission uses its authority over state aid not only to restrain subsidies, as it did for decades, but to steer them towards common objectives, from the twin transition to strategic autonomy and economic security; Hornkohl and Pelekis (2025) characterise the same shift as the transformation of state-aid control from a policing tool into a coordinating instrument for EU industrial policy. This "alternative route" to industrial policy in Europe was available precisely because state aid falls under the Commission's exclusive supranational competence, which it exercises unilaterally, bypassing the Council veto that blocks the fiscal channel.

This raises the question of how far such a regulatory route can substitute for the supranational fiscal capacity the Union lacks, and with what consequences for its industrial policy goals and for the single market.

7.2 European industrial policy by other means: From prohibition to permissive directionality in EU state-aid policy

In Europe, the Treaties establish a general prohibition on state aid: aid granted through state resources that distorts competition by favouring certain undertakings and affects trade between member states is, in principle, incompatible with the internal market, and member states must notify aid in advance and refrain from implementing it until the Commission has authorised it (Jansen, 2016, pp. 584, 592).[ii] Compatibility is assessed by the Commission's DG COMP alone, under the review of the Court of Justice of the EU. State-aid control is thus one of the few truly supranational policies of the EU. Prohibition aims to preserve the level playing field, preventing better-resourced member states from out-subsidising others and fragmenting the internal market. For most of the Union's recent history, and especially since the late 1980s and early 1990s, the Commission exercised this competence restrictively, acting to contain national aid in the name of undistorted competition.

Since the mid-2000s, however, the Commission has progressively relaxed the state-aid discipline, converting its authority over state aid from a constraint on national intervention into an instrument for steering and coordinating it (Di Carlo et al., 2026, p. 9; Hornkohl and Pelekis 2025, p. 1). It has done so through two types of instruments.

On one hand, through hard law instruments, and more specifically, through block exemptions formalised in EU legislation, which exempt defined categories of aid from the notification requirement. Most relevant in this regard is the GBER.[iii] Between 2020 and 2023, the GBER was amended three times (in 2020, 2021 and 2023), and an overall revision of the text is currently ongoing, in the context of the Competitiveness Compass and CISAF. Overall, since its adoption in 2008 and recast in 2014, the material

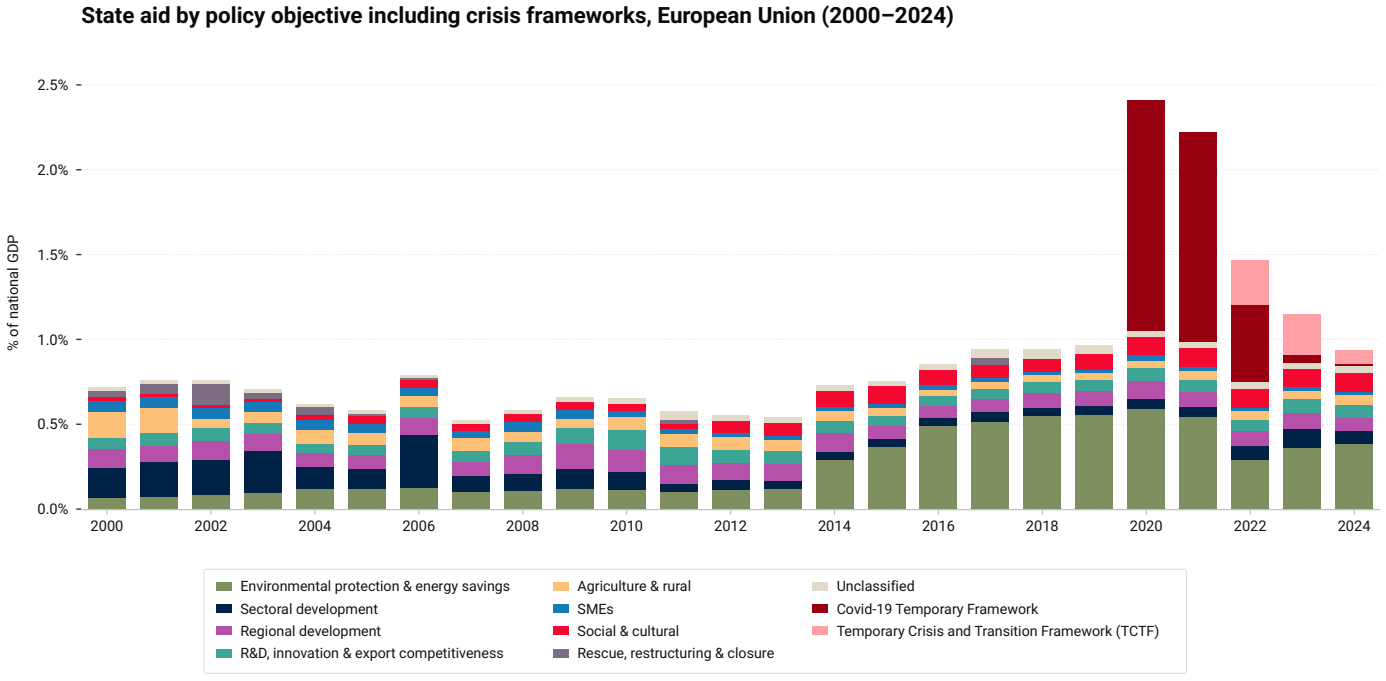
scope of GBER has expanded, and categories of exempted aid have increased.

On the other hand, the instrumentalisation of state-aid control as a steering and coordination tool has also occurred through soft law tools. Soft law operates through communications, sectoral guidelines and dedicated frameworks, in which the Commission sets out ex ante the aid categories it will authorise and the conditions attached for considering it compatible with the treaty provisions. Two main instruments stand out in this regard.

The first instrument of state-aid policy are the IPCEIs, operationalised in 2014 under Article 107(3)(b) TFEU (Di Carlo et al., 2024, p. 4).[iv] An IPCEI authorises higher aid intensities, and aid that several member states must grant jointly for cross-border projects in strategic technologies or value chains. It is, by design, an innovation policy instrument: eligible costs must be linked to research, development and first industrial deployment; authorisation is granted on a case-by-case basis after in-depth assessment; and projects require cooperation between firms and governments from several member states (Frydel and Rudzińska, 2025, p. 137). IPCEIs have supported European capacity in various strategic sectors, such as batteries, hydrogen, microelectronics, digital infrastructure and services. Because they pool national budgetary contributions around a common cross-country project under the Commission's oversight, they align national spending with EU priorities more tightly than any other instrument of state-aid policy (Hornkohl and Pelekis, 2025, pp. 22-23), which is why they feature, alongside CISAF, in the proposal developed below.

The second instrument operationalised via soft law consists of the so-called State Aid Temporary Crisis Frameworks, which have evolved from crisis instruments into fully fledged instruments of medium-term regulatory governance. After 2020,

Figure 3. EU state aid by policy objective, including by means of Temporary Crisis Frameworks, 2000-2024 (% of GDP).



Notes: Covid-19 Temporary Framework: aid approved 2020–2024 (Commission Communication C(2020)1863).
Temporary Crisis and Transition Framework (TCTF): aid approved 2022–2024 (Commission Communication C(2022)1293).
Values expressed as % of national GDP as reported in the EC State Aid Scoreboard. Source: European Commission, State Aid Scoreboard.

Source: authors' elaboration based on the European Commission's state-aid scoreboard.

the soft-law route expanded, as a succession of Temporary Crisis Frameworks which were adopted in response first to the pandemic and then to the energy crisis triggered by Russia's invasion of Ukraine and have raised aid ceilings and relaxed compatibility conditions.[v]

The cumulative effect of this loosening is visible in the aggregate data. Figure 3 reports EU state aid by objective from 2000 to 2024. Two features stand out. First, the non-crisis baseline has drifted steadily upward, from roughly 0.5 to 0.75% of GDP in the 2000s to close to 1% by the late 2010s and early 2020s, as the Commission widened the scope for aid to environmental protection and energy, research and innovation, and regional development. Second, the State Aid Temporary Crisis Frameworks produced a step change: aid approved under the COVID-19 Temporary Framework – and from 2022 under the Temporary Crisis Framework and its successor, the TCTF – lifted the total aid to roughly 2.4% of GDP in 2020 and 2021 before it receded towards a still-elevated baseline. The trajectory is one of gradual expansion of the use of state aid, punctuated by crisis instruments that are gradually normalising higher levels of national subsidies.

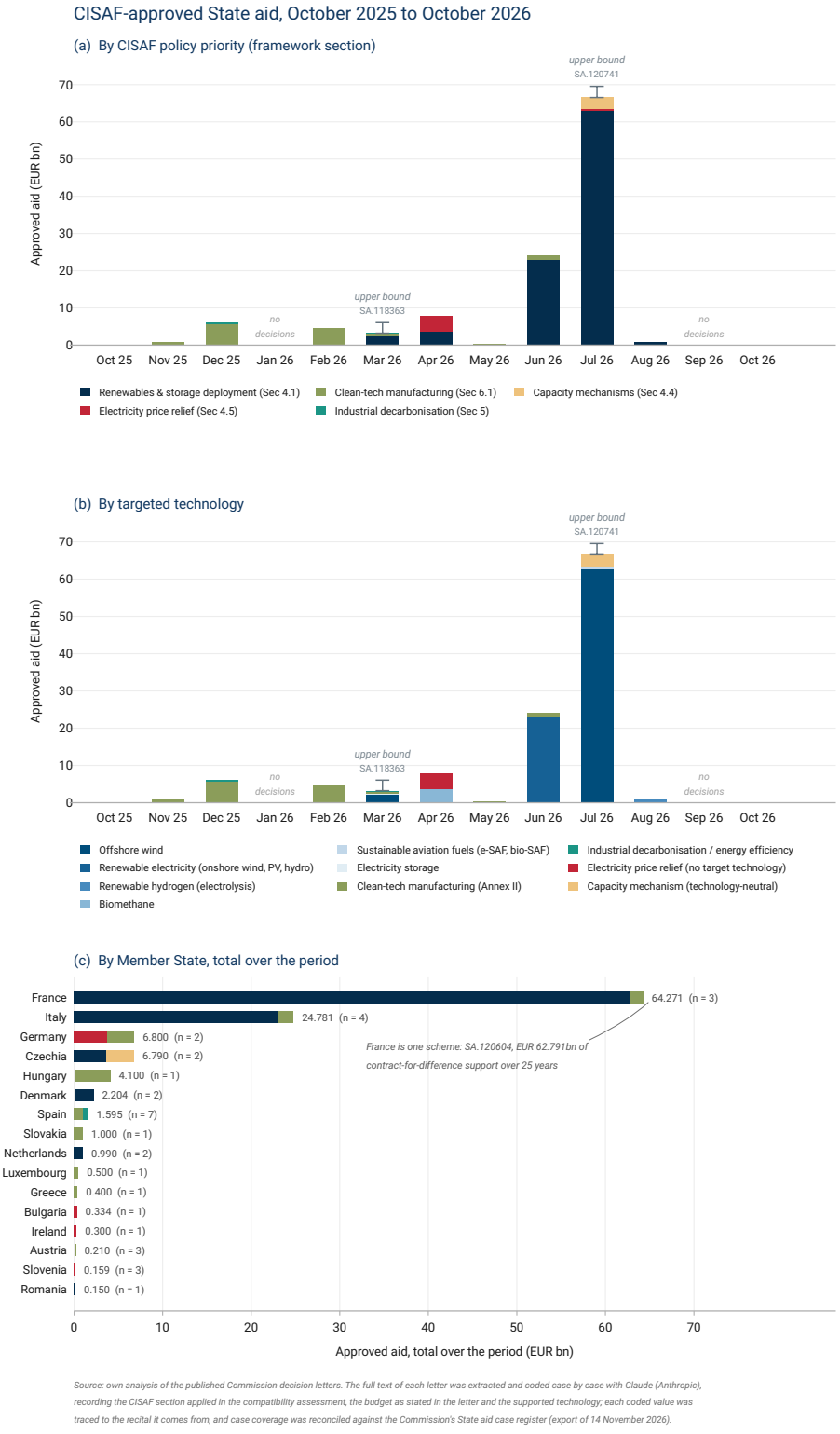
The decisive shift, however, came in 2025 with the CISAF, which converted this crisis practice into a medium-term instrument in force until the end of 2030 (Frydel and Rudzińska 2025, pp. 133-134).[vi] The change is legal and temporal.

The crisis frameworks since the COVID-19 pandemic rested on Article 107(3)(b) TFEU, the derogation for aid remedying a serious disturbance in the economy, which is tied to the emergency that justifies it. CISAF rests instead on Article 107(3)(c), the derogation for aid facilitating the development of certain economic activities, giving it a developmental rather than an emergency basis (Solský, 2025, §3.1, p. 5).

On this basis, the Commission has made disbursing state aid faster and simpler. CISAF raises the per-project aid ceilings for clean-tech manufacturing to €150, €200 or €350 million, according to the assisted-area status of the region (CISAF, para 167; Frydel and Rudzińska, 2026, pp. 41-42), and substitutes standardised presumptions for case-by-case assessment, allowing compliant schemes to be approved as an "off-the-shelf" option (Frydel and Rudzińska, 2026, pp. 37, 44). It thus directs this regulatory flexibility towards defined objectives, facilitating the provision of aid for net-zero technologies (batteries, solar and wind, heat pumps, electrolysers, carbon capture, and now nuclear; see Frydel and Rudzińska, 2026, p. 44), industrial decarbonisation and green manufacturing capacity, while retaining light forms of conditionality, for example, by requiring beneficiaries of electricity price relief to reinvest at least half of the aid in decarbonisation (CISAF, para 121; Frydel and Rudzińska, 2026, p. 40). CISAF thus combines the Commission's supranational directionality with ease of approval and increased flexibility for member states: the Commission indicates what it thinks "good state aid" is and indicates to member states where to spend national fiscal resources while making the design and disbursal of aid considerably swifter.

Between October 2025 and October 2026 the Commission approved 35 measures under CISAF across sixteen member states, with approved budgets totalling at least €114.6 billion (Figure 4). This aggregate combines multi-decade contract-for-difference envelopes with one-off investment grants, and therefore measures the ceiling of authorised support rather than actual expenditures. Approvals were modest at first, peaked sharply in June and July 2026, which together account for 79% of the total, and fell back to €0.9 billion over the following three months. A preliminary reading of the schemes approved suggests that approved aid is overwhelmingly concentrated in renewables and storage deployment, which accounts for 81% of the total across eight decisions, whereas clean-tech manufacturing is the most frequently used provision, with nineteen decisions, but only 12% of the approved budget (Figure 4a). Aid approved has targeted, above all, the deployment of offshore wind and renewable electricity, together 77% of the total (Figure 4b). This concentration is driven by a small number of very large contracts for difference: France and Italy alone account for 78% of all approved aid, on three and four decisions respectively, while Spain, with the largest number of decisions of any member state at seven, accounts for 1.4% (Figure 4c).

Figure 4. CISAF-approved state aid, October 2025 to October 2026 (billion euros), by CISAF policy priority (framework section), by targeted technology, and by member state.



Source: authors' elaboration based on the texts of the European Commission's decision letters.

Preliminary as these data may be, it appears evident that member states have begun to make increasing use of these regulatory flexibilities for green industrial policy purposes. As the next section shows, however, the Commission and the Council have moved in opposite, contradictory directions: while the Commission, has relaxed the state-aid rules, the Council has reinstated the SGP, the Union's fiscal rulebook, reimposing regulatory constraints on member states' use of public budgets to support the Union's strategic objectives.

7.3 The reformed SGP and the return of consolidation

The SGP, the Union's fiscal rulebook, the application of which had been suspended since the start of the COVID-19 pandemic, was overhauled and reinstated in April 2024.[vii] Under the preventive arm of the SGP, each member state must observe a single operational indicator, the net expenditure path, a multiannual ceiling on the growth of primary spending calibrated to place the debt ratio on a plausibly declining trajectory. The framework provides no general exemption for public investment, including investment that serves EU strategic objectives or co-finances EU programmes (Heimberger, 2025, p. 11). Moreover, the framework includes two safeguards, secured at the insistence of Germany, Austria and other fiscally conservative member states, which have, in reality, reintroduced hard, undifferentiated fiscal rules (Priewe 2025, pp. 168, 170–171). The "debt sustainability safeguard" mandates the reference trajectory of member states, the debt-to-GDP ratio of which exceeds 90%, to ensure an annual debt reduction of at least one percentage point of GDP, and that of member states with a ratio between 60% and 90%, to ensure an annual reduction of at least 0.5 percentage points.[viii] The "deficit resilience safeguard" requires member states with a structural budget deficit that exceeds 1.5% of GDP to improve their structural primary balance by 0.4% of GDP a year under a four-year adjustment path, or by 0.25% under a seven-year path if the country is undertaking reforms and investments.

Although adjustment requirements are slightly lighter than under the previous version of the SGP, they remain substantial and fall disproportionately on high-debt member states. Simulations by Bruegel's Darvas, Welslau and Zettelmeyer (2024, pp. 5-7), on which Heimberger (2025) draws, show the debt sustainability analysis to be binding for most high-debt countries: over the four-year path, the average annual structural adjustment reaches 1.08% of GDP for Italy, 0.94 for France, 0.89 for Spain and 1.21 for Finland (Darvas et al., 2024, p. 6). Beyond the first adjustment period, the deficit-resilience safeguard tightens the requirement further, adding roughly one percentage point of GDP for France and implying a structural primary balance of around 4% of GDP for Italy (Darvas et al., 2024, p. 6). As Heimberger (2025, p. 9) concludes, compliance obliges the major eurozone economies to move from the sizeable primary deficits they run today to substantial primary surpluses over the medium term.

Therefore, while, on one hand, the Commission has turned state-aid control into an instrument for encouraging and directing national subsidies, on the other, the Council has restored binding limits on the budgets of the national governments that must finance them. This misalignment between the two rulebooks, the state aid and fiscal rulebooks, constitutes a clear inconsistency and a key limitation to the EU's industrial policy ambitions.

8. Mixed signals: How the structural misalignment between state-aid flexibility and fiscal constraints undermines EU industrial policy ambitions

The inconsistency between the flexibilisation of the state-aid regime and the reintroduction of the SGP produces three consequences, which together define the policy problem this part addresses.

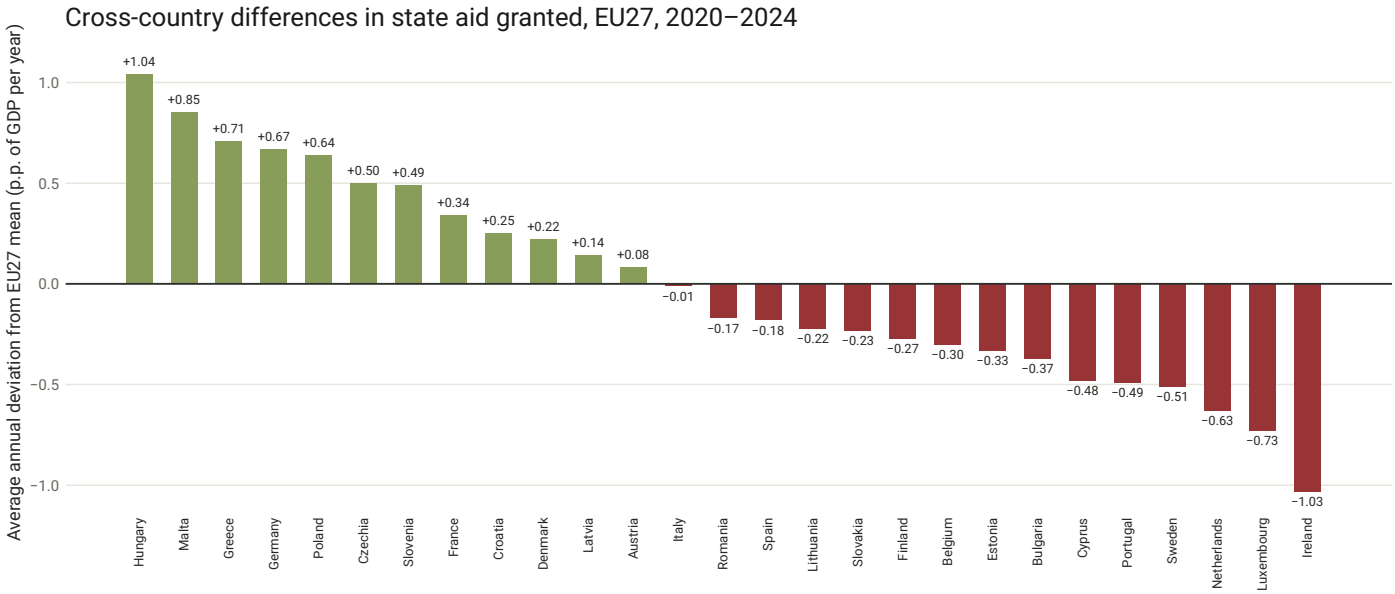
First, the misalignment contributes to worsening the fragmentation of the single market. When the capacity to subsidise depends on fiscal constraints that bite unevenly, industrial policy becomes a function of fiscal strength: member states with budgetary room, starting with Germany, can support

their firms through the transition, while high-debt member states face renewed pressures for consolidation (Heimberger, 2025, pp. 12-13; Priewe, 2025). The outcome is a subsidy race determined, in part, by national fiscal capacity rather than by the merits of projects, generating the kind of distortions that state-aid control was precisely designed to prevent (Di Carlo et al., 2024, pp. 25-26; Hornkohl and Pelekis 2025, p. 23; Molica, 2025). Left unaddressed, the flexibilised regime risks widening the divide between the Union's wealthier, greener core and its more fiscally constrained periphery (Rodríguez-Pose and Bartalucci, 2026).

This unevenness is already pronounced. Figure 5 plots each member state's average annual state aid over 2020-2024 as a deviation from the EU27 mean, in percentage points of GDP. The dispersion is wide, ranging from +1.04 percentage points of GDP in Hungary and +0.85 in Malta to −1.03 in Ireland and −0.73 in Luxembourg. Germany, the Union's largest economy, granted 0.67 points above the mean. Aid granted under the Temporary Crisis Frameworks in particular was dominated by a handful of fiscally strong states (Di Carlo et al., 2024, pp. 25-26; Hornkohl and Pelekis, 2025, p. 23).

The risk going ahead is that the reformed SGP will tighten fiscal space, proportionally more so for high-debt member states, which will be forced to retrench fiscal spending for state aid, while those with greater budgetary room will be able to continue disbursing state aid in support of their national industries, turning today's uneven distribution of aid into a durable fragmentation of the single market.

Figure 5. Cross-country differences in state aid granted by the EU27, 2020-2024 (average annual deviation from the EU27 mean, percentage points of GDP).



Notes: Each bar shows a country's mean annual state aid over 2020–2024 (measured as % of national GDP) minus the unweighted mean of all 27 member states (1.48% of GDP). The bar is therefore an average annual gap: it reports how much more or less aid, per year, a country granted relative to the EU27 average. Positive (green) bars indicate above-average aid; negative (red) bars, below-average aid. Values are in percentage points of GDP: Hungary granted on average 1.04 p.p. of GDP more per year than the EU27 mean, Ireland 1.03 p.p. less. Deviations sum to zero by construction. Source: European Commission, State Aid Scoreboard.

Source: European Commission, state-aid scoreboard.

Second, the inconsistency between the two rulebooks risks forcing countries to reallocate spending based on priorities rather than being able to expand budgets to fund green industrial policy. Because the SGP's net expenditure path requires additional spending to be offset elsewhere, constrained countries willing to expand state aid will have to do so at the expense of other budget lines. As is well known, under tight budgets, it is public investment that is most easily cut or deferred, and tighter budget consolidations are associated with deeper investment cuts (Heimberger, 2025, p. 16). Thus, the public investment the EU's twin transition requires is likely to be forgone or postponed by fiscally constrained member states. Alternatively, constrained member states willing to subsidise national industries will be forced to cut spending for other collective goals, most notably social and public investment expenditures. Italy's 2023 revision of its recovery and resilience plan illustrates the pattern: €11.8 billion were reallocated to energy priorities, with the largest reductions falling on education (€360 million) and social infrastructure spending (€2.85 billion; Heimberger 2025, p. 11). Without a coherent adjustment to the fiscal rules, state-aid flexibility is unlikely to support an expansion of the resources available for industrial policy across Europe. It merely forces governments to reprioritise among different spending goals within constrained national budgets.

Third, the misalignment undermines the credibility of the Union's strategic ambitions. Decarbonisation, digitalisation and open strategic autonomy have been consecrated as existential priorities, yet the governance framework denies most member states the fiscal means to pursue them at the warranted scale. An EU industrial policy agenda that neither the EU level nor the majority of member states can finance under the current rules is unlikely to be effectively delivered.

In all, the contradiction in the governance and financing of EU industrial policy is thus structural. It stems from two regimes reformed in parallel but never reconciled, and it will persist for as long as a flexibilised state-aid regime coexists with a fiscal framework that makes no room for the very spending that flexibility is intended to promote. The remainder of this part sets out a targeted means of reconciling the two.

9. Making EU economic governance coherent: A smart and selective alignment of the fiscal rulebook with state-aid provisions

9.1 The proposal in a nutshell

The regulatory misalignment set out above invites a simple yet effective remedy: EU policymakers should align the flexibility that the Commission already grants under the state-aid regime with corresponding flexibility under the Union's fiscal rulebook. The two regimes currently run on separate tracks: DG COMP authorises national aid under CISAF and the IPCEI framework, while DG ECFIN polices the same spending against the net expenditure path, with no connection between them.

We propose to connect them as follows:

National state aid that member states notify and that the Commission has already approved under CISAF and/or the IPCEI framework would be excluded from the net expenditure aggregate against which compliance with the SGP is assessed. Spending that has passed the Union's own strategic and compatibility test would thus cease to count against the fiscal ceiling that would otherwise prevent it.

The proposal is deliberately narrow, conditional and monitorable: it does not relax the fiscal rules across the board but carves out a defined and time-limited space for spending the Union has certified as serving its strategic priorities.

This proposal can be implemented within the existing legal and institutional setting.

Specifically, it would rely on a coordinated activation of the national escape clause established in Article 26 of Regulation (EU) 2024/1263, which allows the Council, on a Commission recommendation,

to authorise a member state to deviate from its net expenditure path in exceptional circumstances outside its control.

The proposal requires neither treaty change nor a new fiscal instrument, only the disciplined use of a clause the co-legislators have already enacted.

The proposal rests on two pillars. Under the first pillar, national aid approved under CISAF would be excluded from the net expenditure aggregate used to assess a member state's compliance with its expenditure path.

CISAF would thereby function as an ex-ante filter: fiscal accommodation would follow automatically from, and only from, prior authorisation by DG COMP, so that the instrument which already decides whether aid is permissible would also decide whether it qualifies for fiscal flexibility. This design preserves:

1. *directionality* and the coordination of national spending toward EU strategic priorities, since only the net-zero technologies, industrial decarbonisation and manufacturing capacity that CISAF covers would be eligible for the fiscal exemption; and

2. *European oversight* of national spending, since eligibility is determined by the Commission rather than the member state, while exploiting the established system of member states' aid notification and DG COMP assessment and approval of aid schemes.

The flexibility would be bounded on two dimensions:

1. *quantitatively* by a cap expressed as a share of GDP; and

2. *temporally* by alignment with CISAF's own horizon to the end of 2030, with the precise calibration further set out below.

Under the second pillar, national contributions to Commission-approved IPCEIs would likewise be excluded from net expenditure, granting them, in reality, an exemption from the fiscal regime.

IPCEIs are especially well suited to such treatment. Authorised on a case-by-case basis after DG COMP's in-depth assessment, requiring cross-border cooperation and channelling national funds into shared strategic projects, they tie national spending to the Union's priorities more tightly than any other aid instrument, and carry a lower fragmentation risk, since participation is collective rather than competitive.[ix]

To maximise this pillar's leverage, we recommend more systematic EU co-financing of IPCEIs, ideally through the ECF under the 2028-2034 MFF (see Section 6.6). Co-financing would attenuate the central weakness of any national-budget route, that is, its bias towards member states with fiscal space. An EU contribution would reduce the national outlay required to participate, enabling fiscally constrained members to join projects they could not finance alone, and thus counteract fragmentation rather than reinforce it.

9.2 The proposal's economic desirability

The proposal is first and foremost motivated by its economic advantages. As Section 7.1 set out, the return of industrial policy has made subsidies central to economic competition: the USA and China now support their industries on a scale the Union struggles to match, and financing the twin transition and EU strategic autonomy requires public money both to subsidise firms and to crowd-in private capital. The difficulty is that the Union's inherited economic constitution was built to constrain such intervention rather than to conduct it. The carve-out's principal economic merit is that it lets member states fund the transition more readily without dismantling that constitution: it works through the framework's own instruments, retaining state-aid control as an ex-ante filter and preserving fiscal discipline through a capped, time-limited and conditional deviation, rather than suspending either rulebook. It thus eases the binding constraint on transition spending while

remaining within the rules-based, ordoliberal order that governs how the Union may spend.

Its desirability revolves around two main advantages:

1. It would mitigate single market fragmentation by allowing fiscally constrained countries to participate in industrial policy rather than leaving subsidy capacity to track pre-existing fiscal space. As such, it contributes to economic efficiency, socio-economic cohesion and territorial fairness.

2. By combining supranational ex-ante directionality with national public spending strategies geared toward EU common priorities decided jointly, it fosters policy coordination and synergy, and enhances the coherence of the EU industrial policy regime.

9.3 Reassuring the hawks: The political feasibility of the proposal

The principal objection to the flexibility at the heart of this proposal is likely to come from the fiscally conservative, or "frugal", member states, and it must be met directly. Their concern is one of moral hazard: in a monetary union, a member state partly shielded from the cost of its own borrowing, by the shared currency and the prospect of common support in a crisis, has an incentive to over-borrow and shift the resulting risk onto more prudent partners. Relaxing the expenditure rules for high-debt states, from this view, threatens debt sustainability, weakens the incentive to consolidate and to reform, and – once conceded – is difficult to contain.

These fears are not hypothetical. During the 2024 reform of the SGP, Germany and other fiscally conservative states distrusted the discretion that the Commission's opaque debt sustainability analysis conferred, regarding its results as politically manipulable, and insisted on numerical safeguards that would guarantee a minimum pace of debt and deficit reduction irrespective of what that analysis indicated (Darvas et al., 2024, p. 10; Heimberger, 2025, p. 11).

To be truly workable, our proposal must therefore reassure the northern, fiscally conservative member states that flexibility will not become a licence for fiscal laxity.

The proposal is designed to provide that reassurance, through three features that address each element of the frugal states' concern:

1. Conditional flexibility replaces discretion. Fiscal flexibility is not a macroeconomic or political judgement left to the Commission but the result of the application of established state-aid regulatory provisions, legally codified and enforced under the exclusive competence of DG COMP. The opacity, discretion and potential laxity that might trouble northern member states do not arise under this proposal.

2. A quantitative cap on permissible fiscal flexibility ensures that the deviation cannot endanger medium-term fiscal sustainability (a condition that, as highlighted below, Article 26 itself imposes). Bruegel's own simulations of a comparably bounded, fiscally responsible investment carve-out show that, even for high-debt countries, such a rule would not compromise debt sustainability (Darvas et al., 2024, pp. 11, 16-17).

3. Monitoring is built in: because approved aid is recorded in the state-aid scoreboard and national spending is tracked through the European Semester, compliance can be verified with data the Commission already collects, and the temporal limit prevents the carve-out from hardening into a permanent, general relaxation of the fiscal rulebook. Flexibility would thus be granted only for spending the Union has vetted, only up to a defined ceiling, and only for as long as the strategic rationale persists and CISAF remains in place or IPCEIs are approved.

Politically, our proposal would thus offer a consensual balance between strong ex-ante safeguards, desired by the northern countries, and targeted fiscal flexibility and investment capacity, advocated for by the high-debt member states.

9.4 The proposal's legal feasibility

In legal terms, the proposal would be implemented through a coordinated activation of the so-called "national escape clause" enshrined in Article 26 of Regulation (EU) 2024/1263.[x] This constitutes a viable and realistic legal option.[xi]

The national escape clause is worded as follows:

> **Following a request from a member state and on a recommendation by the Commission based on its analysis, the Council may within four weeks of the Commission recommendation adopt a recommendation allowing a member state to deviate from its net expenditure path as set by the Council where exceptional circumstances outside the control of the member state have a major impact on the public finances of the member state concerned, provided that such deviation does not endanger fiscal sustainability over the medium term. The Council shall specify a time limit for such deviation.[xii]**

Its activation is subject to three main material conditions:

1. The member state requesting said activation must be confronted with "exceptional circumstances outside (its) control", which have a "major impact on (its) public finances". In our view, the climate crisis, rapid technological change, and the need for economic and military security in the face of rising geopolitical competition with the US and China and Russia's invasion of Ukraine do qualify as exceptional circumstances outside the member states' control, which call for increased national spending and investment, and will therefore have a major impact on their public finances.

2. The deviation tolerated as a result of the collective activation of the clause cannot endanger "fiscal sustainability over the medium term". As anticipated above and further discussed below, this second condition will call for a quantitative cap on the eligible flexibility.

3. The deviation is limited to a specific period of time set by the Council, which can, however, be extended if exceptional circumstances persist.[xiii]

Procedurally, the process is activated by the member states, which must submit a request to the Commission. The decision to collectively activate the clause lies with the Council, which will act upon a recommendation of the Commission, following the "comply or explain" rule.[xiv] For our proposal, a coordinated activation would be pursued: national requests would be bundled together and examined jointly by the Council (as occurred under the defence precedent we discuss below).

9.5 Defence and energy security, but not the EU's other priorities? Precedents to build on

Our proposal could usefully draw upon past practice and concrete precedents. Most notably, in March 2025, as part of the ReArm Europe/Readiness 2030 Plan,[xv] EU institutions already decided to resort to a coordinated activation of the national escape clause to accommodate increased defence expenditures in a context of heightened geopolitical tensions (Dermine, 2025).[xvi] Eager to ensure an orderly and transparent process, the Commission has subjected this defence-specific flexibility to a set of constraints:[xvii]

- a *substantive constraint*: only expenditure falling under Eurostat's statistical category of "Defence" will be eligible for flexibility;

- a *numerical constraint*: flexibility is capped at 1.5% of GDP per year of coverage; and

- a *temporal constraint*: flexibility is activated for a four-year period (but extensions might later be awarded).

For the rest, the Commission has made it clear that, outside this carefully delineated flexibility space, EU fiscal rules would "continue to operate normally". By July 2026, the Council had activated the escape clause for 18 member states.[xviii]

A second and closer precedent has since emerged: the Commission has broadened the scope of the national escape clause to accommodate energy security measures decided after 28 February 2026 (following the conflict in the Middle East) to reduce dependence on imported fossil fuels.[xix] Formalised in a Commission notice of August 2026 and presented as a second pillar of European security alongside defence, the eligible measures include support for households and firms to cut fossil-fuel dependency, the electrification of end uses, investment in electricity grids and storage, energy saving, and the expansion of clean-energy capacity. The 1.5% of GDP cap set in March 2025 remains unchanged; within it, a dedicated annual cap of 0.3% of GDP and a cumulative cap of 0.6% over 2026-2028 apply to energy-security measures, and spending above the cap remains subject to the standard compliance assessment.[xx]

On one hand, these precedents attest to the economic desirability, the political feasibility and the practical applicability of the mechanism we propose. On the other, their inherent limitations also motivate our design and confirm the necessity and added value of such a mechanism.

The Commission's recent broadening of the defence escape clause to certain energy measures is certainly what comes closest to our own proposal, but it suffers from important constraints:

1. Its material scope is fairly narrow, and although we can expect flexibility on the side of the Commission, the initiative remains dominated by a defence and security approach, and green spending is only eligible for budgetary flexibility if it can be recharacterised as energy security.
2. In quantitative terms, the flexibility is integrated in, and constrained by, the total defence envelope, meaning that, in practice, green investment will be "competing" with defence spending for the same 1.5% of GDP.
3. More fundamentally, both precedents share a common weakness: they have been assembled piecemeal and reactively; each bolted onto the same defence clause to meet a specific emergency, defence spending after Russia's invasion of Ukraine and energy measures after the conflict in the Middle East, rather than conceived as a coherent, long-term industrial policy instrument.

These precedents point in the right direction but accommodate the Union's priorities in a fragmented and improvised manner. The strength of our proposal is to replace these improvised measures with an ordered mechanism that ensures transparency and predictability of the objectives for which – and the instruments through which – aid can be granted outside the SGP's expenditure constraints over the medium term.

To address these limits, what we propose is a separate and institutionalised carve-out dedicated to green industrial policy and decarbonisation objectives, and clearly distinct from the existing defence national escape clause and its security rationale. In substantive terms, Article 26 and the national escape clause would be activated in close conjunction with Article 107(3)(b) and (c) TFEU: only national spending approved ex ante as compatible aid under CISAF and the IPCEI framework would be eligible for budgetary flexibility. The flexibility under this separate national escape clause should also be numerically capped at 1.5% of GDP yearly, compared to the net expenditure path set by the Council. To ensure maximal synergies, this new escape clause would be temporally aligned with CISAF and end in 2030 (or be prolonged accordingly).

9.6 Social and territorial conditionality: A lever for member states and social partners

The flexibility CISAF grants, and the additional fiscal room the carve-out proposed here would create, govern how much national aid member states can grant. However, the EU is often criticised as a weak de-risking state, which fails to attach strong conditionalities to state aid (Gabor and Braun, 2025). Beyond the light conditionality the framework imposes directly, such as the requirement that recipients of electricity-price relief reinvest at least half of the aid in decarbonisation (CISAF, para 121), CISAF actually encourages member states to attach their own conditions to the aid they finance to address broader social and environmental objectives. The Commission offers to provide assistance to member states in the design of social conditionalities (CISAF, para 22) and invites them to develop social conditionalities tied to the disbursement of state aid under CISAF together with social partners in the pursuit of key social objectives outside of the EU's legal remit: quality and durable jobs (CISAF, para 22); fair wages, decent working conditions, training and just transitions; and the exclusion of firms that use tax havens to avoid paying taxes (CISAF, para 23). Because the non-observance of such conditions can oblige the granting authority to recover the aid (CISAF, para 23), conditionality attached at the national level carries enforceable disciplinary weight.

CISAF also offers hooks for the use of territorial conditionalities. Its aid ceilings and intensities rise with the disadvantage of the region in which the investment takes place (CISAF, para 167), and beneficiaries must maintain the investment and associated jobs in the area for a minimum period and refrain from relocating within the single market (CISAF, paras 170, 172). Within these limits, and alongside the European resilience criteria the framework encourages (CISAF, para 21), member states can tie the aid they grant to the retention of activity and quality employment in specific, often assisted, territories, aligning national subsidies with the Union's cohesion objectives. Social and territorial conditionality thus allows member states to convert the fiscal space the carve-out would open into a measurable collective return, rather than unconditional transfers to firms.

Because CISAF frames these conditions as encouragements rather than obligations, whether they will be used depends on national governments' choices. Wages, industrial relations and social policy remain largely national competences, so the decisive choice over conditionality rests with governments and social partners rather than with the Commission (Di Carlo and Bulfone, 2026). For member states with established traditions of social concertation, designing and enforcing these conditions jointly with social partners is the means by which nationally financed state aid policy can be reinforced with the inclusion of social partners. This national layer complements the supranational directionality that runs through the proposal set out above: where the Commission's ex-ante authorisation under CISAF and the IPCEI framework determines which activities qualify as "good aid" and for fiscal flexibility, member states and their social partners will have to determine what that aid must deliver in terms of quality jobs, fair wages and regional development.

CONCLUSIONS

The return of industrial policy has given the Union new ambitions without giving it the means to pursue them. The Commission steers national subsidies it cannot finance. Member states are asked to invest in common priorities that fiscal rules prevent many of them from funding. The Union multiplies instruments that no single authority coordinates. The result is an industrial policy that follows the fiscal strength of individual states more closely than the strategic priorities of the Union, with the risk of widening the gap between core and periphery and fragmenting the single market it was meant to strengthen.

This policy study argues that the contradiction can be addressed, starting now, largely within the existing treaties. Five proposals carry the greatest weight.

1. **Establish an Industrial Strategy Board as the single locus of strategic direction**. Coordinated by the Commission, the Board would include member states, the regions and the European Parliament, and would absorb the JEF for IPCEI. It would select priorities, organise them into missions, and verify the coherence of national and regional commitments. Its creation requires no treaty change.

2. **Make European resources follow commitments**. National and Regional Industrial Pacts should translate missions into verifiable commitments. These would be financed through an EIF, towards which the ECF should evolve, and made subject to social, environmental and territorial conditionality. A common Strategy Dashboard would monitor them and link resources to results.

3. **Correct the ECF while it is still under negotiation**. The fund needs binding boundaries with Horizon Europe, the Innovation Fund and the CEF, and minimum eligibility, ownership and access-rights requirements set in the regulation. It also needs safeguards on fast-track procedures and differentiated co-financing for IPCEIs, so that fiscally weaker member states and SMEs can take part.

4. **Give the ECF its own borrowing capacity**. The policy study proposes up to €750 billion over 2028-2034, around 0.6% of EU GDP per year, repaid through new own resources. This would be the first step towards a permanent additional common fiscal capacity of 1% of GDP.

5. **Exclude approved green industrial aid from the fiscal rules**. A coordinated, capped and time-limited activation of the national escape clause for aid approved under CISAF and for national contributions to IPCEIs would reconcile the state-aid and fiscal rulebooks. It would allow high-debt member states to take part in the transition and turn the Union's priorities into spending decisions. Of the five proposals, it can be adopted most quickly, on the basis of precedents the Council has already accepted.

These proposals form a sequence. The fiscal carve-out and the corrections to the ECF can be adopted in the coming months. The Industrial Strategy Board and the pacts can be built over the course of the next MFF. Treaty change, from a shared competence in industrial matters to qualified-majority voting on own resources, remains the horizon that would make the architecture permanent. Each step strengthens the case for the next step.

What is at stake goes beyond the effectiveness of a single policy. A Union that sets common priorities without the means to pursue them weakens its own credibility with citizens, investors and partners. The return of industrial policy will translate into a lasting strengthening of European competitiveness only if the Union acquires the capacity to govern it: to choose, coordinate, finance and learn from results.

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ENDNOTES

ENDNOTES

i For a general overview of the flexibilisation of the EU state-aid regime since the COVID-19 pandemic and across various instruments, see Di Carlo et al. (2024).

ii Under Article 107(1) TFEU, aid granted through state resources that distorts or threatens to distort competition by favouring certain undertakings and affects trade between member states is incompatible with the internal market; Article 108(3) TFEU requires prior notification and prohibits implementation before Commission authorisation (the standstill obligation); the derogations are set out in Articles 107(2) and (3).

iii Commission Regulation (EU) No 651/2014, OJ L 187, 26.6.2014, p. 1.

iv Commission criteria for the compatibility assessment of IPCEIs, OJ C 188, 20.6.2014, replaced by OJ C 528, 30.12.2021.

v The post-2020 temporary frameworks were the COVID-19 Temporary Framework (OJ C 91I, 20.3.2020), the Temporary Crisis Framework (OJ C 131I, 24.3.2022), and the Temporary Crisis and Transition Framework (OJ C 101, 17.3.2023).

vi CISAF, OJ C/2025/3602, 4.7.2025; applies from 25 June 2025 until 31 December 2030.

vii Regulation (EU) 2024/1263 on the effective coordination of economic policies and on multilateral budgetary surveillance, which reorganised the preventive arm of the Stability and Growth Pact.

viii Articles 7 and 8 of Regulation (EU) 2024/1263 on the debt sustainability safeguard and the deficit resilience safeguard, respectively.

ix This does not make IPCEIs immune to asymmetries: as shown in Part I (see Section 1.2), participation remains concentrated among the fiscally and administratively stronger member states – Germany alone absorbs 34.7% of the aid, and together with France and Italy, around 70%. But this is a different mechanism from the subsidy race: it stems not from competition over the same investment, but from an unequal capacity to co-finance and coordinate cross-border coalitions – the asymmetry that the EU co-financing proposed herein is meant to correct.

x Regulation (EU) 2024/1263 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) no. 1466/97. The regulation is the outcome of the last overhaul of the Stability and Growth Pact (SGP), concluded in 2024. It re-organises the so-called "preventive" arm of the SGP. In general, see: Markakis (2024); Pench (2024).

xi Amending (once again) the legislative framework and the SGP's fiscal rulebook – for example, to introduce an industry-specific golden rule – could have constituted another possible option, but it does not seem politically feasible. We have instead sought to work within the existing regulatory framework. The activation of the so-called "general escape clause", enshrined in Art. 25 of Regulation (EU) 2024/1263, could also have been considered, but it requires "a severe economic downturn in the euro area or the Union as a whole", a condition that is not fulfilled in the present case (as it was, for example, during the COVID-19 pandemic).

xii Article 26(1) of Regulation (EU) 2024/1263.

xiii These extensions may be granted more than once but can never be longer than a year (Art. 26(2) of Regulation (EU) 2024/1263).

xiv Art. 29 of Regulation (EU) 2024/1263. The rule requires the Council to follow, as a matter of principle, the Commission's recommendation. It remains free to depart from said recommendation but is then under an obligation to justify its decision and duly state the reasons underlying it.

xv "Joint White Paper for European Defence Readiness 2030". JOIN(2025)120. European Commission and High Representative of the Union for Foreign Affairs and Security Policy, 19 March 2025.

xvi "Communication: Accommodating increased defence expenditure within the Stability and Growth Pact". COM(2025)2000. European Commission, 19 March 2025.

xvii This willingness to tightly frame and condition the activation of the national escape clause for defence purposes certainly proceeds from a broad and ambitious reading of Art. 26 of Regulation (EU) 2024/1263. For example, the provision does not expressly foresee the capacity to cap authorised flexibility under the national escape clause by limiting ex ante the size of the deviation. While it remains under debate, we do not see the Commission's approach as problematic. On the contrary, it is only logical that the national escape clause must not necessarily need to enable a complete freezing of a country's net expenditure path but can simply prevent the recording of deviations deemed compatible with the Commission's criteria.

xviii In July 2025, it was activated for the first 15 member states (Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia). Germany followed in October 2025, Austria in February 2026 and Spain in June 2026.

xix Commission Notice, "Guidance to member states on broadening the scope of the national escape clause for energy security", OJ C/2026/4514, 18.8.2026, announced in the 2026 European Semester Spring Package; COM(2026) 200 final, 3 June 2026 (European Commission, 2026d); for press coverage, see Sorgi (2026) and Tamma (2026a).

xx Commission Notice C/2026/4514, 18.8.2026, Sections 2 and 3.

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ABOUT FONDAZIONE GRAMSCI

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Industrial policy has returned to the centre of the European Union's agenda, yet the Union's capacity to pursue it has not kept pace. Fiscal capacity remains predominantly national, the common budget is largely insufficient, and instruments are dispersed across programmes, institutions and levels of government. This paper argues that the first obstacle to an effective European industrial policy lies in the weakness of the mechanisms through which limited resources are selected, coordinated and evaluated.

Part I proposes a new governance architecture centred on an Industrial Strategy Board coordinated by the Commission, bringing together member states, the Regions and the European Parliament. Priorities would be organised into missions, translated into National and Regional Industrial Pacts and financed through a European Industrial Fund, supported by cross-cutting conditionality, a common Strategy Dashboard and an additional fiscal capacity of 1% of EU GDP.

Part II assesses the Commission's proposal for a European Competitiveness Fund. The proposal, while driven by the right ambition, risks reproducing the fragmentation it seeks to overcome and widens the Commission's discretion without adequate safeguards. The paper proposes targeted corrections, above all a borrowing capacity of up to €750 billion.

Part III addresses the misalignment between a loosened State aid regime and the reformed Stability and Growth Pact, which ties subsidy capacity to fiscal strength. It proposes excluding CISAF-approved aid and national contributions to IPCEIs from the net expenditure path through a coordinated activation of the national escape clause, with no Treaty change required.

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