ERT’s Vision for Europe’s Industrial Policy Future

28 July 2026

Executive Summary

1. **In a world of sharper geopolitical competition, state-backed industrial strategies and weaponised dependencies, Europe needs a more resilient economic model** that strengthens its competitiveness and gives companies the confidence to invest, innovate and scale in Europe.

2. **ERT supports a more active EU-level industrial policy which is designed as a coherent competitiveness agenda** and avoids a collection of misaligned measures. Europe can only rebuild its industrial strength if industrial, trade, competition, energy, sustainability, and funding policies pull in the same direction.

3. **The starting point must be a stronger Single Market and less regulatory complexity.** Without this foundation, new industrial policy tools will not overcome Europe’s persistent productivity gap or economic overdependencies.

4. **European Preference measures, as proposed in the Industrial Accelerator Act (IAA), can support more predictable demand in strategic value chains** but can only complement – not replace – more fundamental competitiveness priorities. European Preference measures must be strategic, proportionate, targeted, and sector-specific. A close dialogue with affected industries is critical.

5. **Europe’s competition frameworks must better reflect today’s global competitive and economic security environment.** The EU’s revised Merger Guidelines must turn the Commission’s welcome shift in principle into a real change in enforcement practice, so that scale, innovation, investment and resilience are consistently reflected in merger decisions. Merger control, state aid, FDI screening and the Foreign Subsidies Regulation should work coherently, with faster procedures and fewer overlapping reviews.

6. **EU funding should be consolidated** into fewer, larger and more mission-driven programmes that prioritise speed, scale, research, innovation and industrial deployment. Strategic coherence is essential to help bridge Europe’s investment deficit.

7. **ERT stands ready to contribute practical market knowledge** so that EU policy avoids unintended consequences and creates the right framework conditions for European industry to thrive.

A. The EU's Challenge

The EU is confronted with a profoundly changed global environment characterised by increasing strategic rivalry and the weaponisation of economic dependencies. This changing model of globalisation is impacted by a reduced confidence in and effectiveness of multi-lateral institutions and intensifying competition from third-country state-backed industrial systems.[1]

An economic model based on outdated assumptions is no longer fit for purpose.

Europe's response must be to strengthen its economic foundations and competitiveness to preserve its autonomy of choice. It is in this context that industrial policy becomes relevant - not as an end but as a means of translating Europe's strategic objectives into concrete framework conditions for reshaping investment, production and technological capability across the EU's internal market.

The main obstacle to achieving broader industrial policy objectives is Europe's persistent lower productivity, clearly set out by Mario Draghi. This is reinforced by a set of structural constraints: high energy costs, lacking infrastructure, insufficient scale and coordination of funding, fragmented markets including for capital, over-regulation and administrative burdens, and outdated competition policies.

In ERT's view, however, the EU faces a deeper structural problem: misalignment and even outright contradictions between industrial, competition, sustainability and trade policies, combined with unclear strategic priorities and a lack of an overarching vision. As a result, policy areas increasingly work against one another. New instruments are created – often in response to emergencies – but their cumulative impact on Europe's long-term strategic position, investment climate and industrial scale is seldom assessed in a systematic way.

ERT appreciates that the Commission is taking important initiatives in this difficult and painful rebalancing act. Yet the reality is, too, that the core challenge thus far remains unresolved.

Europe is therefore unable to clearly articulate how it can achieve its aim of having 20% of its GDP come from manufacturing at the same time as new economic security and strategic goals, including achieving carbon neutrality by 2050.

The issue is not a lack of intent. It is a lack of alignment and execution at the national and EU levels.

Europe needs a shared and coherent answer.

B. How Europe should approach these challenges

In this context, ERT fully understands and supports the need for a more active EU-level industrial policy as part of a well-balanced combination of instruments to tackle the whole range of challenges to the EU's competitiveness. At stake is Europe's strategic sovereignty and our capacity to generate growth through competitiveness in a contested world.

In essence, Europe needs to rebalance from a predominantly export-led economic model in an open, globalised system towards a more resilient model. We need a model that preserves openness and global access for our businesses but also maximises the potential of the

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[1] OECD data shows that between 2005 and 2024 Chinese firms received on average three to eight times more government support than firms based in OECD countries. https://www.oecd.org/en/data/dashboards/magic-database-industrial-subsidies.html

Single Market, boosts circularity, innovation and productivity levels at home, and is better at playing defence and at developing reliable – if not trusted – partnerships with a greater variety of regions.

By advancing EU economic integration – completing its Single Market, including a real simplification and reduction of the EU's regulatory burden and harmonisation among Member States – the EU has the potential to unlock nearly €3 trillion in additional growth by 2032. This significant boost would empower us to invest more ambitiously in our clean and digital transitions, while strengthening and safeguarding Europe's sovereignty for the future.

But there is more. Both China and the United States have placed sustained emphasis on ecosystem-building – combining predictable demand signals, support to domestic supply, rapid capital deployment, and scale-friendly regulatory frameworks. In jurisdictions where industrial outcomes have improved, experience shows that regulatory certainty, speed of decision-making and alignment across policy areas have been decisive enablers of private investment. Long planning horizons, anticipatory infrastructure investments, stable rules, and rapid permitting have allowed capital to flow at scale, often amplifying the impact of public support measures.

Not all priorities need to be sector neutral. Europe – at both EU and Member State levels – must seek to target defined capabilities in specific value chains, prioritising technologies, and industrial ecosystems where there are strong existing capabilities or a realistic scaling potential. These will include a mix of strategically important capacities for resilience and deterrence, as well as areas where Europe has, or can build, a competitive edge.

Public procurement should be a central delivery mechanism for industrial policy objectives, with an appropriate weighting of non-price criteria such as innovation, resilience, circularity, sustainability and Union origin, while ensuring transparency, proportionality, and competition. Procurement rules should remain predictable and aligned across the EU to avoid fragmentation and support scale.

In ERT's view, effectively aligning industrial, competition, sustainability, and trade policies at a time of fiercer geopolitical competition requires prioritised action particularly as regards supporting strategic value chains, as well as enabling scale, innovation, investment, and resilience in Europe's competition framework.

1. Supporting strategic value chains

At present, the Commission's approach to trade policy and European Preference does not yet articulate a clear and overarching vision for how Europe should design and consistently apply local-content rules across different policy initiatives. Furthermore, European Preference must be considered not in isolation, but as part of a wider combination of instruments to create the right framework conditions for the EU's competitiveness, such as an affordable energy supply. A clear methodology is needed to define 'strategic sectors' in a way that is consistent across policies and over time delivers outcomes that avoid disruptions of global value chains, safeguard export opportunities and do not conflict with other key competitiveness factors. Given the ability of the European Commission to expand the scope of requirements to further sectors under the Industrial Accelerator Act (IAA), this is needed to ensure policy predictability and investment certainty.

European Preference measures in the IAA must be targeted, proportionate, sector specific and strategic, while not eroding other key competitiveness factors:

- The sectors in scope must be identified according to clear criteria and in a way that will remain consistent over time. The current IAA proposal does not lay out such a methodology. The European Commission, based on previous work done as part of the Economic Security Strategy, and drawing on studies such as that conducted for DG GROW in July 2025[2], must first define precisely the way in which it aims to decide which sectors should be in scope.
- The European Commission must include industry input to accurately assess the risks of disruptions for sectors that are highly exposed to global competition. A formal process involving European industry representatives must be set up to ensure the Commission bases its approach on real value-chain dynamics, cost structures, cross-sectoral impacts and global competitiveness constraints. This should be complemented by regular sector-level "reality checks" with industry representatives before implementation and a close monitoring of the complex and dynamic reality of flows with other sectors and parts of the world. Future additions of sectors in scope should be subject to an impact assessment and co-constructed with impacted entities in the sectors envisaged.
- European Preference in the IAA should be calibrated to support the gradual development of European capabilities while taking into account the European value creation of trusted global suppliers.

In addition to having a clear and consistent methodology that fully embeds European industry input, the IAA must ensure that implementation is simple, predictable and does not add to the existing administrative burden:

- **Implementation must remain operationally feasible**, supported by simplified procedures and harmonised requirements across Member States.
- **A structured alignment of scope and terminology is needed to ensure that** implementation of the IAA must be a truly European (collective) approach rather than a series of national ones disguised as such.
- **The implementation of the IAA must ensure full legal certainty** and the predictable treatment of third countries through a whitelist provided by the European Commission, based on clearly defined criteria and procedures for the inclusion or exclusion of trade partners. Measures should be designed and implemented in a manner consistent with the EU's international trade commitments while supporting legitimate industrial and economic security objectives. A central objective should be to avoid damaging valuable global supply chains – here again, regular and dynamic assessments with European industry is needed.
- **The implementation of the IAA must ensure coherence with existing EU frameworks** by aligning definitions and scope with related instruments such as the Economic Security Strategy, Critical Raw Materials Act and Net-Zero Industry Act, Battery Regulation, Action Plan for Affordable Energy and Automotive Package, to avoid overlapping obligations and inconsistent interpretations and conflicting objectives across legislation. At present, similar concepts are used across different files without full harmonisation, increasing compliance complexity.
- **The implementation of EU origin rules under the IAA must be based on a simple, consistent, and workable calculation method** that reflects real industrial value chains. The methodology should avoid excessive complexity that would make compliance costly, uncertain, or inconsistent across sectors. For raw materials, a good model can be found in the recent overcapacity tool for steel, which applies a "melted and poured"

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[2] https://single-market-economy.ec.europa.eu/publications/quantitative-framework-assess-sectors-along-dimensions-relevant-industrial-policy_en

principle to determine the origin of the steel. Similar principles should be applied in other sectors, such as aluminium, where “smelt and cast” is a viable option.

- **Localisation should be progressive and predictable**. Inadequately defined or abruptly applied local-content rules could disrupt global supply chains, increase costs, and lock European ecosystems into inferior technological pathways. A balanced approach is especially critical for emerging industrial value chains, where predictability of demand is a key driver for investment in manufacturing capacity within the EU. This approach – allowing time for capacity build-up, learning effects and innovation – would better support industrial transition, safeguard competitiveness and avoid unintended consequences for downstream users.

In practice, this would lead to a balanced approach that matches the reality of Europe’s value chains across the sectors covered in the IAA:

- **Energy-intensive industries and net-zero technologies:**
  - Targeted European Preference should be applied to increase essential production manufacturing capabilities within Europe, while maintaining the industrial competitiveness in downstream sectors and the energy sector, ensuring there is no conflict with achieving a competitive energy supply. European Preference requirements are particularly welcome where European production faces significant challenges and where CBAM has not yet proven that it can provide the necessary incentives, such as basic materials like steel and aluminium.
  - However, these requirements should not exclusively be aimed at areas of European weakness but also aim to support opportunities in growth sectors, and where public financial support is being made available, including net-zero & grid technologies.

- **Automotive:**
  - Local content rules must be designed in a way that strengthens – not jeopardises – the sector’s global business model. ERT supports the ramp up of battery cell production and assembly within the EU and “Made in EU” requirements for key components such as cathode active materials (CAM). The IAA should also require the recycling of batteries (Including dismantling, pretreatment, processing and refining of recycled materials into battery-grade materials) to occur in Europe and align the requirements with the recycled content targets of the Battery Regulation.
  - However, with the requirement to have "Union origin” battery cells just six months after entry into force, many electric vehicles from European companies would not be able to qualify as "Made in EU.” We therefore urge policy makers to respect the difficulties and timelines in localising battery cell production by providing enough time for the pick-up of manufacturing capacity.
  - In addition to batteries it is important to maintain critical technological know-how, manufacturing capacities and R&D for components that are crucial for electromobility – such as electronic systems and e-powertrain components.
  - We also advocate for a pragmatic, low bureaucracy calculation method. Compliance frameworks that require complex tracking of every subcomponent will not strengthen Europe; they will slow down production and innovation. Defining “Made in EU” at fleet level avoids inefficient one-by-one certification and reduces administrative burden. If 85% of OEM’s vehicles meet the “Made in EU” criteria, the entire fleet should qualify.

If well designed, European Preference measures in the IAA can support more predictable demand signals, thereby strengthening investment at scale and improving supply chain resilience in strategically important sectors. However, European Preference can only complement — not replace — more fundamental competitiveness priorities, notably the completion of the Single Market. It must also be fully aligned with a more strategic trade and investment policy. The implementation of European Preference measures in the IAA must come alongside decisive, proactive steps to diversify our trade relations, ensure reciprocal market access and conditionality for FDI (e.g. local value chain integration and technology transfer in JV's) without additional bureaucratic burdens, and counter market-distorting policies and economic coercion. A targeted sectoral approach, rapid and effective implementation of trade defence measures, and close cooperation with affected industries remain vital to secure a level playing field.

2. Enabling scale, innovation, investment and resilience in Europe's competition framework

Competition policy and merger control need to better reflect today's global competitive and economic security environment. In many sectors, European companies face global players operating at vastly greater scale under different regulatory conditions, while the EU competition framework may limit the ability to achieve efficient scale, mobilise long-term investment and respond with the same speed within the internal market.
M&A transactions are by now subject to three separate regulatory regimes; (i) Merger Control (ii) FDI and (iii) FSR each of them with separate thresholds and scope application within the EU and significant compliance challenges. In addition, a growing number of European competition authorities can now review transactions based on new "call-in" powers, often triggered by broad criteria. The EU should therefore ensure that the new FDI-related conditionality requirements introduced in the IAA are fully coherent with already strongly diverging existing FDI screening frameworks.

The EU should develop a clearer and more coherent approach to how competition, foreign and intra EU-investment as well as external economic security tools work together, ensuring that competition policy continues to safeguard consumer welfare while also supporting innovation, investment, resilience, sustainability and overall competitiveness. In ERT's view, the following requires action:

- **Reaffirming the one-stop-shop principle of the European Commission over merger control** and promoting greater convergence of national merger control regimes, including through more consistent jurisdictional thresholds and assessment criteria as well as streamlining procedures and reducing unnecessary parallel reviews across merger control, FSR, FDI and related instruments. In this regard we would recommend changing the FSR transaction review tool into a call-in-system by which the European Commission could focus on critical transactions and lift the burden of a filing for the vast majority of unproblematic transactions of European buyers.
- **Modernising merger control to reflect long-term competition, investment, innovation and scale**. This requires an ambitious revision of the Merger Guidelines that moves beyond narrow, short-term assessments and captures dynamic elements such as accelerated innovation and investment, improved capacity utilisation, sustainability, and the ability to scale up in the Single Market. The guiding principles of the draft new Merger Guidelines are highly appreciated and go into the right direction. However, these changes have not consistently been translated into the technical sections and the draft overly expand the theories of harm, leading to even more legal uncertainty and burden for the companies. Further changes are needed so that the final Merger Guidelines lead to a true shift in merger enforcement practice.[3]
- **Improving coherence between competition enforcement and Europe's strategic industrial objectives**. Greater alignment is needed between competition policy, enforcement and industrial priorities, including resilience, sustainability, security of supply and technological leadership. Earlier and more structured advisory involvement of competition authorities in industrial policy design, and other DGs' strengthened

[3] See ERT's detailed contribution here: https://ert.eu/documents/erts-response-to-european-commissions-merger-guidelines-consultation/

contribution to competition policy would help identify tensions upfront and improve coherence, while preserving the independence of enforcement decisions.

- **Making state-aid and IPCEI frameworks faster, more predictable and more consistent**. State-aid control and IPCEIs are increasingly central to Europe's industrial strategy, yet companies continue to face uncertainty around eligibility, approval timelines, and cross-border consistency. Streamlining procedures, clarifying criteria, and accelerating decision-making would improve predictability and ensure that these instruments support the deployment of strategic infrastructure, scale-up and innovation rather than delay investment.

3. Leveraging EU funding programmes

Reforming funding and joint borrowing to prioritise speed, scale and strategic coherence is essential to help bridge Europe's investment deficit. Today, public funding is channelled through a proliferation of narrowly defined instruments, overlapping eligibility criteria and divergent national implementation rules. For example, under the EU's Recovery and Resilience Facility, while commitments were front-loaded, actual payments have lagged significantly behind approvals, with disbursements still uneven across Member States more than three years after launch.[4] This is particularly critical for first-of-a-kind and scale-up industrial projects, where long investment cycles and high upfront capital expenditure require a stable and predictable funding framework. The proposed European Competitiveness Fund, among others, represents a potentially important step in consolidating fragmented instruments, but risks falling short if it merely aggregates existing programmes without clearer prioritisation, faster delivery mechanisms, and stronger governance. It will be essential to ensure that such a Fund is explicitly geared toward supporting industrial deployment and manufacturing scale-up.

As discussions on the 2028–2034 Multiannual Financial Framework progress, EU institutions should rely on the following best practices:

- **Fewer, larger and clearly mission-driven funding envelopes**, concentrating EU funding into a smaller number of instruments linked to clearly defined strategic objectives.
- **Stronger focus on research, innovation and deployment** to truly establish and maintain competitiveness in high-tech sectors. European policy must extend beyond merely supporting incremental innovation.
- **Accelerated approval and disbursement procedures**. Speed of execution must become a core design principle of EU funding instruments. Streamlining procedures – through simplified eligibility criteria, parallel rather than sequential assessments, and clearer timelines for decisions and payments – would allow EU funding to crowd in private capital more effectively.
- **Explicit alignment between EU-level priorities and national co-financing commitments**. Greater clarity is needed on how EU-level objectives translate into national implementation and co-financing decisions. More explicit coordination – through clearer upfront commitments from Member States, harmonised co-financing rules, and greater predictability in national contributions – is needed. In this sense, the "auction-as-a-service" approach applied lately in the Innovation Fund context is a positive step forward.

[4] https://commission.europa.eu/publications/recovery-and-resilience-facility-annual-report-2024_en

C. Conclusion

EU industrial policy must be firmly grounded in an economic strategy fit for the new era of global competition, and built on an understanding of the reality of trade flows, European manufacturing capabilities and where European firms have strengths and growth opportunities. From merger control to European Preference, none of this will be possible without fully embedding European industry's market and technological knowledge into EU policymaking.

ERT Members have the diversity of backgrounds and market intelligence that can provide practical elements to policymakers in Brussels and across capitals to avoid unintended side effects and correct shortcomings. We stand ready to contribute to a policy process that can create the right framework conditions for European industry to thrive and concentrate resources where Europe can lead.

ANNEX – Additional sectoral considerations in relation to European Preference:

Semiconductors:

A rigid application of “Made in Europe” requirements would risk excluding the globally structured semiconductor value chain, in particular back-end activities such as testing and assembly. Given the industry’s inherently global nature, such an approach would, in practice, disqualify a substantial share of semiconductor products and investments.

A “Made with Europe” concept would remain problematic for semiconductors since back-end hubs such as Malaysia, Thailand and Taiwan are not covered by EU free trade agreements. As a result, semiconductors would rarely qualify in practice, despite significant R&D, design, front end manufacturing or IP creation taking place in Europe. Taiwan is particularly challenging in this context, given its central role in the global semiconductor supply chain and the absence of any FTA in the foreseeable future.

Pharmaceuticals:

In certain sectors such as pharmaceuticals, local content requirements should be avoided as they can unintentionally risk access to medicines and jeopardise patient health. To the extent that any European Preference policies are adopted, they should be premised on the concept of ‘Made with Europe’ and inclusive of trusted trading partners like the UK and Switzerland. Demand-side measures and incentives to encourage the development and uptake of innovation are more appropriate approaches to strengthen competitiveness of the European pharmaceutical industry.

Electricity:

European Preference must be considered not in isolation, but as part of a wider combination of instruments to create the appropriate framework conditions for the EU’s competitiveness. A clean, reliable, abundant, homegrown, cybersecure, and affordable electricity supply is central in such right framework. When introducing European Preference, cross-sectoral impacts should be assessed to ensure the right balance between increasing European strategic manufacturing capacity and avoiding impacts on electricity supply costs. Eventually, supporting instruments could be considered (e.g. measures to support the supply and/or demand side to prevent or mitigate negative impacts).