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POWERING EUROPE'S INDUSTRIAL FOUNDATION

SECURING THE FUTURE OF ENERGY-INTENSIVE INDUSTRIES IN A CHANGING ECONOMY

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European energy-intensive industries are going through their most uncertain time since the 2008 financial crisis. Despite a growing consensus that their future hinges on decarbonisation, a stalling project pipeline is undermining delivery. A series of legislative proposals under the Clean Industrial Deal (CID) coming over the next year can deliver the concrete changes that European industry desperately needs.

Informed by E3G's in-depth knowledge of the production and demand landscape for the steel, cement, and chemical sectors, this briefing focuses on the decisions most critical to making industrial decarbonisation investable. We offer recommendations for European legislators on three key priority areas:

1. **Unlocking direct electrification of industrial processes**. Supercharge industrial electrification by upgrading grid governance, cutting electricity costs through fairer taxation and charges, and hard-wiring electrification into EU strategic priorities and funding to fast-track high-impact projects.
2. **Creating lead markets for clean and circular materials.** Kick-start demand through adopting a comprehensive lead markets strategy under the upcoming Industrial Decarbonisation Accelerator Act (IDAA). This strategy should combine product standards, demand-side obligations and smart incentives to grow both public and private markets for clean and circular products.

3. **Aligning and scaling funding for deployment.** Focus scarce EU funds to de-risk first movers, finance enabling infrastructure and build early markets. Use the Competitiveness Coordination Tool, announced under the Competitiveness Compass,[1] to unite EU and national resources behind strategic, including cross-border, industrial projects.

A critical foundation to the success of the Clean Industrial Deal is **regulatory stability**. From a business and investor perspective, **Europe's predictable climate framework is one of its strongest competitive advantages.** Dismantling it now would punish early movers, reward inaction and paralyse investment just as critical reinvestment decisions approach.

Europe's heavy industries are central not only to climate goals but also to its economic security, defence value chains and geopolitical resilience. Tangible action to drive their clean transition would strengthen Europe's economic security, defence value chains, and geopolitical resilience.

Europe's energy-intensive industries are living their most critical period since the 2008–09 financial crisis

The EU's industrial base is central to its prosperity – driving innovation, offering quality jobs and supplying critical inputs to downstream sectors. Energy-intensive industries alone employ 18 million people and add around EUR 3.2 trillion in value.[2]

These sectors remain pillars of the EU economy,[3] even if their relative weight has been declining with the shift to services and higher-value manufacturing.[4] The main pressures they face today are intensifying global competition – including surging Chinese imports,[5] worsening trade conditions, with new US tariffs hitting key sectors, high and volatile energy prices, and an overall sluggish EU economy.

These industries sit at the heart of the climate challenge: they are responsible for more than a quarter of the EU's final energy use and for over 20% of its total

[1] European Commission, 29 January 2025, **Competitiveness Compass**

[2] European Roundtable for Industry, March 2024, **Competitiveness of European Energy-Intensive Industries**

[3] Dechezleprêtre, A. et al., 2025, **OECD Science, Technology and Industry Working Papers 2025/09: A comprehensive overview of the Energy Intensive Industries ecosystem**

[4] European Commission, **National accounts and GDP**, accessed June 2025

[5] European Central Bank, September 2024, **Why competition with China is getting tougher than ever**

emissions. The transition brings opportunity as well as pressure: Europe has world-class engineering, is already investing in early-mover green projects and rapidly expanding renewables – pointing to a future of competitive low-carbon production.

However, this is also the most uncertain period for European industry since the 2008–09 financial crisis. Many industrial plants need reinvestment by 2030,[6] forcing owners to choose between reinvesting in fossil assets, taking a gamble on often still costlier clean production or exiting the European market altogether.

Future competitiveness now hinges on decarbonisation

Amid this context of rising input costs, global competition and looming reinvestment deadlines, competitiveness concerns have moved to the core of Europe's political agenda. Where climate action was once often seen as being in tension with competitiveness, the narrative has shifted: it is now increasingly framed as a foundation for long-term prosperity.[7]

Flagship reports, including one by Mario Draghi,[8] underline that cutting dependence on volatile fossil imports is one of the most obvious ways to strengthen both energy security and competitiveness. This recognition must now translate into a compelling business case that unlocks investment, drives industrial renewal and positions Europe at the forefront of future-proof technologies.

A stalling project pipeline is undermining delivery

Following the EU setting its goal of reaching climate neutrality by 2050, many industrial players started moving: cement, chemicals and steel companies launched low-carbon pilots – ranging from hydrogen-based direct reduced iron (DRI) to industrial heat pumps, thermal storage, carbon capture of process emissions and electrified steam cracking for chemicals production – that showcased Europe's leadership in engineering.

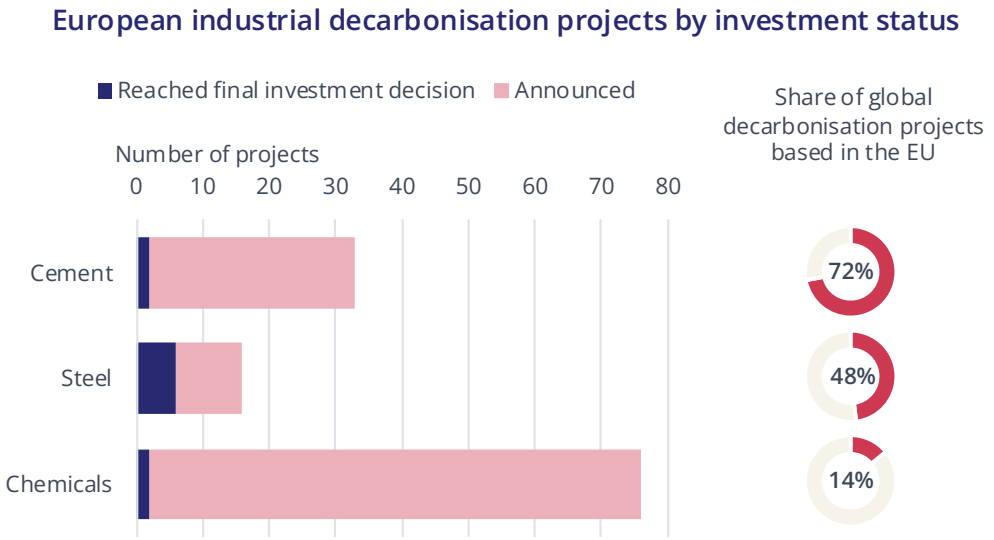
But momentum is stalling: only around one in ten low-carbon projects announced in recent years had reached a final investment decision (FID) in Europe (see Figure 1). Europe makes up a large share of the global project

[6] Agora Energiewende, January 2021, **Enabling European industry to invest into a climate-neutral future before 2030**

[7] E3G, September 2024, **Mario Draghi's recipe for competitiveness: decarbonise, invest, industrial policy, and more Europe**

[8] Draghi, M., September 2024, **The future of European competitiveness**

pipeline, showcasing the leading position it has in clean industry. However, as progress stalls and projects located outside the EU are moving ahead faster[9], the EU risks losing its first-mover advantage. Reasons for the slow-down in FIDs being reached include weak demand signals, insufficient financial support, high energy costs and infrastructure bottlenecks.[10]



Source: Mission Possible Partnership, **Global Project Tracker** (last updated June 2025)

Figure 1: Out of 115 projects in cement, chemicals and steel only 10 have reached final investment decisions. European projects make up a significant share of the global pipeline, meaning that stalled projects delay global progress on decarbonisation, while Europe risks losing its first-mover advantage.

Important strides have been made under the European Green Deal, including strengthening the emissions trading scheme (EU ETS), introducing the Carbon Border Adjustment Mechanism (CBAM) and scaling up funding for early-stage clean technologies. Yet further efforts are required to get the clean industry project pipeline over the finish line and fill the gaps that remain.[11]

[9] MPP, June 2025, **Clean Industry: Transformation Trends**

[10] European Investment Bank Group, 2024, **Investment barriers in the European Union 2023** (PDF); February 2024, **The Antwerp Declaration for a European Industrial Deal**

[11] E3G, September 2021, **From blockage to breakthrough in EU industrial transition: Benchmarks for Fit for 55 and beyond**

The Clean Industrial Deal: a promising plan that needs to be delivered
Launched in February 2025, the Clean Industrial Deal (CID) set out to close these gaps, promising a step-change in industrial policy across energy, trade and market rules.[12]

Since then, the European Commission has adopted three sectoral action plans – for automotive,[13] steel and metals,[14] and chemical industries.[15] They offer valuable further insights into sector-specific challenges but largely repackage measures still to come.

The most significant concrete additional step so far has been the adoption of the new Clean Industry State Aid Framework (CISAF). The proposed 2028–34 Multiannual Financial Framework (MFF) offers an initial outline of a streamlined post-2028 funding architecture; however, it leaves key details on industry decarbonisation support still to be defined through other legislation.

While the political focus is understandably being pulled towards rising trade frictions and hard security, these same debates make action on industrial decarbonisation more urgent: **Europe's heavy industries are central not only to climate goals but also to its economic security, defence value chains and geopolitical resilience.** Neglecting to invest in their clean transition would weaken Europe's position on all three fronts.

One year to make industrial decarbonisation investable

The European Commission launched its CID in February 2025 with the aim of boosting cleantech manufacturing and supporting the competitiveness of energy-intensive sectors, such as steel and chemicals, while accelerating their decarbonisation. The CID was positively received as an ambitious attempt to take EU industrial policy to the next level – however its success will rely on

[12] European Commission, 26 February 2025, **The Clean Industrial Deal**

[13] European Commission, 5 March 2025, **Action Plan for the European Automotive Industry** (PDF)

[14] European Commission, 19 March 2025, **A European Steel and Metals Action Plan**

[15] European Commission, 8 July 2025, **European Chemicals Industry Action Plan**

forthcoming legislation and implementation. It has now been six months since the CID was published and key legislation is being drafted now.

New legislative action can deliver the concrete changes that European industry direly needs. The coming year will see a series of major proposals and legislative revisions under the CID from detailed funding instruments to demand-side measures and market-shaping rules (Figure 2, next page).

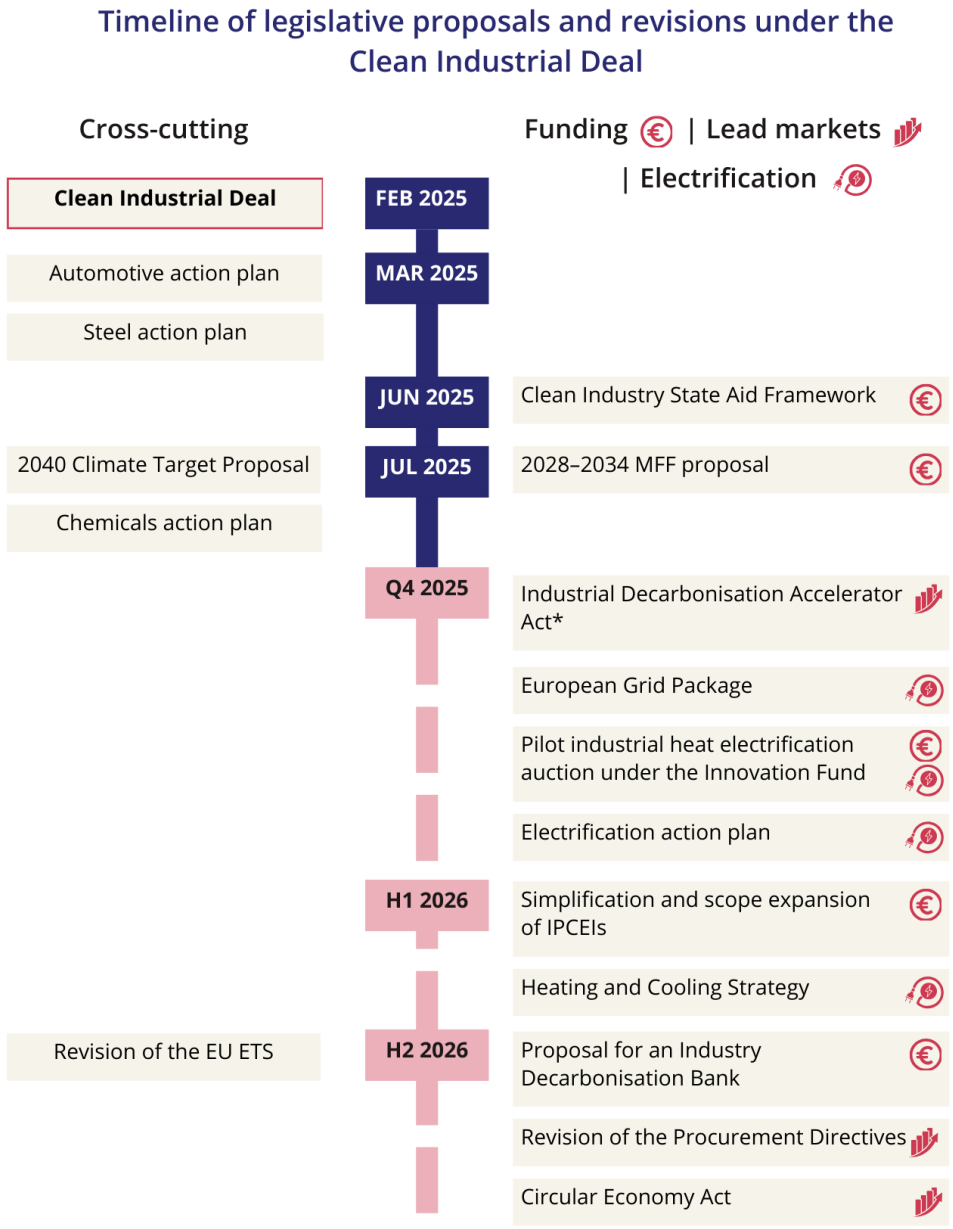
Concrete and targeted action to make industrial decarbonisation investable

The following focuses on the decisions most critical to making industrial decarbonisation a bankable proposition in Europe. It does so by offering targeted actions across three priority levers that can be built into the EU's forward legislative timetable:

1. **Unlocking direct electrification.** Up to 90% of industrial heat demand can be electrified by 2035,[16] but high prices and grid constraints are blocking progress; addressing pricing, infrastructure and governance issues now will unlock major abatement potential.
2. **Creating lead markets.** Clean and circular materials often cost more to produce but barely affect end-product prices;[17] strong demand signals are essential to tip investment decisions and scale production.
3. **Aligning and scaling funding for deployment.** Fragmented, uneven support and a focus on first-of-a-kind projects are slowing uptake; coordinated frameworks between EU Member States can de-risk investment and target shared priorities at scale.

[16] Agora Industry, June 2024, **Direct electrification of industrial process heat**

[17] University of Cambridge Institute for Sustainability Leadership and Agora Energiewende, May 2021, **Tomorrow's markets today: Scaling up demand for climate neutral basic materials and products**



Notes: MFF = multiannual financial framework; IPCEIs = Important Projects of Common European Interest; ETS = Emissions Trading System

* The Industrial Decarbonisation Accelerator Act will also touch on funding and access to infrastructure.

Figure 2: The legislative timetable for the remainder of 2025 and into 2026 offers significant scope to build in targeted actions to unlock direct electrification, build lead markets, and align and scale funding for deployment.

Together, these levers can make industrial decarbonisation a bankable proposition in Europe – **but only if anchored in regulatory stability**.[18] In today's volatile geopolitical environment, a predictable climate and policy framework is one of Europe's strongest competitive advantages.[19] Unpicking agreed measures would punish early movers, reward inaction and inject damaging uncertainty just as companies are deciding whether to reinvest in Europe.

Regulatory stability is not about standing still – it means refining existing frameworks while keeping the long-term direction clear and credible. That requires avoiding abrupt reversals, ensuring coherence across climate, energy, trade and industrial policy, and giving investors the visibility to plan multi-billion-euro projects with confidence.

Swiftly adopting the 2040 climate target and reaffirming the agreed EU ETS and CBAM timelines would send a clear signal that Europe is staying the course – strengthening investment confidence, accelerating industrial renewal and securing Europe's position in the race for future-proof clean industry.

1. Clearing the path for industrial electrification

Direct electrification is one of the fastest and most cost-effective pathways to decarbonise industry, cutting exposure to volatile fossil fuel prices, improving efficiency, labour productivity and public health.[20] Yet policy action remains limited, and persistent barriers keep companies from choosing to electrify at scale. Opening this pathway requires action in three areas, as set out in this section.

Ensuring access to grids – modernising governance and planning

Grid connection delays are becoming a make-or-break issue. In the Netherlands alone, tens of thousands of industrial and renewable projects are queued for connection,[21] with delays stretching to several years. These bottlenecks slow investment, prolong fossil dependence and erode competitiveness. The root of

[18] University of Cambridge Institute for Sustainability Leadership, June 2025, **Corporate Leaders Group Europe Clean Industrial Deal manifesto – From survival to industrial leadership: Europe's choice to build strength and energy security**

[19] Reuters, 19 June 2024, **Business leaders see political instability as a threat to Europe**

[20] E3G, October 2024, **An Electrification Action Plan to secure EU industry's future**; GEI, RTC and DGA, February 2023, **Industrial Electrification in U.S. States: An industrial subsector and state-level techno-economic analysis**

[21] International Energy Agency, March 2025, **Grid congestion is posing challenges for energy security and transitions**

the problem is outdated governance: fragmented responsibilities, insufficient coordination between industrial and energy planners, and limited forward-looking investment in the grid. Upgrades are too often reactive, rather than based on anticipated demand, including from industry.

To fix this, energy governance and planning must be more independent and transparent, integrating sectors, energy vectors and jurisdictions. The current "first come, first served" model is no longer fit for purpose – a more strategic approach is needed that prioritises grid connections based on system-wide benefits. That in turn requires more and better data to estimate future needs and enable anticipatory investments.

Recommendations

> **Improve spatial energy planning to better integrate industrial demand**. Link up inter-institutional mechanisms – such as the Competitiveness Coordination Tool, the Energy Union Task Force and future tripartite contracts – to align spatial energy plans with projected industrial energy needs. Coordinate planning across electricity, hydrogen and CO_2 networks to "right-size" future infrastructure needs.

> **Prioritise network access strategically and transparently.** Replace "first come, first served" with more active prioritisation of projects that deliver the greatest system value – such as significant decarbonisation potential, flexibility or economic or strategic value (e.g. jobs, emission reduction potential, key value-chain bottlenecks). Explore tools to support this approach, such as designating industrial electrification zones that can coordinate permitting and grid developments, integrate thermal storage or ensure co-location of renewable energy capacity, and improving connection queue management to ensure approved projects progress at pace.

> **Strengthen transparency and data availability to enable anticipatory investments.** Require network operators to publish substation-level hosting-capacity maps, to give planners and investors the information they need to make timely and informed decisions.[22] Include clear indicators on future industrial energy needs in Member States' National Energy and Climate Plans (NECPs) and Long-Term Strategies.

[22] Ember and RAP, July 2024, **Transparent Grids for All. Grid(un)lock: Hosting Capacity Maps** (PDF)

Rebalancing electricity pricing and offering transitional support

In most Member States electricity remains two to three times more expensive than fossil gas.[23] This is driven both by high gas prices – which often set the marginal price in the power market – and by taxes, levies and network charges that place a disproportionate burden on electricity.[24] Action is needed now to close this cost gap, even if the impact of fossil gas should ease over the medium to long term as renewables and storage increasingly determine market prices.[25] Without targeted measures to manage the transitional period, electrification will remain uneconomic for many sectors, even technology-ready ones.[26]

Recommendations

> **Rebalance taxation and charges.** Complete the revision of the Energy Taxation Directive to lower the burden on electricity by aligning taxes and levies with environmental impact. Reform network charges so that they do not disproportionately penalise electrified processes.

> **Reward flexibility.** Introduce time-of-use network tariffs and similar mechanisms that cut operating costs for industries able to shift demand to low-cost, high-renewable periods, also supporting grid stability.

> **Use state aid strategically.** Fully leverage CISAF to provide time-limited targeted support for industrial electrification, prioritising low- and medium-temperature applications and ensuring accessibility for small and medium-sized enterprises (SMEs).

Building a supportive ecosystem to scale industrial electrification

For direct electrification to fully drive Europe's industrial transformation, it must have the same institutional focus and dedicated strategy as hydrogen and carbon capture already have. Many EU and national funding instruments are still skewed towards these technological pathways.[27]

[23] Eurostat, 2025, **Shedding light on energy in Europe – 2025 edition**

[24] Ca. 20–40% for electricity, ca. 5–15% for fossil gas. European Commission, 2025, **Energy prices and costs in Europe**

[25] Bruegel, January 2024, **Europe's under-the-radar industrial policy: intervention in electricity pricing**

[26] CEPS, February 2025, **With EU renewable policy, it's time to focus on industrial demand instead of aggressive support for supply**

[27] E3G, October 2024, **An Electrification Action Plan to secure EU industry's future**

At present, electrification still lacks visibility in key EU frameworks that inform funding decisions, enable public-private cooperation or track technological developments. Giving it greater prominence and coordinating it better across the EU would allow promising solutions to scale more rapidly, thus accelerating industrial renewal and strengthening Europe's competitiveness. Elevating electrification in this way would also send a strong signal to industry that it is central to Europe's clean industrial future.

Recommendations

> **Embed electrification into EU strategic frameworks.** Include direct electrification solutions in the Strategic Energy Technology Plan, the Clean Energy Technology Observatory and its progress reports on the Competitiveness of Clean Energy Technologies.

> **Create an Industrial Electrification Alliance.** Establish it through the Electrification Action Plan to bring together industry, policymakers and civil society. Use it to coordinate policy and industry efforts, track progress, develop roadmaps and share best practices – providing the structured collaboration framework needed to align public and private action.

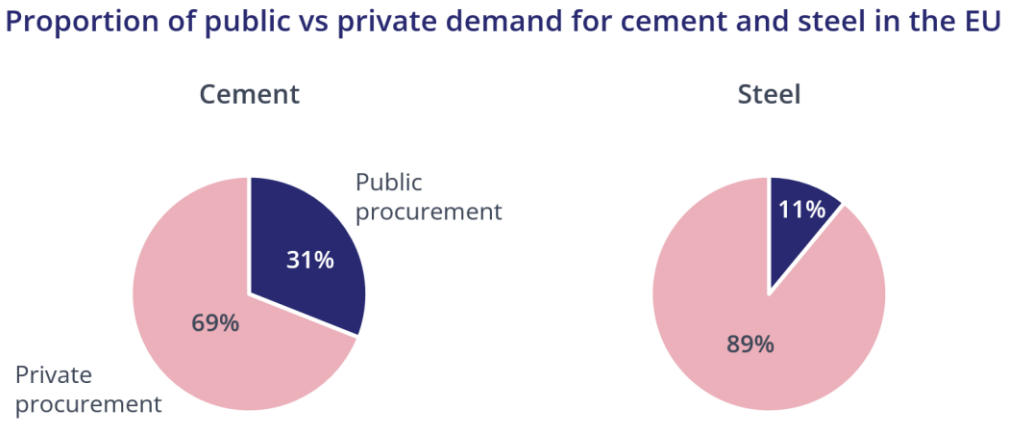
2. From niche to norm: creating lead markets for clean and circular materials

Clear and credible demand signals are essential to unlock investment in clean industrial production. Lead markets – created through targeted standards, incentives and procurement – give companies the confidence to invest by improving revenue predictability and helping recoup those upfront investments.

Successful lead markets rely on both private and public demand

The CID puts lead market creation at the centre of its strategy, with proposals on green public procurement and "Buy European" criteria.[28] This signals a new direction in industrial policy, but public procurement alone will not shift markets: most industrial materials are sold into private supply chains (see Figure 3).

[28] European University Institute, 2025, **Implementing the Clean Industrial Deal and strengthening Europe's economic resilience**



Source: Brussels School of Governance 3E research centre, 2024, **Public procurement of steel and cement for construction**

Figure 3: As the examples of cement and steel show, changing public procurement alone is not enough to create lead markets for clean materials. Private demand with its much greater volumes must also support such a shift.

A true lead market strategy must combine regulation, incentives, procurement and market coordination across value chains; it must be tailored to sector-specific conditions and designed to scale both public and private demand.[29]

Definitions and certification: the foundations to drive demand

Robust mandatory definitions, combined with stringent labelling and certification systems, are essential for market differentiation. The carbon intensity label proposed in the Industrial Decarbonisation Accelerator Act (IDAA) can play an important role – but only if it is mandatory and backed by strong product requirements under the Ecodesign for Sustainable Products (ESPR) and Construction Products (CPR) regulations.

Obligations and financial tools to de-risk and reward

For investors, demand-side obligations and targeted financial mechanisms can overcome high upfront costs and uncertainty by creating long-term demand, enabling the green premium to be passed through the value chain.

[29] An upcoming report by E3G and the Mission Possible Partnership will unpack what is needed to turn five key value chains – automotive, clean energy, construction, defence and food – into lead markets for clean aluminium, ammonia, cement and steel.

For producers of clean materials, instruments such as advance offtake agreements, pooled purchasing initiatives and clear quota or eligibility rules can give greater certainty and improve price visibility in nascent markets. The forthcoming Industrial Decarbonisation Bank should prioritise these "market-making" mechanisms.

In addition, for private demand, targeted tax incentives – for example, reduced VAT or purchase credits for low-carbon and circular products – can speed up uptake.

Circularity as a competitive advantage

Improved circularity and material efficiency could deliver up to half of heavy industry's emissions cuts[30] and reduce reliance on imported raw materials, which still account for over 85% of fossil fuel and metal inputs.[31] More circular production models could reduce resource costs by as much as 32%[32] and strengthen the competitive edge[33] European firms have in fast-growing global markets.

Lead markets should therefore create demand for circular as well as low-carbon materials. This can be achieved by embedding ambitious recycled-content and recyclability standards in the upcoming Circular Economy Act – building on the ESPR and CPR – and by integrating them into public procurement criteria or product standards.

[30] Material Economics, 2019, **Industrial transformation 2050 – Pathways to net-zero emissions from EU heavy industry**; Ellen MacArthur Foundation, 2021, **Completing the picture – how the circular economy tackles climate change**

[31] Distefano, T., Lodi, L., Biggeri. M., 2024, **Material footprint and import dependency in EU27: Past trends and future challenges**, Journal of Cleaner Production, vol. 472, 143384

[32] McKinsey, September 2015, **Europe's circular economy opportunity**

[33] *For example, European countries generated 38% of all international patent families for plastic sorting and separating technologies, 38% of IPFs for waste cleaning technologies and 40% of IPFs for plastic waste collecting between 2010 and 2019.* European Patent Office, 2021, **Patents for tomorrow's plastics: Global innovation trends in recycling, circular design and alternative sources**

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Recommendations

- **Adopt a comprehensive lead markets strategy under the IDAA**. Combine regulation, incentives and coordination to stimulate both private and public demand for low-carbon and circular materials.
- **Mobilise funding for demand creation.** Use the IDB and other EU tools as "green market makers".[34]
- **Adopt clear definitions and set strong product standards**. Establish mandatory labelling for low-carbon and circular products through the IDAA and Circular Economy Act. Swiftly finalise secondary legislation under the ESPR and CPR to set strong product standards, including for whole-life carbon, recycled content and circularity. Ensure these standards apply at the end-product level to drive demand without prescribing specific technologies.
- **Introduce targeted demand-side obligations for the use or purchase of low-carbon products**. Focus on sectors with high potential for green market creation and low green premiums, such as infrastructure or automotive sectors.[35] For example, set quantitative sectoral targets, corporate-level quotas or include these as eligibility criteria for subsidies or public tenders.
- **Apply local content rules strategically**. Use criteria such as "Made in EU" only sparingly and where they serve a defined purpose, for example to address critical dependencies, unlock new capacities or relieve value-chain bottlenecks. Weigh their use carefully against potential downstream competitiveness concerns, especially for basic industrial commodities.

[34] Mission Possible Partnership, 2024, **Unleashing market forces to scale green industry: the role of Green Market Makers**

[35] See upcoming report by E3G and the Mission Possible Partnership.

3. Financing industrial transformation at scale

Heavy industry represents a small slice of Europe's overall investment challenge to meet climate, defence and industrial goals: roughly €35 billion[36] out of the €800 billion[37] in additional annual investment needed, so less than 5%. Yet it is responsible for 20% of EU emissions, making it a critical leverage point for the transition.

Public investment is key to heavy industries' successful transition

Public investment is indispensable in the early stages to de-risk first movers, finance enabling infrastructure and build early markets. Once the business case is established, much of the required capital can come from private sources, as many energy-intensive sectors are mature and well-capitalised.

Additional factors of today, such as geopolitical instability, high financing costs and competitiveness pressures, are eroding companies' ability to invest, meaning public support is key. The EIB's latest investment survey shows planned decarbonisation projects in heavy industry are being delayed or downsized amid uncertainty and cost pressures.[38]

Therefore, targeted and well-coordinated public investment is essential to unlock private capital and make clean industrial transformation viable. Without strong EU-level coordination to balance divergent state-aid capacities, Europe risks a fragmented and inefficient transition that undermines its single market.

Making the most of Europe's funding toolbox

Despite strong calls from civil society, industry and experts – echoed in flagship reports by Enrico Letta and Mario Draghi[39] – there is still little appetite to expand or centralise EU-level funding.

Nonetheless, the CID and proposed 2028–34 MFF offer an opportunity to make the EU funding architecture work harder and more synchronised for shared

[36] European Commission, February 2024, **Impact assessment accompanying the 2040 climate target(part 1) Securing our future Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society**

[37] Draghi, M., September 2024, **The future of European competitiveness**

[38] EIB, 2024, **2023/2024 Investment Report. Transforming for competitiveness** [Chapter 5, Investing in Green Transformation]. (PDF); see also Figure 1 above.

[39] Letta, E., April 2024, **Much more than a market**; Draghi, M., September 2024, **The future of European competitiveness**

industrial goals. Some existing instruments should be **maintained, reinforced or refocused** to play to their strengths:

> **Connecting Europe Facility (CEF)** should continue to deliver strategic cross-border infrastructure such as electricity interconnections and hydrogen or CO_2 networks, based on independent, integrated planning.

> **Horizon Europe** should remain centred on R&D and early-stage innovation.

> **Innovation Fund** should maintain its focus on genuinely innovative, first-of-a-kind projects, to bridge technologies from demonstration to commercial readiness – while leaving large-scale deployment to other instruments.

> **InvestEU** should continue to provide guarantees and de-risking tools but be expanded to support a larger pipeline of mature clean-industry projects, particularly where green premiums are small.

As the new instrument in this landscape, the **Industrial Decarbonisation Bank** should aim to **fill the gap** that currently exists for deployment, scale-up and market creation. It should deploy tools such as carbon contracts for difference (CCfDs), two-sided auctions and other green market makers, or condition funding on preliminary offtake agreements to help establish lead markets.

This clear "division of labour" would maximise the impact of limited public funds, accelerate private investment and ensure Europe's funding architecture is fit for the scale and urgency of the industrial transition.

Other financial flows should also be better **aligned with clean industrial goals**:

> **The broader MFF** should ensure that procurement and spending in areas such as infrastructure and defence actively reinforce demand for clean industrial products.

> **EU ETS free allocation** should be reformed to shift from solely shielding incumbents towards performance-based support for innovation and investment.

> **Market Stability Reserve (MSR)** decisions should avoid depressing EU ETS prices which would weaken private investment signals and risk increasing the public cost of support mechanisms.[40]

[40] Some proposals suggest auctioning allowances from the MSR to raise revenues for industrial subsidies, as was done under REPowerEU. While this may generate short-term funds, it risks undermining investor confidence and increasing emissions by adding supply to the EU ETS. It could also trigger a negative

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Governance and coordination to maximise impact

Even the best-designed instruments will fall short without effective governance and coordination. The proposed Competitiveness Coordination Tool (CCT) must be the backbone of this effort – aligning national and EU funding with common objectives, enabling co-financing arrangements and providing the analytical basis for strategic investment decisions.

To be effective, the CCT should be supported in monitoring progress by a new independent advisory body[41] mandated to advise on priority investments, infrastructure needs and policies. The CCT's success will also hinge on political buy-in from national capitals which could potentially be secured through endorsement by the European Council.

Another key factor will be the CCT's ability to steer national and EU-level investment towards shared priorities rather than fragmented state aid measures. Member States should communicate industrial transformation and key manufacturing value-chain plans through their NECPs, ensuring better coherence between climate targets, investment, infrastructure and skill needs.
The impact of additional national support under CISAF will be limited if not aligned with common priorities through mechanisms like the CCT, which can leverage regional comparative advantages, synchronise investment and secure economies of scale.[42] Important Projects of Common European Interest (IPCEIs) could play a bigger role here if reformed to:

> Enable EU co-financing alongside national envelopes under the MFF, and to also support building administrative capacity, to broaden participation beyond fiscally strong countries.

> Offer distinct advantages beyond what national state aid rules allow, such as output-based support or higher aid intensities, to incentivise Member States to invest in a coordinated way.

> Focus on strategic cross-border value chains and sectors beyond research and development to scale cross-European competitive industries.

feedback loop: a lower carbon price weakens the private investment signal and inflates the size of subsidies needed (e.g. under CCfDs) to make projects viable, which in turn increases funding needs.

[41] See recommendation by E3G, CISL and ZOE Institute, May 2024, **Building a new European competitiveness deal: six tests for a prosperous, resilient, fair and green economy**

[42] Draghi, M., September 2024, **The future of European competitiveness**

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Recommendations

- **(Re)focus existing EU instruments to areas where they add most value.** Keep Horizon Europe focusing on R&D and early innovation, the CEF on cross-border infrastructure, and the Innovation Fund on first-of-a-kind projects. Expand InvestEU's guarantees and de-risking for mature solutions with small green premiums.
- **Make the IDB the go-to tool for deployment and market creation.** Use CCfDs, two-sided auctions and funding linked to preliminary offtake agreements to accelerate scale-up and establish lead markets for clean materials.
- **Align existing financial levers with the clean industry transition.** Reform the EU ETS free allocation to shift from solely shielding incumbents towards performance-based investment and innovation support. Avoid depressing EU ETS prices in decisions on the Market Stability Reserve (MSR), which would weaken private investment signals and increase the public cost of support mechanisms. Use spending under the MFF, such as on infrastructure and defence, to reinforce demand for clean industrial products.
- **Strengthen coordination to avoid fragmentation.** Empower the CCT to align EU and national funding with common priorities. Reform IPCEIs to enable EU co-financing and output-based support. Ensure CISAF schemes are tied to shared EU-wide strategic objectives.

About E3G

E3G is an independent 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.

More information is available at **www.e3g.org**