

EU industrial policy trade-offs - can objectives on resilience, innovation and decarbonisation be aligned?

TURI network

ETUI workshop

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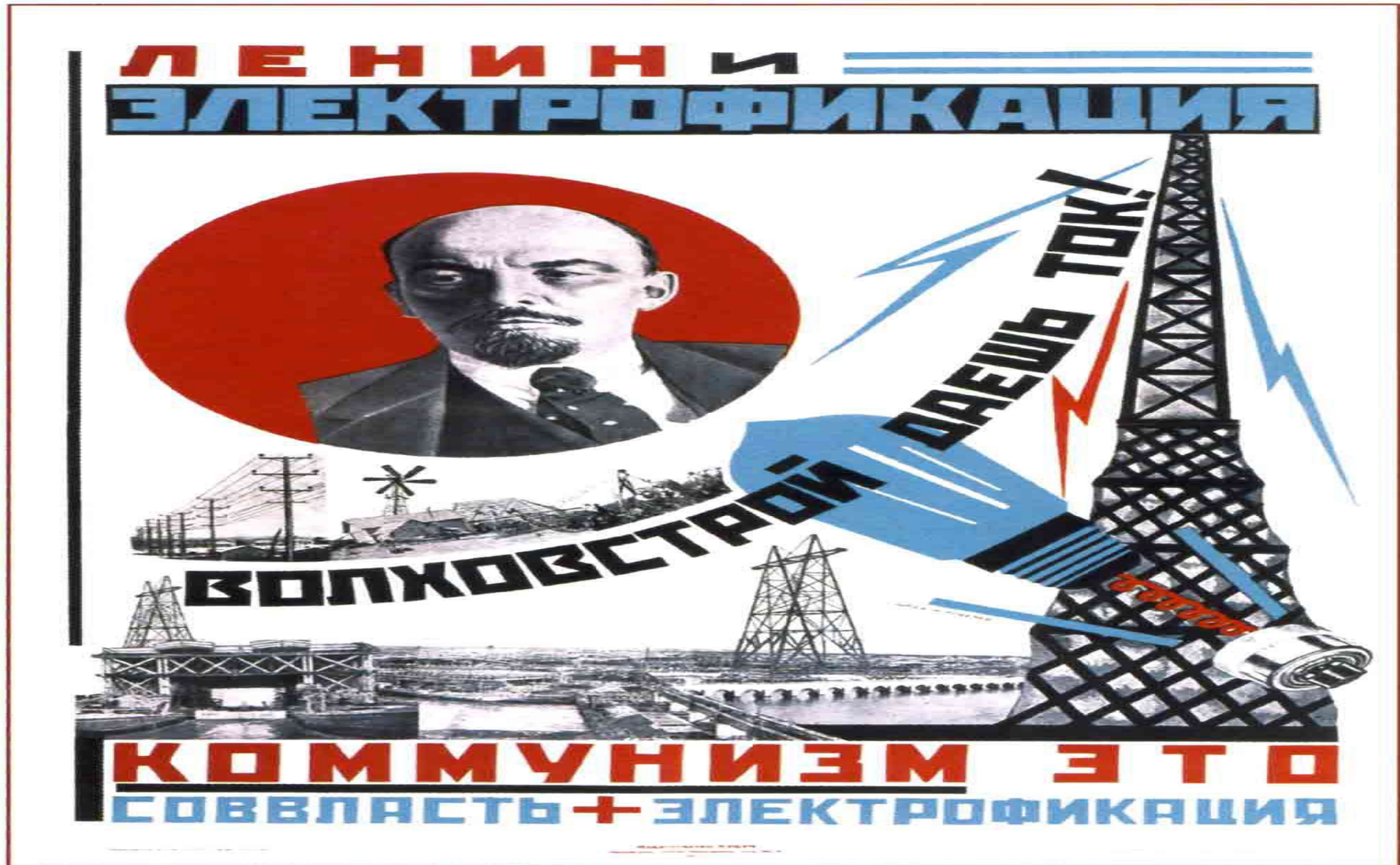
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Mission-led industrial policy?

1925: GOELRO Plan: Communism=Soviet power+electrification

2026: EU Industrial Accelerator Act, Electrification Action Plan



Powerful megatrends with different characteristics

MEGATRENDS

Slow

Climate change

Demographic change

Fast

Decarbonisation

Technological change

Digitalisation

All this in a hostile and fast-changing geopolitical environment

POLICY ARENA, INSTITUTIONS

Interest representation, democracy, mediation, policy making, stakeholder involvement

CLASH of

short-term and long-term interests and time horizons

The rationale of green industrial policy

The focus here is not on industrial policy (IP) in general, but on the specific case of IP for the green transition (inspired by China and the 2022 Biden IRA) – mission-led IP (a'la Mazzucato, 2024)

What exactly is the mission? (and who defines it?)

- It was the 'climate' but by now it is energy security and clean-tech competitiveness

energy price shock and tariffs > concerns about deindustrialization – the danger of short-term fixes

Decarbonisation is policy driven - market-shaping IP (Di Carlo et al. 2026) - triggering the restructuring of the entire economy redefining the fundament of competitiveness and comparative advantages (see car industry Germany-China) with massive effects on employment.

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Aims and hurdles

The EGD (and now the CID and IAA) set detailed **targets**, but **not the way** to get there; **main objectives**:

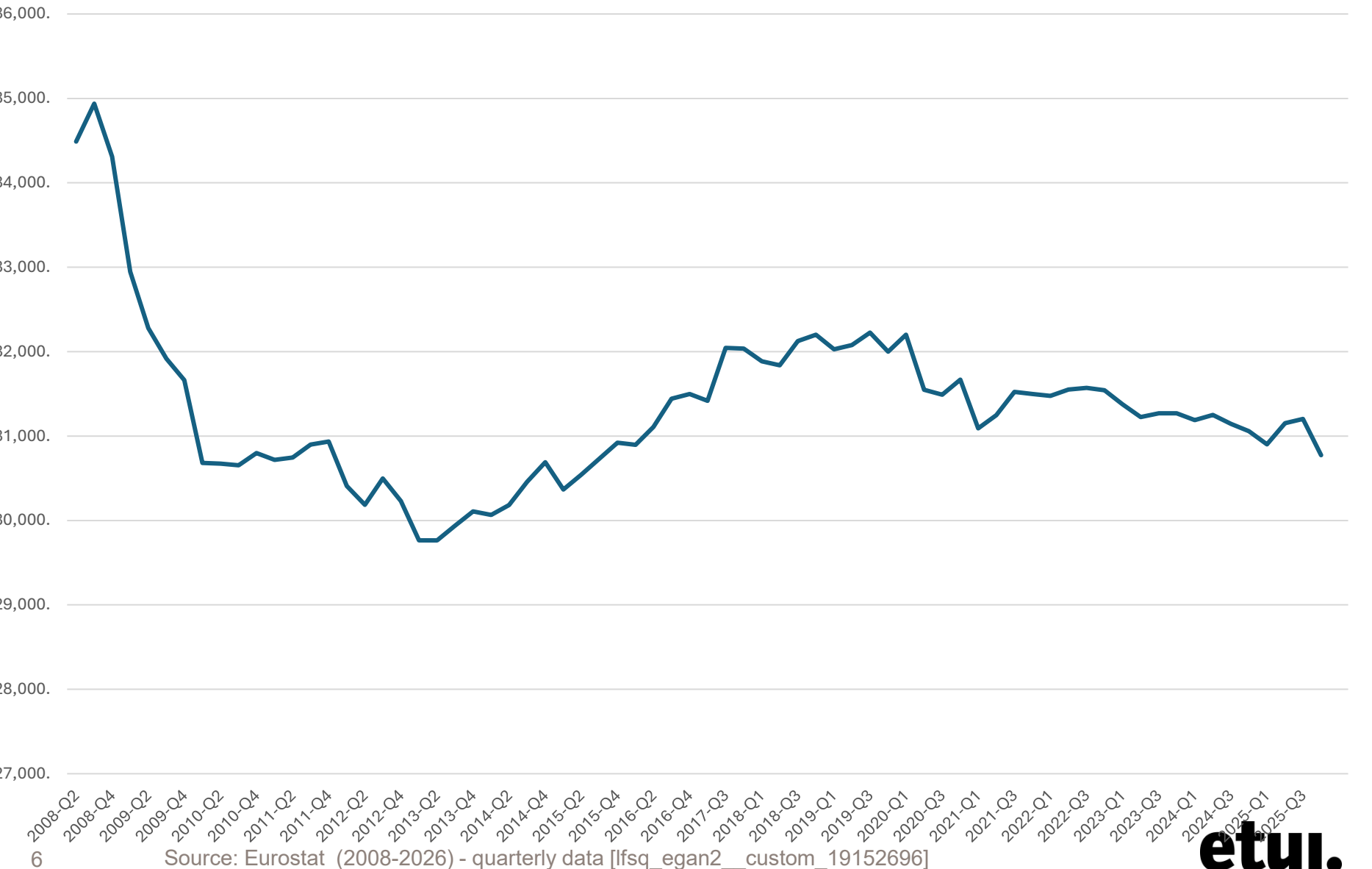
- Speed up green transition (declared), create lead markets
- Mobilise investment (public and private) to scale up low-carbon technologies and innovation, but the green investment gap is huge (annual 400-600€bn (Draghi, ECB, I4CE)
- Protect EU industry from unfair competition by creating a level playing field in social and environmental standards

Main hurdles are:

- Investment gap in face of the fiscal trap
- Geopolitical challenge - squeezed between US and China, under threat from Russia
- ⁵Fragmentation of interests

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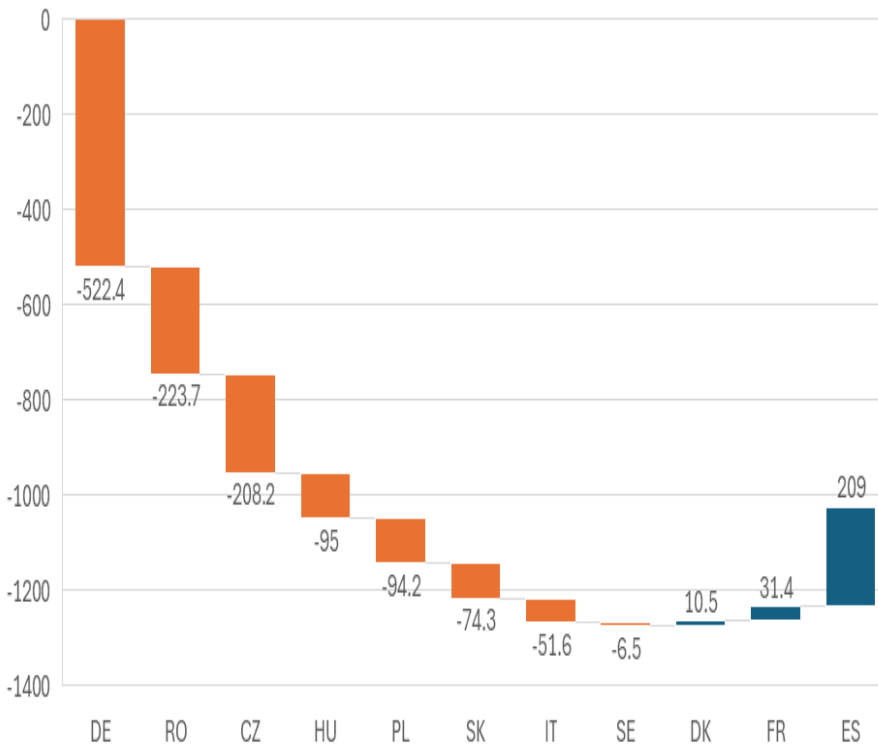
Signs of deindustrialisation: employed persons in manufacturing (C), thousands (15-64 years), EU27



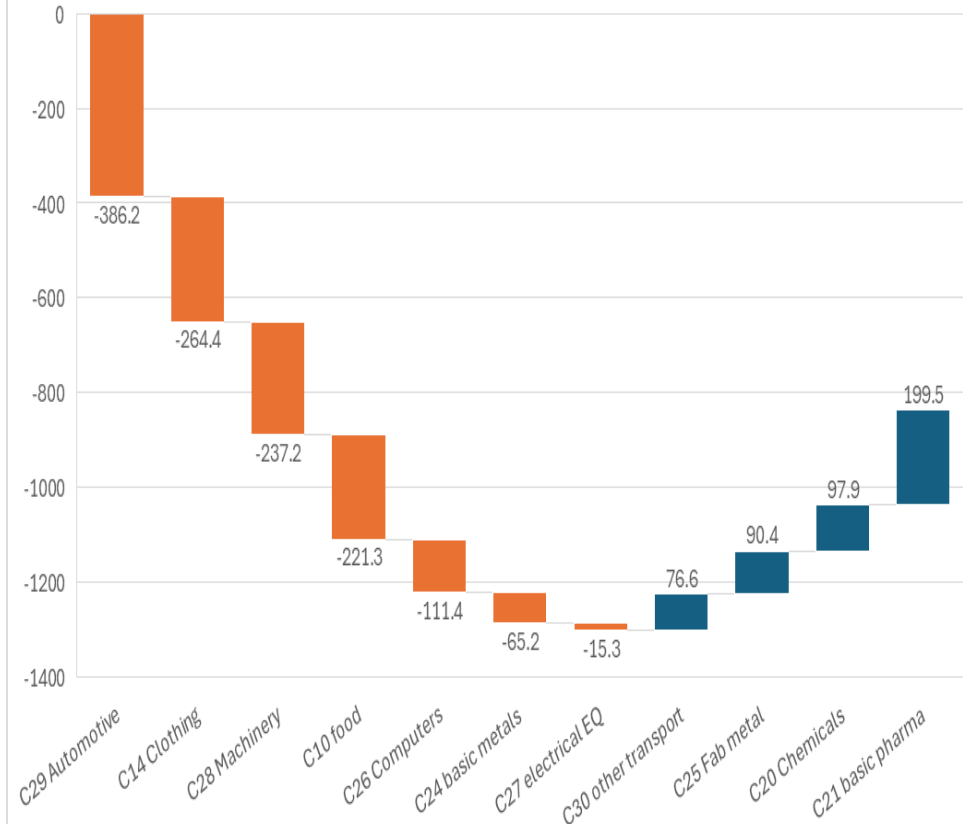
Source: Eurostat (2008-2026) - quarterly data [lfsq_egan2__custom_19152696]

Job losses in manufacturing between Q4 2019 and Q4 2025, by MSs and sector

Manufacturing job losses and gains, Q4 2025 - Q4 2019, selected MS, lfs data, thousands



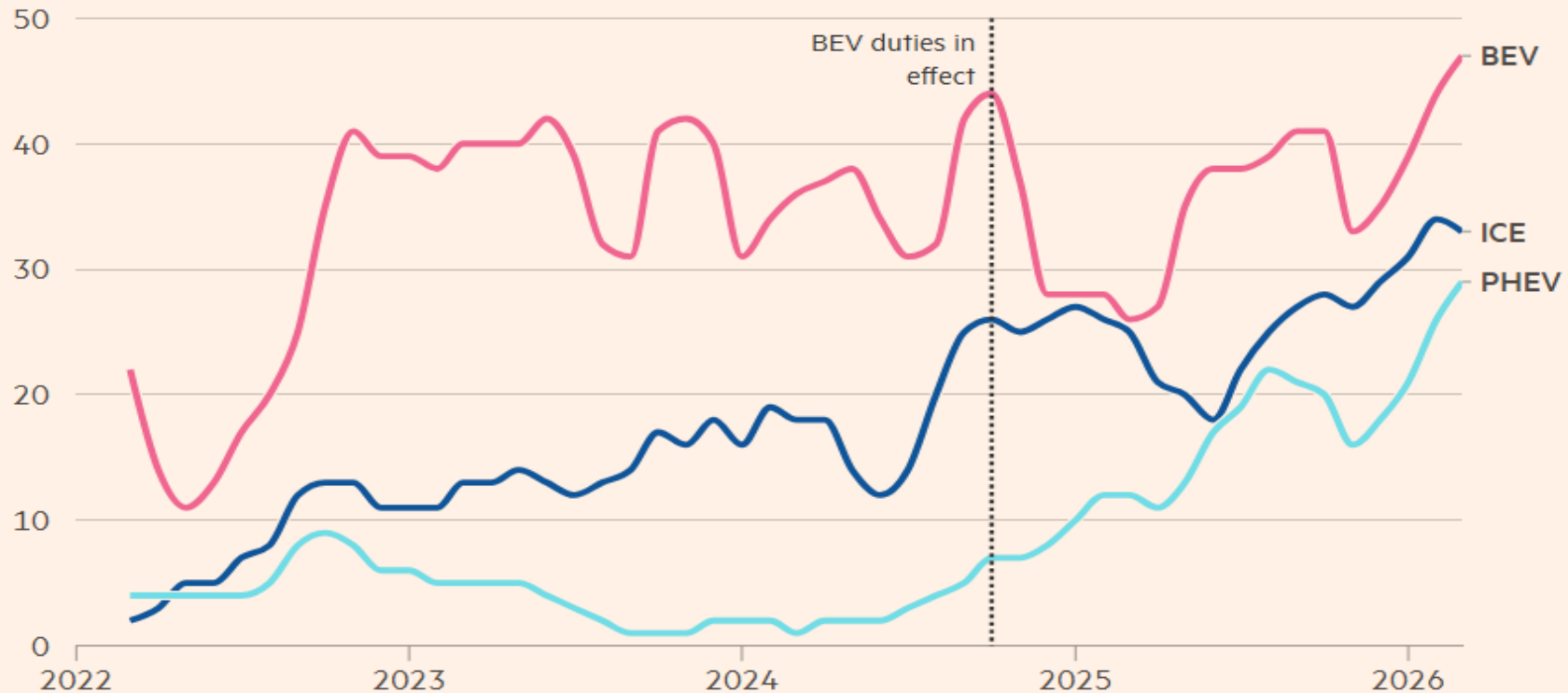
EU27 Manufacturing sectors: change Q4 2019-Q4 2025, thousands



Example, car industry: in spite of BEV tariffs, car imports from China keep growing

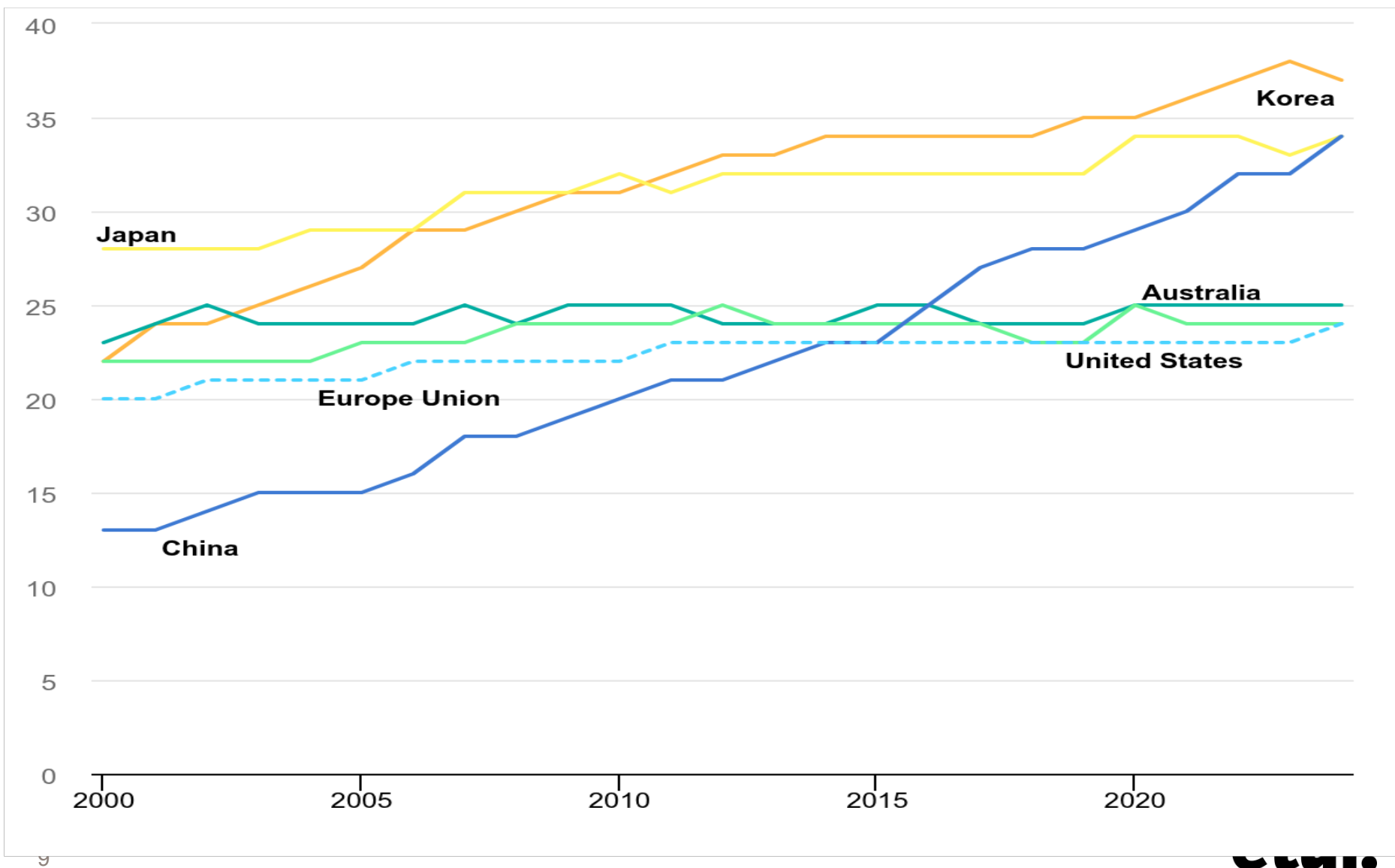
EU tariffs have curtailed Chinese exports, but not prevented them

Chinese car exports to the EU ('000 units), three-month moving average

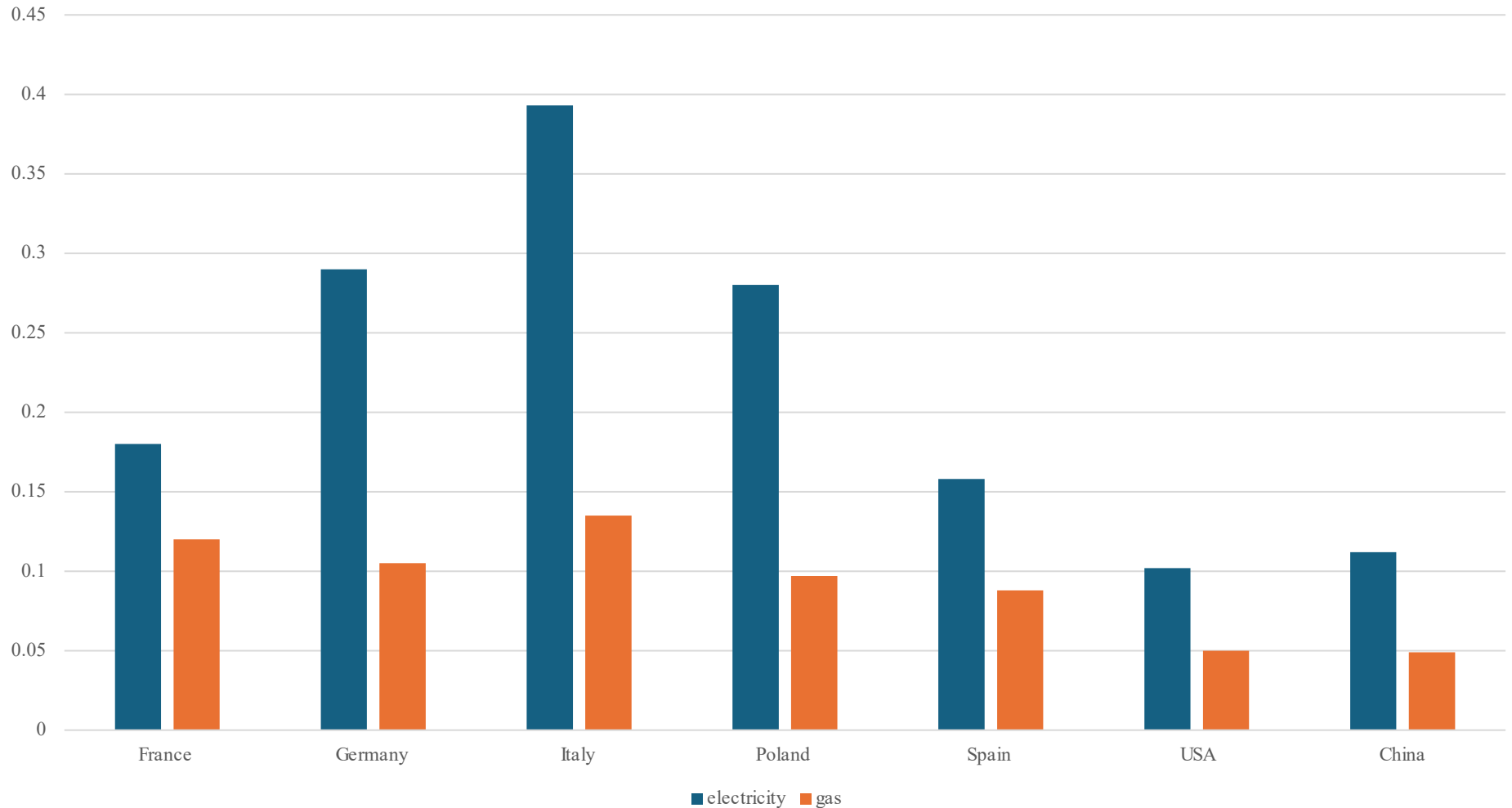


Source: Rhodium Group based on Chinese customs data • BEV=battery electric vehicles; ICE=internal combustion engine (inc hybrid vehicles); PHEV=plug-in hybrid vehicles (includes range-extended EVs)

Rate of electrification in total energy use in international comparison (EU27 industry: 33%) – stagnating since 2010



Huge differences in industrial electricity and gas prices, USD/kWh, 2025 1Q (selected, Germany before price cap)



Source: https://www.globalpetrolprices.com/map/electricity_industrial/

Green backlash? Address the social dimension, instead!

- policy backlash against the implementation of key parts of the European Green Deal (EGD) – car emission standards; CSRD (sustainability reporting), ETS1 revision, ETS2 delay...
- The backlash is now also fuelled by aggressive policies of the Trump administration
- either backtracking from the announced climate policy objectives or strengthen the social dimension of the EGD
- Towards a Clean Industrial Deal with a competitiveness and flexibilisation agenda? – in lack of investment and innovation this could end up with more pressure on workers

What next in industrial policy, IAA?

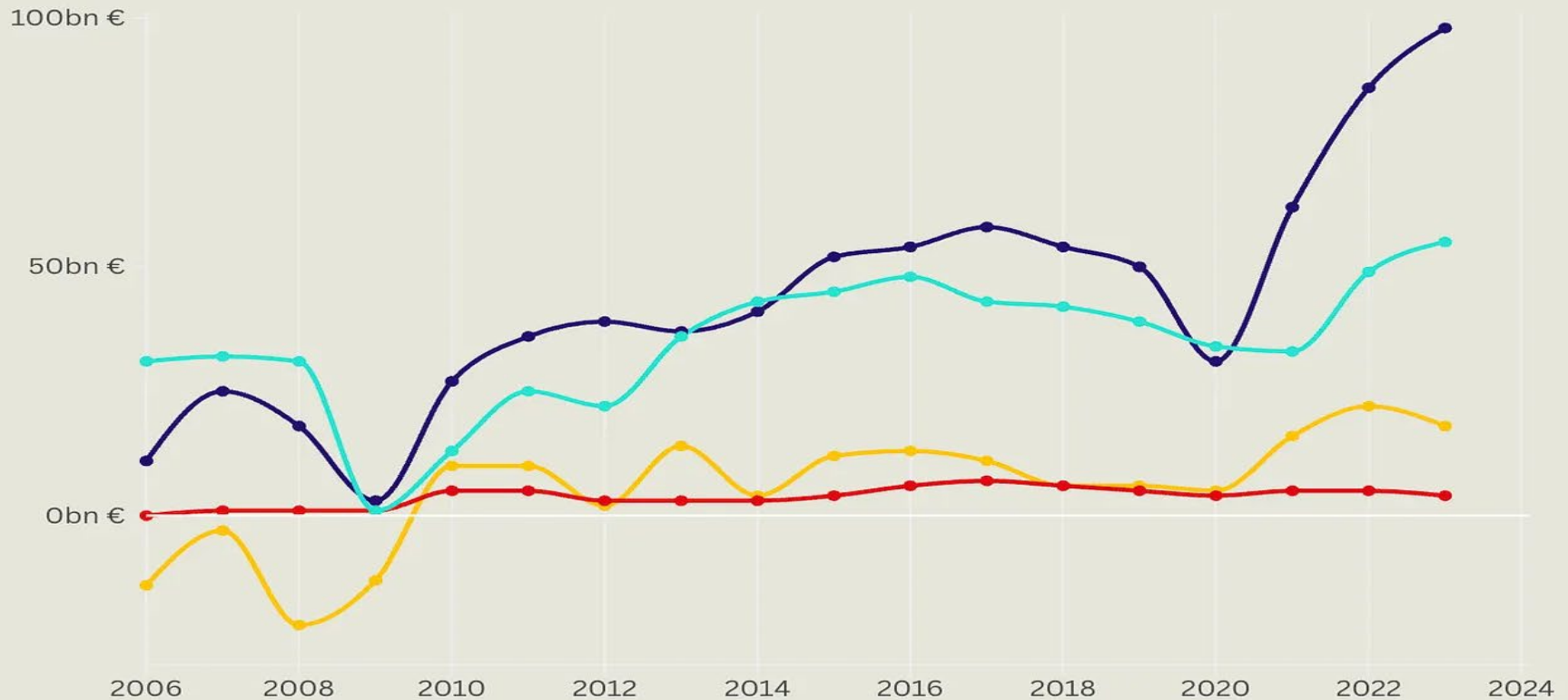
- Near consensus that the EU needs more market protection, as:
- tariffs, standards, sector specific 'EU-content' and low carbon criteria for any form of public support (procurement, investment support, corporate cars that enjoy tax benefits) matched to EU readiness + careful geographic design
- FDI conditionalities – progressive local added value criteria, technology transfer, joint-venture criterion
- 'China deal' with PHEV quotas should be a temporary relief while emission standards should remain ambitious
- Avoid preserving the status quo and use the time for investment and innovation (instead of using shielded profits for dividend payments as car industry did in the past)
- As in key technologies China is in leading position, decoupling is not an option, focus is on manufacturing local content, but allowing FDI: 'made in Europe – developed in China'?

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EU car manufacturer's profits were highest in last decade, but had lowest investment share

Global gross profits of car manufacturers in billion euros per region (2006-2023)

■ EU ■ US ■ China ■ Japan/Korea



Source: LSEG database



For a fair and just 'Clean Industry Deal'

1. **Change of economic model is unavoidable and necessary; 'change' should not be seen as a threat, this is why No1 policy objective should be to 'facilitate change' and not to conserve and protect old structures**
2. **Calibrate industrial policy carefully, taking into account vulnerabilities and capacity build-up keeping future-proof EU clean tech as priority, instead of short-term fixes**
3. **Market protection (trade instruments, local content criteria) are important and unavoidable now. This should not provide a blank cheque for company profits and preserve status quo. Putting in place binding obligations for decarbonisation, investment and innovation while banning dividend payments**
4. **Dedicated just transition legal framework with a just transition directive that sets common objectives and minimum requirements - integrating just transition objectives across industrial policy**
5. **Narrowing the green investment gap by securing sufficient and targeted funding, both public and private – attaching social and environmental conditionalities to funding;**
6. **Fostering participation, partnership and multi-level coordination – involving all affected actors at different levels; a partnership approach in the design, implementation, monitoring and evaluation**