



*Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With 200 member organisations active in 40 European countries, representing over 1,700 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.*

23 February 2026

## **To the EU ministers responsible for trade, economy, industry, research, innovation, and space attending the Competitiveness Council**

Dear Ministers,

One year after the presentation of the Clean Industrial Deal, the central question is no longer whether Europe needs an industrial transformation but whether it is prepared to deliver it at the scale and pace required.

The message of Professor Mario Draghi's report, [The future of European competitiveness](#), was clear: Europe's competitiveness challenge cannot be solved through marginal adjustments, piecemeal reforms or deregulation. It requires massive investment, coordinated industrial policy and a clear strategic direction at the EU level.

Efforts to respond to current challenges through calls for regulatory rollback risk undermining the investment certainty that Europe urgently requires. As a broad range of industrial actors have underscored, a predictable policy framework for carbon pricing, with a strong and stable carbon price at its core, is crucial in unlocking long-term investment and safeguarding Europe's industrial transformation. The recent attacks on carbon pricing are driven by a narrow group of actors with vested interests rather than reflecting the breadth of Europe's industrial ecosystem.

Europe's industry is under real pressure, from energy price volatility, global overcapacity and ageing assets. But deregulation is not an industrial strategy. The real risk today is not carbon leakage, but [decarbonisation leakage](#): losing clean industrial investment to regions moving faster and more decisively.

Industrial policy must therefore provide clarity in the direction of travel. Europe's long-term competitiveness depends on reducing structural dependencies on fossil fuels and imported raw materials, scaling circular production models and accelerating electrification. Climate neutrality is not a constraint on industrial resilience - it is its foundation.

We therefore respectfully call on you to act decisively in three priority areas to secure Europe's industrial competitiveness and resilience.

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### **1. Stay the course on the EU carbon market and provide long-term investment certainty**

Europe's industrial transformation depends on policy predictability. A strong and credible ETS carbon price remains a cornerstone for investment in clean production across energy-intensive sectors.

#### **We therefore call for:**

- **Preserving the system's agreed trajectory, including the phase-out of free allocations, and ensuring coherence with a fully implemented CBAM without loosely defined exemptions.**

Energy-intensive industries currently receive around **€40 billion in free allowances** and are resisting their planned phase-out. Yet these foregone revenues could precisely, if collected, drive industrial transformation at the Member State level and support innovation at the EU level via the Innovation Fund;

- **ETS revenues are not a pot of money for business-as-usual**, nor should they be used primarily to compensate fossil-based power generation. These revenues must drive genuine industrial transformation, awarded through competitive processes that reward real decarbonisation and come with clear environmental and social conditionalities. Separately, a meaningful share must go directly to citizens to ensure the transition remains fair and socially sustainable;
- **Keeping the climate ambition and trajectory**: stretching timelines would not ease the transition; it would simply **shift a heavier burden onto other sectors**, including agriculture and households, while undermining investment decisions already taken by industrial frontrunners and risking the relocation of clean production outside Europe.

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## **2. Substantially strengthen and refocus the European Competitiveness Fund, with clear prioritisation and binding conditionalities**

Current financing levels fall far short of what is required to deliver industrial transformation at scale.

Under the current proposal, the clean transition and industrial decarbonisation component represents only **6.4% of the Fund's total budget** (rising to roughly 15% when ETS-related instruments are included). This corresponds to approximately **€22.3 billion over seven years**, spread across a very wide range of policy areas, ranging from industrial decarbonisation and clean technology to biodiversity, adaptation and transport.

This must be considered against the estimated public investment needs of around **€200 billion for industrial decarbonisation alone by 2040**. The current funding envelope is therefore structurally misaligned with the scale of Europe's challenge for a clean industrial transformation.

Moreover, the proposal does not provide robust ring-fencing for clean transition spending. Budget shares can be reallocated, and existing green mainstreaming rules allow expenditures with limited or questionable climate relevance, including certain transport infrastructure, airport capacity expansion, or fossil-based "low-carbon" hydrogen, to count toward green targets.

**To ensure public funding delivers genuine competitiveness and transformation, we call for:**

- A substantial **increase in the share of the Fund dedicated to clean industrial transformation**, with robust and binding ring-fencing;
- Clear prioritisation criteria ensuring **funding flows to investments that deliver structural decarbonisation and electrification** rather than prolonging fossil-dependent production models;
- Binding **environmental, social and employment conditionalities** attached to public support;
- Explicit integration of **just transition principles**, including geographical balance and SME access;
- Safeguards **preventing greenwashing and the financing of fossil fuel infrastructure** or assets that lock in continued fossil dependence;
- A clear signal from the Council urging the Commission to table a **new legislative proposal to reinstate a standalone LIFE programme**, to avoid the proposed fragmentation of LIFE actions across ECF and the NRPPs to fundamentally undermine this flagship programme.

Without these changes, the Fund risks falling short of its stated objective: strengthening Europe's competitiveness and strategic autonomy through industrial transformation.

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### 3. Secure the transformation of the steel sector through demand-side policy and clear transition rules

Europe has become a global leader in heavy industry decarbonisation, with a pipeline of projects representing [€100bn worth of investment opportunity](#) over the past four years, [including 30+ near-zero steel projects](#). Frontrunners have aligned their business models with a climate-neutral vision, internalising CO<sub>2</sub> costs and leveraging incentives such as the Innovation Fund, State aid frameworks, and indirect cost compensation. Yet, projects are struggling to reach final investment decisions. To keep the EU's momentum in the clean economy, supporting these leaders is crucial to retain strategic industries in Europe and avoid decarbonisation leakage.

The Commission has delivered rapidly on industry demands, including CBAM simplification, safeguard measures, and State aid rules. What remains missing is a **strong demand signal for cleaner products**. The upcoming [Industrial Accelerator Act](#) and secondary legislation under the Ecodesign Regulation (ESPR) should provide a clear pool of demand for "low-carbon" steel, aligned with Europe's 2050 climate neutrality goals, while avoiding fossil gas lock-in and promoting circularity.

#### **We respectfully urge the Council to:**

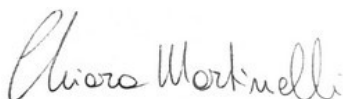
- Ensure swift delivery of **ambitious demand-side policies for energy-intensive industries**, especially steel, via the Accelerator Act and Ecodesign rules on iron and steel;
- **Maintain strong incentives for cleaner production**, including a predictable carbon price trajectory to avoid jeopardising the business case of frontrunners in Europe;
- Focus on **removing real bottlenecks**, such as investment de-risking and funding access, rather than reducing regulation, which risks undermining competitiveness and green investments.

Public policy has moved quickly to respond to industry concerns. Ensuring credible demand and clear transition benchmarks is now essential to secure investment, scale production and maintain Europe's leadership in clean steel manufacturing.

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Taken together, maintaining policy certainty, mobilising investment at the scale required and creating credible markets for clean industrial production will determine whether Europe succeeds in building a competitive, resilient and climate-neutral industrial base. The window for decisive action is now.

Yours sincerely,



Chiara Martinelli  
**Climate Action Network Europe**