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EUROPE'S COMPETITIVENESS PUSH AND WHAT IT MEANS FOR CLIMATE ACTION

AN ORIENTATION BRIEFING AT 100 DAYS OF THE NEW EUROPEAN COMMISSION

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In its first 100 days, the European Commission has put into motion a series of flagship plans intended to boost the EU's economy in difficult times. So far, they add up to a mixed overall strategy. While some pieces provide strong and logical links between decarbonisation and competitiveness, their ambitions lack fresh sources of funding or a credible mechanism for joint EU action. Meanwhile, the first "simplification" effort delivers deregulation and uncertainty. This shaky start leaves multiple politically charged decisions for the remaining 1,500 days.

Amid growing geopolitical upheaval, the European Commission offers two steps forward, one step back

The executive's first burst of policymaking has primarily focused on European competitiveness. This happens as the international post-World War II global order faces historic stress, with Europe trying to find a seat at the table amid the re-emergence of "great power" politics driven by economic competition and protectionism. The series of initiatives proposed by the Commission attempts to thread a needle in the context of Europe's own challenging domestic politics – aiming to balance industry demands with a forward-looking agenda. The outcome so far is a mixed bag that recommits to decarbonisation as Europe's economic backbone while simultaneously rowing back on key policies steering in that direction.

Top take-aways

The EU grasps the challenges ahead but shies away from difficult questions.

President Ursula von der Leyen's first batch of policies – notably the Competitiveness Compass, Clean Industrial Deal, simplification Omnibuses, Action Plan for Affordable Energy and "Road to the MFF" – give shape to Europe's effort to support its economy, stake out a stronger position on the global field, and ensure that households reap benefits along the way. Yet the difficult questions that sit at the heart of the puzzle, such as how to effectively coordinate the bloc or increase EU-level funding, remain unanswered.

The competitiveness agenda opts for evolution over revolution.

Despite the urgency and transformative ideas put on the table by the Draghi and Letta reports, the Commission's plans stay clear of the systemic change that could be unlocked through bolder, EU integration-oriented policy backed up by a larger EU purse. Instead, the current approach opts for an incremental step towards greater economic intervention.

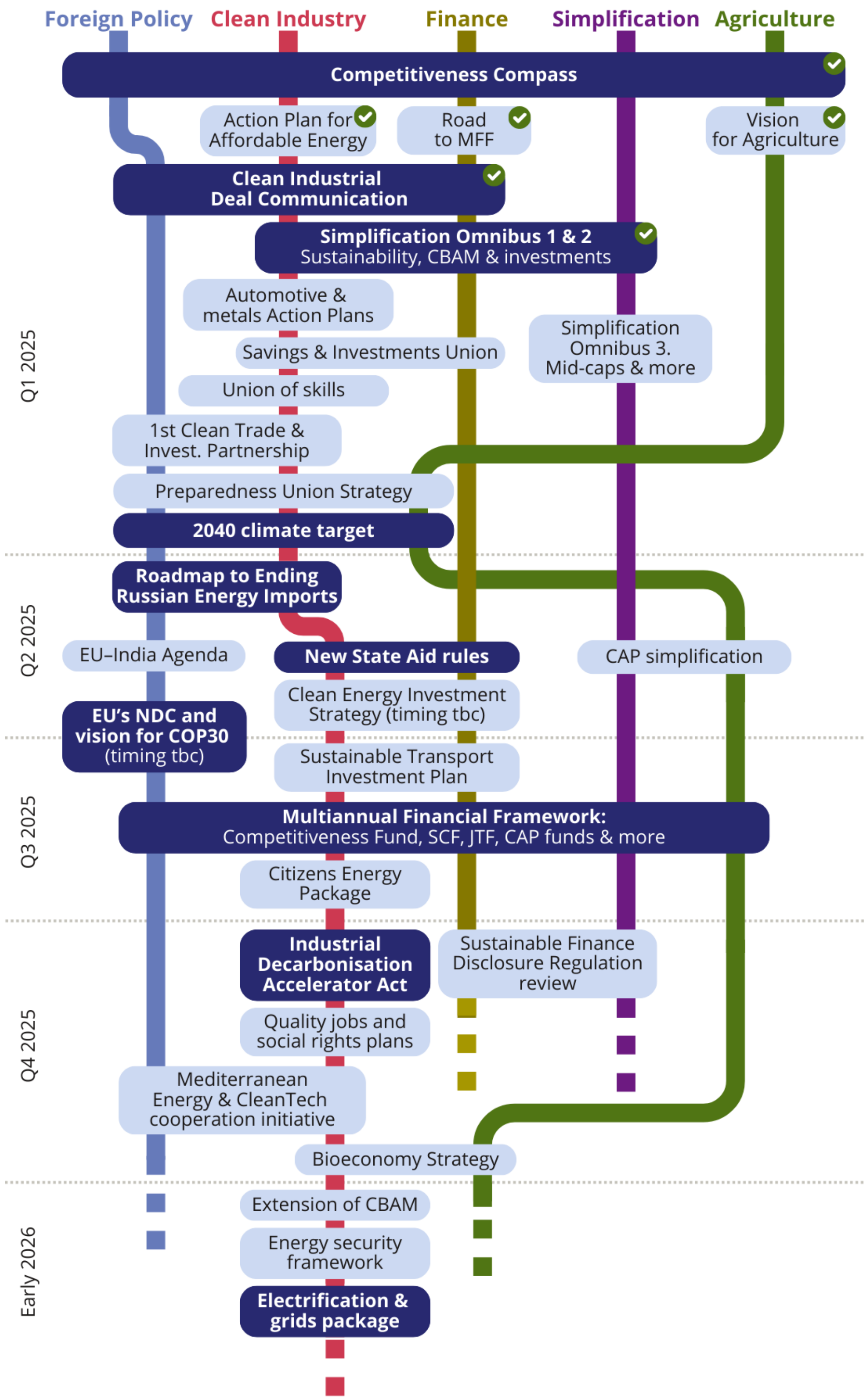
Contradictions and indecisiveness weaken the credibility of EU plans.

The Commission positions decarbonisation as an economic driver, yet deregulating the sustainable finance framework undermines this objective. Similarly, measures aim to shield citizens from fossil fuel price volatility and better equip the just transition, but their delayed timeline, soft-law nature, and narrow focus on skills overlook the urgency of social unrest and the factors that feed it.

EU politics remains a delicate balancing act, with some opportunities ahead.

The mix of plans presented so far reflects President von der Leyen's attempt to speak to the priorities of the fragmented political landscape making up her majority. With the Commission appearing somewhat constrained by this delicate balancing act, it will take member state leadership to facilitate scale, speed and action. As these plans get fleshed out in the months ahead, the devil will be in the detail and the ball in the Council's court, with an increasingly tense geopolitical setting stepping up the sense of urgency.

EU initiatives for sustainable prosperity and competitiveness in 2025 and early 2026



This is a non-exhaustive selection of highly relevant policy initiatives expected in 2025 and early 2026.

How well positioned is the EU to accelerate the green transition now that flagship plans are on the table?

Below, we grade the European Commission's first batch of proposals (see visual above) against the key elements needed for securing a fast, fair and funded transition in Europe and internationally.

How well positioned is the EU to accelerate the green transition now that flagship plans are on the table?

1	A clear and stable trajectory towards climate neutrality and resilience	Mixed
2	A resilient, fair and green competitiveness strategy	Mixed / Has potential
3	A just and green social model	Mixed
4	Energy security through cheaper renewable energy sources, connectivity, and flexible demand	Mixed / Has potential
5	Europe as a credible and reliable leader internationally	Mixed
6	Funding and investment at the scale that's required	Difficult

1. A clear and stable trajectory towards climate neutrality and resilience

Assessment: The Commission has positioned accelerated decarbonisation as an economic driver, but the weakening of key sustainable finance rules and the 2025 CO_2 target for carmakers – in addition to hints of further deregulation – means instability and contradictory signals.

Ahead: A proposal for a –90% greenhouse gas emissions by 2040 target in March would provide clarity on the trajectory to climate neutrality and facilitate the adoption of the EU's 2035 Nationally Determined Contribution ahead of COP30. The upcoming Preparedness Union Strategy could offer guidance on how the EU plans to adapt and become more resilient to heightened climate impacts.

GRADE: MIXED

+ The Competitiveness Compass and the Clean Industrial Deal (CID) both signal that Europe will stay the course by accelerating action towards a decarbonised, clean and circular industry as the EU's core strategy to delivering competitiveness and prosperity, and reducing dependencies.

± The Commission has reaffirmed its commitment to climate neutrality by 2050 and restated the need for a target of –90% emissions by 2040, but did not table the actual legislative proposal when presenting the CID, missing the opportunity to directly link its plans for industrial transformation to a clear emissions reduction path.

– The Commission has chosen to weaken corporate sustainability reporting and due diligence and exonerate all but the largest companies from obligations. This deregulation effort erodes the credibility of the EU's climate goals and creates uncertainty for companies and investors.

– The Industrial Action Plan for the European automotive sector proposes weakening the 2025 CO_2 targets and the Commission has announced plans to review and potentially weaken the 2035 internal combustion engine ban.

2. A resilient, fair, and green competitiveness strategy

Assessment: The Commission paints competitiveness and decarbonisation as two sides of the same coin and the CID moves towards industrial policy territory – but the plans lack the transformative potential of fresh funding or EU-level industrial coordination. The EU Auto Plan weakens CO_2 targets and gives vague support for battery production, on balance weakening competitiveness, despite positive steps on greening corporate fleets.

Ahead: Eyes will be on the new State Aid Rules (Q2), Industrial Decarbonisation Accelerator Act (Q4) and March Council, where leaders will discuss competitiveness and the economy. The forthcoming Competitiveness Coordination Tool will need to make sure not to leave cleantech and energy-intensive industries out of its scope.

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GRADE: MIXED/HAS POTENTIAL

+ Both the Competitiveness Compass and Clean Industrial Deal explicitly pair competitiveness and decarbonisation, narratively marking a continuation of the European Green Deal and signalling Europe's direction of travel.
+ The CID takes another big step beyond the previous narrow focus on carbon pricing, setting out a broad swathe of horizontal enablers across energy, market, trade and financial policy. The strong push on demand-side policy to create lead markets and increase circularity are especially promising.
+ The Industry Decarbonisation Bank has potential to scale industrial decarbonisation solutions across the EU through competitive auctions and Carbon Contracts for Difference. This common funding source is vital for projects located in fiscally constrained member states to tap into, complementing national subsidies under the State Aid Guidelines.
– Taken together, however, the policies presented so far do not add up to an entirely coherent vision for the future and fall short of the transformational agenda and accelerated European integration proposed by Mario Draghi. Social and international considerations are also notably underdeveloped.
– The CID is void of any proposals to step up EU-level governance to steer industrial policy, which is needed to make it more effective and fair. This omission avoids political choices about which industries should be prioritised and where, as well as how the Commission envisages effective decision making and coordination of national industrial policies.

3. A just and green EU social model

Assessment: The new plans have the potential to lower energy bills for households and better support workers through restructuring processes. However, social measures focus narrowly on skills, rely on soft law, will come late in time, and face uncertain funding.

Ahead: Upcoming CID initiatives will need to prioritise industrial sectors and locations and related just transition implications, while the Multiannual Financial Framework should deliver on the promise of a "significantly increased Just Transition Fund".[1] Member states can use their Social Climate Plans – due in June – to deliver on the Commission's guidance on electricity prices and support for workers and consumers.

[1] European Commission, 2024, **Political Guidelines for the next European Commission**

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GRADE: MIXED

+ Plans to improve the design of electricity tariffs including access to dynamic pricing models, tackling energy poverty, and updating eco-design and energy labelling for consumer products, could help lower energy bills for households.

+ A new "Quality Jobs Roadmap" – accompanied by a new European Fair Transition Observatory – aims to support workers through restructuring processes.

+ The Commission has opened the door to introducing conditionalities related to workers' training and skills for companies to receive state aid funds or be awarded public contracts, and will encourage member states' social leasing for electric vehicles, heat pumps and other clean products.

– Social measures will only be backed by soft law and – as with policies aimed at lowering energy prices – come late in time, failing to respond to the urgency of people facing restructurings, lay-offs and high energy prices.

– By prioritising skills for competitiveness and avoiding tough decisions on declining industries, the Commission neglects broader Just Transition and social fairness issues.

– The Commission has backtracked on previous social political commitments, such as increasing the size of the Just Transition Fund – now absent from its plans – or companies' obligations to address human rights violations in their supply chains – scrapped from the Corporate Due Diligence Directive deregulation proposal.

4. Energy security through cheaper renewable energy sources, connectivity, and flexible demand

Assessment: Plans to boost grids and electrification can lower reliance on volatile fossil fuels and increase energy security, but depend on member states' still limited institutional capacities to deliver. Increasing transparency and enabling demand-side flexibility to stabilise gas markets have the potential to lower energy prices, but current plans don't provide a clear pathway to transition away from fossil gas.

Ahead: The upcoming Energy Security Framework revision, Citizens Energy Package and proposed strategies on electrification and heating and cooling will be opportunities for managing the EU's fossil gas demand reduction. Meanwhile, the upcoming plan to phase out Russian fossil fuel imports should provide clarity on reducing overall fossil fuel demand and avoid creating new dependencies.

GRADE: MIXED/HAS POTENTIAL

+ The transition to renewables, electrification, and energy efficiency, and away from volatile fossil gas, is positioned as a key tool to structurally reduce energy prices for industry and households.

+ Plans to accelerate grid expansion are promising, including modernisation, and digitalisation, streamlining cross-border and distribution grid planning, and a €1.5 billion package from the EIB to de-risk grid manufacturing and scale up production.

+ Plans to lower energy prices for industry by decoupling retail electricity prices from fossil gas. In line with the recently agreed Electricity Market Design, the Commission promotes long-term Power Purchase Agreements and Contracts for Difference, de-risking renewable projects and providing a more stable long-term price for industrial consumers.

+ Proposals to increase transparency and oversight of fossil gas markets, as well as the forthcoming plan to phase out Russian fossil fuel imports, could lower short-term energy prices for consumers.

– The EU is not providing a clear trajectory to a fossil-free power sector by 2035 nor proposing clear targets and independent infrastructure planning to effect sustained and managed reduction of the overall demand for fossil gas. Proposals to explore funding fossil gas infrastructure abroad and to secure long-term contracts risk locking the EU into fossil gas.

– The Commission offers guidance that relies on member states to deliver, but it does not address the necessary support in terms of institutional and delivery capacities.

– The potential of energy demand reduction and energy efficiency to stabilise prices and reduce system costs is underutilised. Support to implement existing efficiency targets and measures, particularly for households – as well as much-needed support to scale up heat pumps – is missing.

5. Europe as a credible and reliable leader internationally

Assessment: The EU recognises its global responsibility and the potential of integrating decarbonisation with trade policies and partnerships, but proposals lack detail, focus mainly on Europe's own industrial interests rather than co-benefits, and shy away from international climate leadership.

Ahead: A series of Clean Trade and Investment Partnerships – the first one expected in March, a Trans-Mediterranean Energy and Clean Tech Cooperation initiative with the potential to spur investments in renewables in the region, and defining the EU's 2035 Nationally Determined Contribution ahead of COP30 to strengthen the EU's global leadership in a time of geopolitical crisis.

GRADE: MIXED

+ The plans acknowledge that Europe's economic future is deeply intertwined with an open, rules-based international order. The Clean Industrial Deal stresses Europe's responsibility to "shape global progress" and emphasises that integration of decarbonisation with trade policies can drive prosperity.

+ The focus of Clean Trade and Investment Partnerships (CTIPs) is broadened, with the first such partnership set to be launched in March this year. In addition, the new Pact for the Mediterranean will feature a Trans-Mediterranean Energy and Clean Tech Cooperation initiative aimed at stimulating large-scale investments in renewable energy.

– The EU's international role is approached through an inward-looking angle, focusing primarily on achieving the EU's goals – such as securing critical raw materials and preventing an influx of foreign overcapacity – without clearly articulating the benefits for partner countries. The strategy lacks specific details regarding the implementation timeline, selection of partner countries, and prioritisation of industrial opportunities, raising concerns about its effectiveness and mutual advantages.

– Europe's domestic commitment to continued decarbonisation fails to translate into international leadership at a time when multilateralism is in dire need of it. The EU's 2035 Nationally Determined Contribution goes unmentioned, and the ever-shifting release date of the bloc's 2040 climate target makes this timeline even more unclear.

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6. Funding and investment at the scale that's required

Assessment: The Commission's plans acknowledge Europe's significant investment needs and make an effort to address them by mobilising private investment in cleantech via InvestEU and the EIB, while also cracking the door to new own resources. Yet, no significant fresh money is put on the table and the Omnibus rolls back rules intended to steer private finance.

Ahead: Eyes will be on the Savings and Investment Union (Q1) and discussions among EU leaders signalling the appetite for joint EU action ahead of the Commission's release of the new budget proposal in July. Also ahead: new State Aid Rules (Q2), changes to the CSRD and CSDDD go to the inter-institutional negotiation process.

GRADE: DIFFICULT

+ Throughout the plans released so far, there is acknowledgment of Europe's significant investment needs, and an effort to mobilise private investment in clean technologies via InvestEU and the EIB.

+ The Communication on "The Road to the next Multiannual Financial Framework" opens the door for new own resources, albeit at a scale that seems primarily targeted at repaying NGEU, and proposes a Competitiveness Fund that holds potential.

– At this critical point in Europe's trajectory, funding remains the Achilles' heel to the bloc's forward-looking ambitions. No fresh money has been put on the table, nor does the Commission currently foresee a material expansion of the next MFF beyond what is needed to cover existing repayment obligations. Meanwhile, competing priorities such as security and defence are also vying for a larger share of resources.

– The first Omnibus undermines core sustainable finance rules (corporate sustainability reporting, CSRD, and due diligence, CSDDD), ushering in uncertainty and unpredictability for the regulatory mechanisms intended to help steer private finance flows.

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What's next?

> **EU leaders will meet in March on security and the economy.** High-level discussions are currently driven by the tumultuous geopolitical and security landscape ushered in by the US administration. EU leaders are meeting informally twice in March to discuss Ukraine and defence, and formally on March 20–21 to tackle Europe's competitiveness strategy to give further steer to the Commission. Key questions likely to arise are around trade, funding for defence, and Europe's overall economic strategy. An appearance by UN Secretary General António Guterres may prompt leaders to consider Europe's flagging climate leadership and role in a faltering multilateral system.

> **Europe's 2040 target is slated to be proposed in the coming weeks.** The Commission has said it will table the legally required amendment to the European Climate Law – containing its 2040 climate target – before the end of March. This will set into motion discussions towards a political agreement, while also providing a trajectory from which to determine Europe's NDC, which is running behind schedule.

> **Germany forming a new government, and presidential elections in Poland and Romania**. German election winner Friedrich Merz (CDU/CSU) has kicked off talks with the Social Democrats, aiming for a coalition by Easter. Results of coalition negotiations will determine Germany's position on the path Europe takes for its security, finance, and industrial policy. Poland, which holds the Presidency of the Council of the EU until July, will have presidential elections in May. The run-up to this domestic race has reportedly contributed to the Commission's delay in tabling Europe's 2040 climate target. Romania will have its new presidential election in May, following an annulled election in December that drew critical remarks from US Vice President Vance,[2] which widened a growing transatlantic rift.

> **The EU's financing debate has kicked off.** Discussions around the EU's next long-term budget (2028–2034) are intensifying in the run-up to the Commission's proposal due in July. The size of the budget, own resources, and cohesion policy reform are likely to draw the most attention – and have the potential to boost, or harm, the EU's decarbonisation plans. Also coming up is the EU's plan to energise capital markets via a Savings & Investments Union, a new State Aid package, Clean Energy Investment Strategy, and Sustainable Transport Investment Plan.

[2] Politico, 14 February 2025, **JD Vance attacks Europe over migration, free speech**

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About E3G

E3G is an independent climate change think tank working to deliver a safe climate for all.

We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.

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