



Climate Action Network (CAN) Europe position on Clean Industrial Deal

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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.

Summary

At Climate Action Network (CAN) Europe, we believe the upcoming Clean Industrial Deal must ensure that European industries lead in the transition to a sustainable economic model—one that generates social benefits within planetary boundaries. **This paper outlines our recommendations across five key pillars of an industrial strategy:**

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- The implementation of the European Green Deal and an **ambitious 2040 target** should be the guiding principle of the EU's industrial strategy, steering investments and policies
- **Maintain the agreed timeline for phasing out free allocations** under the EU Emissions Trading Scheme (ETS) to drive investment in cleaner production processes.
- Include and **prioritise gross reduction targets** for greenhouse gases in the 2040 climate architecture, alongside separate targets for net sequestration in the LULUCF sector and permanent industrial removals.

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- Set ambitious **energy savings and renewables targets for 2040**.
- Propose an **action plan to phase out coal by 2030, fossil gas by 2035 and oil by 2040** & introduce the mandatory extension of gas demand savings measures
- Reduce industry's dependence on fossil fuels via **rapid renewables-based electrification**, demand reduction and flexibility measures, increased energy storage, and a switch to renewable hydrogen where no alternative exists
- **Reduce the consumption of primary materials** and increase secondary-use rates of key materials by up to 70-80% through more circularity

- **Review public procurement rules** to maximize the impact of the 14% of GDP spent by public authorities, prioritizing best-in-class products and services from both social and environmental perspectives.

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- Structurally embed **strong social and environmental conditions** within the EU's industrial policy framework, including no relocation clauses, compliance with social and labour standards as well as responsible tax behaviour.
- Develop a **place-based EU industrial strategy** that stimulates the development of industrial value chains across the continent, maximises regional competitive advantages and avoids a two-track transition.
- Introduce **A just transition directive** to anticipate and manage change in the world of work, especially in fossil fuel-dependent industry
- **Clean and equitable Trade and Investment Partnerships (CTIP)** must include clear, measurable and bespoke sustainability commitments to support the development of clean industries and value chains in partner countries, including technology transfer

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- Develop a Social and Green Investment plan supported by **€1 trillion-strong Next Generation 2.0 fund** with a strong Green Industry pillar
- Additional support to industry be funded by **fresh own resources**, without diverting existing funds earmarked for climate, environmental, and social investments from current and future EU funds
- **Prioritise investment** in grids, renewables-based electrification, energy efficiency actions and projects and renewable energy sources for affordable energy,
- Redirect existing harmful expenditures (such as fossil fuel subsidies) towards support for the energy transition and industry decarbonisation
- Additional **Important Projects of Common Interest (IPCEI)** should go to proven technologies that can support a 100% renewable energy scenario, including for energy efficiency projects
- Any extension of the **Temporary Crisis Framework or reform of State Aid rules** should be made contingent on the financing of joint EU funding instruments

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- **Include civil society and social partners** in the governance of industrial policy
- Create an **independent observatory** to monitor and evaluate EU industrial policies

A Clean Industrial Deal for a fair, green and prosperous economy

Europe is at a crossroads: the acceleration of climate breakdown, biodiversity loss, and pollution - alongside geopolitical instability, threats to EU values from the new US administration, and relative economic decline - demands a bold political shift to safeguard social and environmental well-being within and beyond Europe. The forthcoming Clean Industrial Deal should drive an industrial transformation that builds future-proof industries within planetary boundaries.

While the Competitiveness Compass¹ echoed many of the weaknesses described in the Draghi report - notably the lack of EU coordination on industrial policies and investment shortfalls, it failed to offer ambitious and sustainable solutions. Regrettably, it framed regulation as one of the primary obstacles to competitiveness².

Instead, the Clean Industrial Deal must ensure that European industries lead in the transition to a sustainable economic model—one that generates social benefits within planetary boundaries. This requires:

- regulatory consistency and climate ambition to guide policies and investments;
- improved resilience through reduced energy and resource demand and decreased fossil fuel dependence;
- a people-centered approach to industrial transformation;
- targeted investment;
- a transparent, inclusive governance mechanism that safeguards the public interest from corporate capture.

Shifting away from a carbon- and material-intensive economy and harnessing the benefits of a renewables-based energy system requires collectively restructuring the European economy in the public interest. Strong social and environmental conditions must be attached to any company support to ensure real sustainability and fairness. Europe's industrial policy must set a global benchmark, proving that sustainable competitiveness and climate action go hand in hand.

¹ https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en

² <https://caneurope.org/competitiveness-compass/>

Five pillars of an industrial strategy

CAN Europe has long advocated for an industrial transformation³ that builds future-proof industries within planetary boundaries through an **integrated approach**, looking at both production process decarbonisation and demand-side measures. Some progress has been made, notably with the revision of the Industrial Emissions Directive and the Eco-design of Sustainable Products Regulation, which must now be effectively implemented. However, efforts have fallen short of delivering a truly integrated approach.

From the outset, the **Green Deal Industrial Plan** lacked an adequate investment pillar, a targeted approach towards public spending, and measures to drive demand reduction.⁴ Meanwhile, the scope of the **Net Zero Industry Act** (NZIA), originally aimed at developing clean industries in Europe by 2030, has become too broad to be strategic. It put front and centre technologies such as carbon capture and storage, which should be limited to industrial processes where residual process emissions cannot be avoided through clean energy, energy savings, material efficiency and product design. By overemphasizing these technologies, the NZIA risks prolonging fossil fuel dependency and delaying essential emission reductions at the source—both of which are critical for a timely industrial transformation.

At the same time, the **Draghi report** on ‘The future of European competitiveness’⁵ served as a wake-up call, urging EU leaders to adopt a genuine industrial strategy and recognizing that climate and industrial policies must be mutually reinforcing, supported by a clear public and private investment plan. However, the report wrongly framed environmental legislation as a barrier to competitiveness and failed to account for broader societal and environmental considerations, limiting its focus to decarbonisation. Overall, the report barely gathered and integrated input from civil society organisations, thereby excluding unbiased expertise and societal concerns raised by EU citizens.^{6, 7, 8}

Below, we outline our recommendations across five key pillars of an industrial strategy, which we hope to see reflected in the upcoming Clean Industrial Deal.

³ <https://caneurope.org/content/uploads/2023/03/Response-Net-Zero-Industry-Act-2.pdf>

⁴ <https://caneurope.org/joint-statement-on-the-commissions-proposal-for-a-green-deal-industrial-plan-for-the-net-zero-age/>

⁵ https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en

⁶ <https://caneurope.org/draghis-report-missing-crucial-elements-the-green-and-just-transition-is-europes-best-bet-for-lasting-competitiveness/>

⁷ https://caneurope.org/content/uploads/2024/02/CAN-Europe_Letter-to-Mr-Draghi.pdf

⁸ <https://corporateeurope.org/en/2024/09/between-lines-corporate-interest-shapes-narrative-over-draghis-report>

1. Consistency and Climate Ambition

The implementation of the European Green Deal should be the guiding principle of the EU's industrial strategy, aligning investments and policies with the goal of meeting—and ideally exceeding—the EU's "Fit for 55" targets for 2030, as well as setting an **ambitious 2040 target**⁹. Given the long investment horizons required to modernize Europe's ageing manufacturing base, it is crucial to provide companies and investors with certainty to decarbonise energy-intensive industries, scale up clean technology manufacturing, and transition to a fully circular economy. This is especially vital in light of potential political headwinds that could slow industry decarbonisation in other regions over the coming years.

Strong climate ambitions will also drive demand for and the manufacturing of clean technologies, which are expected to account for 65% of planned emissions reduction by 2030¹⁰, and trigger significant **co-benefits**: our research indicates that exceeding the 55% emissions reduction target by 2030 and advancing towards climate neutrality by 2040 would yield economic and societal benefits across the EU of at least €1 trillion by 2030, alongside massive savings from avoided climate damage.¹¹

To safeguard regulatory consistency rooted in strong climate ambition, it is crucial to:

- **Enforce and strengthen key pillars of the EU's regulatory framework**, such as the Corporate Sustainability Due Diligence Directive (CSDDD), the Corporate Sustainability Reporting Directive (CSRD) and the Taxonomy Regulation¹². These laws emerged from extensive political negotiations during which businesses' concerns were heard and addressed, often leading to the dilution of key provisions. While there is room for smart implementation through digitalisation, improved guidance and harmonisation of redundant national procedures¹³, reopening and weakening this recently agreed legislation, as the upcoming Omnibus package aims to do, fails to tackle the real structural challenges facing European industry—such as high energy costs, supply chain disruptions, and a shortage of skilled workers. Worse, it undermines regulatory predictability and penalises first movers, including many sustainable SMEs that have long been at a disadvantage compared to less sustainable competitors¹⁴.

⁹ <https://caneurope.org/content/uploads/2024/02/2024.09.24-Updated-Position-Paper-on-EU-climate-targets-and-equitable-GHG-budget.docx.pdf>

¹⁰ https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en#paragraph_47059

¹¹ https://caneurope.org/content/uploads/2024/01/CAN-Europe-co-benefits-of-climate-action_REPORT.pdf

¹² <https://www.business-humanrights.org/en/latest-news/cso-input-simplification-consultations/>

¹³ https://caneurope.org/content/uploads/2024/12/Multi-stakeholder_statement_Smart_implementation_ESRS-Dec2024.pdf

¹⁴ <https://caneurope.org/regulitis-really/>

- **Phase out free allocations under the EU Emissions Trading Scheme (ETS) as soon as possible with no backtracking on the timeline agreed by co-legislators in 2022, in order to drive investment in cleaner production processes.** Energy-intensive industries such as steel, cement, aluminium, paper and chemicals still account for up to 17% of EU greenhouse gas emissions¹⁵ and face a crucial investment cycle in order to reduce emissions by over 90% by 2050. Many industrial facilities have urgent reinvestment needs¹⁶, with more than 70% of the EU's coal-powered ironmaking assets requiring reinvestment before 2030¹⁷. To date, these sectors have been largely shielded from carbon price signals, receiving the bulk of their allowances for free under the ETS. Ensuring a timely phase-out is essential to incentivize deep decarbonisation and prevent further delays in the transition.
- **Uphold the Carbon Border Adjustment Mechanism (CBAM) and its phase-in timeline to align with the phase-out of free ETS allowances, introduce targeted adjustments** to close loopholes¹⁸, include indirect emissions for all products and potentially expand its scope to other highly emitting goods and materials (e.g. chemicals) to ensure the success of the mechanism. Revenues generated by the CBAM, along with dialogue and other support measures, should at least in parts support climate action in countries outside the EU.
- **Include and prioritise gross reduction targets for greenhouse gases in the 2040 climate architecture, alongside separate targets for net sequestration in the LULUCF sector and permanent industrial removals.** This is crucial in order to avoid mitigation deterrence and minimise the need for relying on costly and unproven technologies.

2. Enhanced resilience by cutting energy and resource demand, expanding renewables, and reducing fossil fuel reliance

Europe's heavy reliance on **imported energy** and raw materials in a turbulent geopolitical context creates economic and political dependencies while driving up energy prices for both industry and households. Fossil-based processing heat accounts for three-quarters of the EU's industrial emissions. However, an estimated

¹⁵ E3G (2020), Fostering climate-neutral, energy-intensive industries in Europe: a policy vision for the EU industrial strategy

¹⁶ <https://cdn2.assets-servd.host/lyrical-cormorant/production/assets/images/Publications/TESS-Briefing-Note-Heavy-Industries-Net-Zero.pdf?dm=1733729483>

¹⁷ Agora Industry, Global Steel Transformation Tracker

¹⁸ <https://carbonmarketwatch.org/2024/12/06/stop-the-steel-despite-hefty-subsidies-arcelormittal-backpedals-on-decarbonisation/>

90% of industrial energy demand that is not yet electrified could be met through direct electrification with technologies expected to be available by 2035¹⁹.

Electricity prices remain high because they are still linked to gas prices. The EU's gas import dependency stands at 90%, with an increasing share of LNG coming mainly from the US with associated transport, liquefaction, and regasification costs, now compounded by political uncertainty under the new US administration. As long as the EU remains reliant on expensive fossil gas, energy prices will stay high.

The solution is to accelerate the deployment of renewables, significantly reduce overall energy demand, and phase out fossil fuels. Investments in renewables, energy storage, grids, and flexibility will help decouple electricity prices from fossil gas, leading to more stable and lower costs that support industrial electrification through increasingly domestic sources. To achieve this, integrated and independent infrastructure planning must be implemented—not only to enhance industrial efficiency and competitiveness but also to protect vulnerable households from potential cost increases driven by industry.

Therefore, in the Clean Industrial Deal and the associated Action Plan for Affordable Energy Prices, the EU must:

- **Outline specific measures for industries to contribute to meeting and exceeding 2030 energy targets** through an ambitious implementation of the Energy Efficiency Directive (EED), the Energy Performance of Buildings Directive (EPBD)²⁰ and the Renewable Energy Directive (RED).
- **Set ambitious energy savings and renewables targets for 2040.** This would attract more investments into energy efficiency and renewables, generating cost savings, creating new high-quality jobs, and signalling to the industry to invest in processes and technologies leading to 100% renewable energy and halving energy demand by 2040.
- **Propose an action plan to phase out coal by 2030, fossil gas by 2035 and oil by 2040,** developing a framework for the decommissioning of fossil fuel infrastructure, and maximally restricting technologies such as CCS to specific industrial processes in which residual process emissions cannot be avoided through clean energy, energy savings, material efficiency and product design measures.
- **Recognize energy efficiency industries as essential players** to contribute to the EU's competitiveness as their products and processes are a prerequisite for the energy transition to materialise²¹, in order to accelerate the

¹⁹ https://www.agora-industry.org/fileadmin/Projects/2023/2023-20_IND_Electrification_Industrial_Heat/A-IND_329_04_Electrification_Industrial_Heat_WEB.pdf

²⁰ The building sector is a particular relevant sector to address, as it counts for almost half (+40%) of the energy demand of the whole European Union

²¹ <https://energycoalition.eu/wp-content/uploads/2021/03/Coalition-for-Energy-Savings-Priorities-for-next-EU-institutions.pdf>

uptake of energy efficiency solutions leading to more energy savings across all sectors.

- **Introduce the mandatory extension of gas demand savings measures** (Regulation 2022/1369) in the forthcoming Roadmap to phase out Russian gas imports. Member States reduced their gas demand on average by 18% (instead of 15% as demanded) with measures taken mainly in the industry and buildings sectors.
- **Develop a Heating and Cooling Action plan with ambitious market signals** to ensure the sector transitions to renewable energy sources and energy efficiency measures, fostering demand for clean heating and cooling solutions for both industry and citizens.²²
- **Reduce industry's dependence on fossil fuels via rapid renewables-based electrification, demand reduction and flexibility measures, increased energy storage, and a switch to renewable hydrogen** in those sectors where no alternatives exist, such as in high-temperature applications²³.
- **Introduce state-backed Contracts-for-Difference (CfDs) for renewables, with revenues distributed to keep prices low for the most vulnerable.** This will ensure investment in new capacity for cheap renewable electricity for industry and households, thus reducing gas dependency.
- **Link public subsidies for industrial electrification to plans for industry to invest in onsite flexibility to minimise adverse effects on other grid users and lower prices.** This will require the industry reorganising its processes and installing renewables, batteries and energy storage near sources of production to better react to price changes.
- **Shift taxes and levies from electricity onto fossil fuels through the reform of the Energy Taxation Directive or national-level actions** to incentivise electrification, while ensuring the environmental costs of fossil gas are priced in, without industry freeriding.

In addition, the EU should take bold action towards managing its **resources** more sustainably. **Its material footprint** - the total amount of fossil fuels, biomass, metals and minerals it consumes stands at an alarming rate of 14.8 tonnes/capita, more than double the threshold deemed sustainable.²⁴ This unsustainable extraction of resources from nature aggravates the triple planetary crisis as resource use is responsible for 64% of greenhouse gas emissions, 40% of air pollution health impacts and almost all biodiversity loss.²⁵ Furthermore, **it weakens the long-term resilience of European industries, by increasing production costs and**

²² https://coolheatingcoalition.eu/wp-content/uploads/2025/02/CIDcover_2-merged.pdf

²³ <https://caneurope.org/electrification-action-plan/>

²⁴ <https://caneurope.org/white-paper-for-an-eu-within-planetary-boundaries/>

²⁵ <https://www.bruegel.org/policy-brief/european-circular-single-market-economic-security-and-competitiveness>

reducing independence, often at the cost of environmental and social welfare in local communities in the global south where resources are located.

To place **sustainable resource management** at the heart of the Clean Industrial Deal and the Circular Economy Act, the EU should:

- **Introduce resource use targets in sectoral plans**, to give companies the direction of travel needed for long-term investment perspectives.
- **Reduce the consumption of primary materials and increase secondary-use rates of key materials by up to 70-80%** through more circularity, as shown in our Paris Agreement Compatible (PAC) energy scenario²⁶, in which we model the transition of the industry and non-industry sectors towards climate neutrality in 2040. Circular approaches in the main industrial sectors such as steel, construction (as well as renovations) and plastics could reduce EU annual emissions by 34% by 2050 relative to 2018²⁷.
- **Develop a Critical Raw Materials policy that centers circularity, recycling, substitution and innovation.** Meeting climate targets for raw materials in a sustainable way will require minimising the need for new extraction through mandatory recycled content targets, waste revalorization, and investment in research and development to identify substitutes for raw materials.
- **Leverage demand-side measures as a key driver for the timely decarbonisation of heavy industry.** CAN Europe has repeatedly called for an industrial transformation going beyond a technology-only approach and looking at lowering the environmental footprint of both processes and products, for example in the steel sector.²⁸ A major milestone in this regard was the inclusion of intermediary products within the scope of the *Ecodesign for Sustainable Products Regulation* (ESPR). The next step is to establish ambitious ecodesign requirements through secondary legislation, prioritizing iron and steel. This will position the EU as a leader in setting a global green level-playing field, ensuring that all products—regardless of their country of manufacture—comply with minimum environmental standards on resource efficiency, energy use, and recycled content. For the European iron and steel sector, this presents a key opportunity to gain a competitive edge as early movers²⁹.
- **Review public procurement rules** to maximize the impact of the 14% of GDP spent by public authorities, prioritizing best-in-class products and services from both social and environmental perspectives. Rather than relying

²⁶ https://www.pac-scenarios.eu/fileadmin/user_upload/PAC/PAC_documents/202408_PAC20_Technical_Summary.pdf

²⁷ https://www.agora-industry.org/fileadmin/Projekte/2021/2021_02_EU_CEAP/A-EW_254_Mobilising-circular-economy_study_WEB.pdf

²⁸ <https://caneurope.org/can-europes-transformation-pathway-recommendations-for-the-steel-industry/>

²⁹ EU is currently leading in the number of project announced towards 2030 to produce cleaner steel, see Agora Industry - Global steel transformation tracker

on voluntary labelling initiatives, procurement should be guided by strong product requirements set under the *Ecodesign for Sustainable Products Regulation*. Introducing mandatory environmental and social criteria in public procurement could significantly strengthen green lead markets, while ensuring greater coherence between sectoral procurement rules and the general framework. Finally, improved governance—through clear targets or objectives—would further enhance the effectiveness of public procurement in driving sustainability.

3. A people-centric approach to industrial transformation

Europe's industries face mounting challenges: declining industrial production in manufacturing heartlands, large-scale restructuring in both traditional and net-zero industries like batteries and wind power, and economic shifts in regions heavily reliant on coal. For millions of Europeans, this transition will bring profound socio-economic changes, often exacerbated by the ongoing cost-of-living crisis.

The Clean Industrial Deal must ultimately deliver socially just outcomes for people across Europe. It should address the distributional impacts of proposed policies, support workers through the transition, tackle skills shortages, and ensure equity and inclusiveness are at the core of the approach. Crucially, it must generate well-paid, high-quality jobs for people.

EU policies should also reflect the diverse industrial landscapes of member states. Some of the proposals outlined below draw on previous work from the Weimar Triangle³⁰, which provided policy recommendations tailored to countries with varying industrial profiles.

A people-centric approach to industrial transformation will require:

- **A place-based EU industrial strategy** that stimulates the development of industrial value chains across the continent, maximises regional competitive advantages and avoids a two-track transition, i.e. undermining cohesion and leaving certain regions behind. This includes supporting both education and labour opportunities as addressing barriers for job-to-job transition ensuring the **freedom to stay** alluded to in the Letta report³¹.
- An objective, needs-based **mapping of industries and disadvantaged regions** impacted by the industrial transformation, which requires a **targeted support strategy** for industries and disadvantaged regions in the framework

³⁰ <https://www.germanwatch.org/de/91801>

³¹ <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>

of MMF and/or a revised Cohesion framework, taking inspiration from the ways of working, distinctive features and learnings of the just transition mechanism. This mapping should be **gender-sensitive**, entail a **‘whole-industry-chain’** approach—including potential job creation for downstream industries and new jobs connected to enhanced circularity—and address sector-specific **skills shortages**.

- Linking industrial policies with **social policy and planning**, especially on a local level. New industrial developments should be supported by social planning which ensures the availability of housing, health and educational services, without pricing out or disadvantaging the existing population.
- A **just transition directive** as suggested by the EESC³², to anticipate and manage change in the world of work, especially in fossil fuel dependent industry, containing inter alia mandatory reskilling programs in order to address the skills gap in industries such as renewable energy, create incentives for companies to upskill current employees, develop company transition plans and provide a fair exit for their workers.
- The establishment of a **social safety net** such as an unemployment reinsurance scheme (based on the SURE instrument that was initiated during the Covid-19 crisis).

To avoid exacerbating regional disparities and ensure that industrial policy generates social benefits, it is crucial to structurally embed **strong social and environmental conditions** within the EU’s industrial policy framework³³.

Public support can promote green businesses, create quality and direct jobs, and deliver sustainable infrastructure, products and services. However, without a harmonized set of minimum social and environmental standards across all Member States for companies receiving public financial support, subsidy shopping will persist. This undermines the Single Market, increases the cost of industrial policy, and exacerbates divergence between member states.

Social conditions are also essential to address the imbalance between the socialization of risk and the privatization of profits—an imbalance worsened by derisking tools, with significant distributional consequences. Harmonizing these conditions would also prevent discrepancies based on whether funds are sourced from the EU or national governments.

Crucially, such Europe-wide conditions would also increase predictability and simplification for companies. **Minimum social conditions** include:

³² <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/towards-just-transition-legislative-proposal-and-eu-policy-tools-enable-more-social-european-green-deal>

³³ <https://caneurope.org/content/uploads/2024/12/JointStatementSocialEnviConditionsNov2024.pdf>

- Compliance with social and labour standards (e.g. companies engage in collective bargaining and respect collective agreements; companies support upskilling and reskilling of workers);
- Companies do not relocate their activities to third countries with lower standards, including for reasons of tax avoidance and evasion.
- All multinational corporations should evidence responsible tax behaviour and should publish a full public country-by-country report annually.
- While a company receives public funds, a temporary ban or limits on dividend payments and/or share-buy backs should be considered when certain conditions are met, which would help ensure that profits are reinvested in the company's operations, innovation and benefit workers

Finally, spurring the EU's global competitiveness should not come at the expense of resource-rich countries developing their own green industrial policy. Rather than locking these countries into the role of exporters of unprocessed raw materials and perpetuating globally inequitable consumption of raw materials, **Clean and equitable Trade and Investment Partnerships (CTIP)** must include clear, measurable and bespoke sustainability commitments to support the development of clean industries and value chains in partner countries. Therefore, CTIPs should:

- include commitments to **technology transfer** and support partner countries in attracting the investment necessary for their sustainable development.
- replace outdated investment agreements by EU Member States and thereby **remove investor access to arbitration**
- be based on **inclusive and transparent consultations** with civil society of both potential partners, including marginalised and or vulnerable groups.
- **not force partner countries to liberalise their markets** and open public procurement.

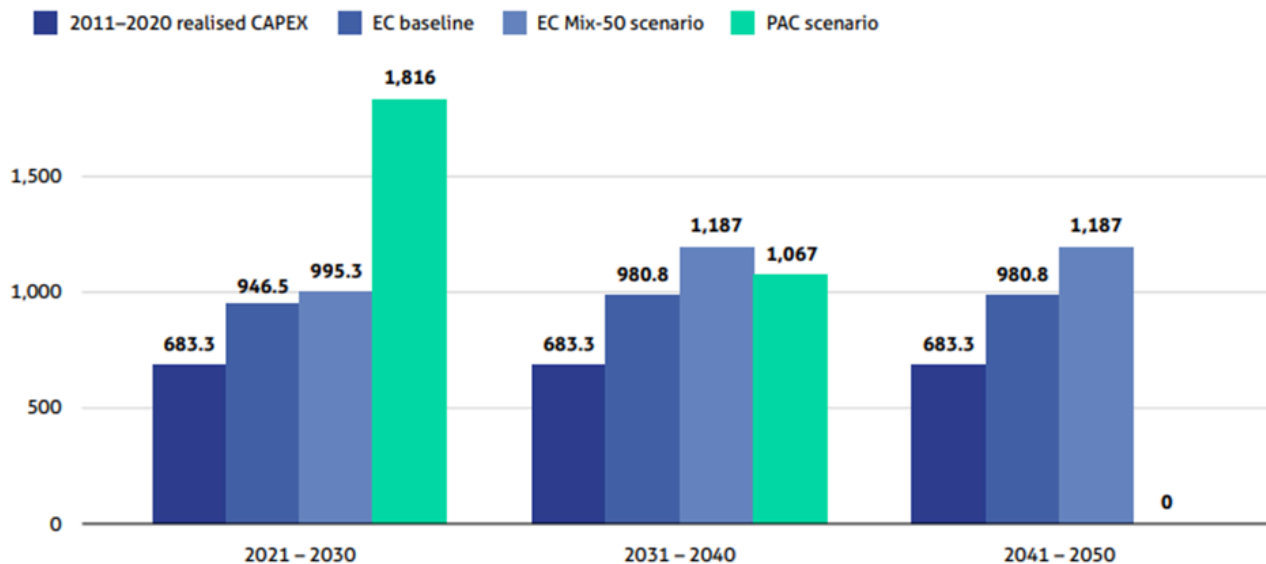
4. Targeted investment for industrial transformation

The investment needs for the socio-ecological transformation of the European economy are vast and well-documented. The European Commission estimates that an additional 2% of European GDP will need to be mobilized annually to meet the climate goals by 2030. Mario Draghi's long-awaited report on future EU competitiveness also highlights the need for around €800 billion in additional investments per year.

CAN Europe's analysis suggests that, to deliver a **Paris Agreement Compatible (PAC)** energy transition and achieve climate neutrality by 2040 **investment needs** (Capital Expenditures) are higher than previous estimates for the 2021-2030 period

due to the front-loading of decarbonisation measures³⁴. In other words, a substantial and comprehensive investment plan is urgently needed.

Figure 1: Average annual gross investment needs per scenario (EUR, billion)



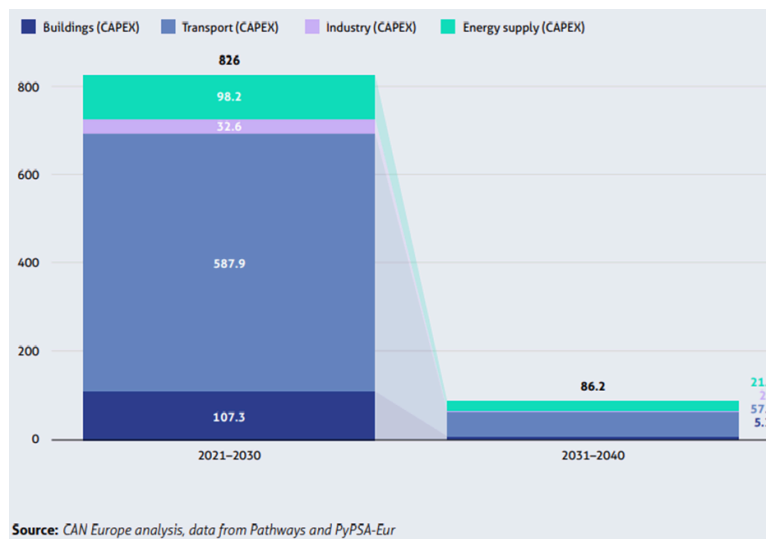
Source: CAN Europe analysis, data from Pathways and PyPSA-Eur

To measure the investment needs for achieving specific decarbonisation pathways, the standard methodological approach is to compare the total investment needs of a given pathway with baseline investment needs (i.e. investments that would have been needed anyway in respective sectors, under a business-as-usual scenario), in order to derive the “additional investment needs” in respective sectors. We replicated this approach by comparing the investment needs for achieving a PAC scenario pathway with the baseline investment needs provided by the European Commission (the baseline, business as usual scenario, of the European Commission projects that in 2050 GHG emissions will be reduced by around 60% compared to 1990).

Although additional investment needs for industry decarbonisation by 2040 are relatively low compared to other sectors of the European economy, energy supply-related investments are equally crucial to decarbonise industry (e.g. via economy-wide electrification infrastructure) and part of those should, as such, be factored in.

³⁴ <https://caneurope.org/content/uploads/2024/09/PARIS-AGREEMENT-COMPATIBLE-SCENARIO-2024.pdf>

Figure 2: Additional annual investment needs compared to EC baseline (EUR, billion)



Mobilising sufficient investments for industry decarbonisation and related (supportive) economy-wide electrification requires a **careful blend between investments** that:

- can be covered through private finance alone, provided sufficient regulatory incentives are in place to redirect private financial flows towards decarbonisation;
- require some form of public support to mobilise private capital through concessional finance;
- need to be financed through public grants, or direct public investment, by mobilising national budgets and EU funds.

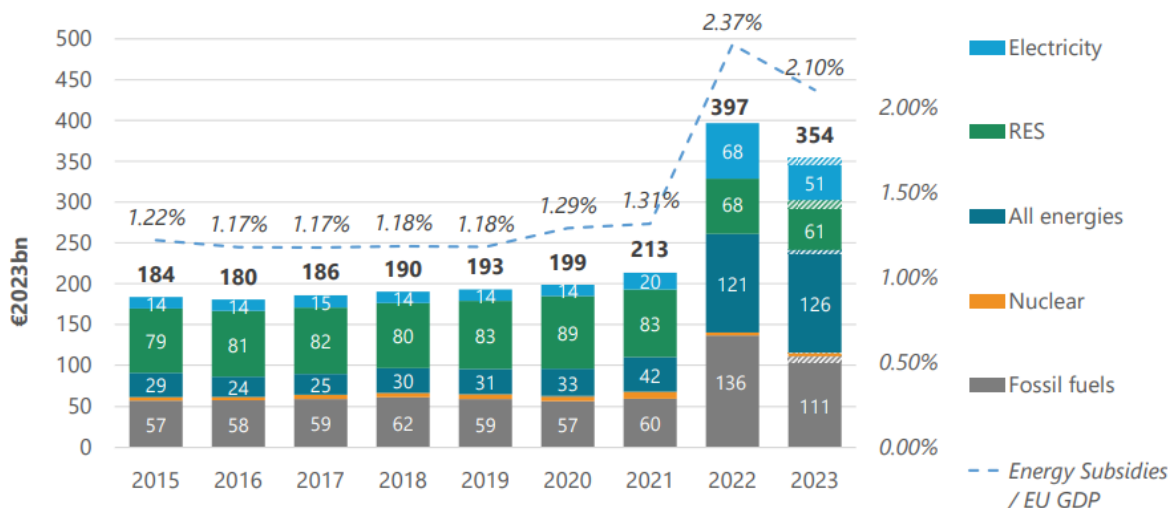
To date, the European Commission has unfortunately failed to conduct a systematic analysis identifying which parts of industrial decarbonisation investments can be financed through specific types of funding. This lack of clarity risks the misallocation of public funds, potentially diverting resources needed for other critical aspects of the energy transition (e.g., public transport, buildings, demand-side measures, and just transition expenditures).

While several EU and national budget instruments provide various forms of support to industry (outlined below), the additionality of these subsidies to industrial investments remains, at best, questionable. We therefore recommend that the European Commission undertake this analysis as part of the upcoming Clean Industrial Deal and the 2028-34 Multiannual Financial Framework (MFF) negotiations. This will allow for the design of a financial architecture that ensures genuine additionality, while safeguarding public funds.

Furthermore, it is necessary to redirect existing harmful expenditures (such as fossil fuel subsidies) towards support for the energy transition more widely and industry

decarbonisation more specifically³⁵. To give but one example, fossil fuel subsidies still outweigh support for RES (figure below) and redirecting those could contribute to supporting industry decarbonisation and other energy transition investments.

Figure 3: Total energy subsidies in the EU-27 (EUR2023 bn, left, % of EU GDP, right)



Source: European Commission³⁶

Once an analysis systematically segmenting the mix of public and private instruments needed is completed, CAN Europe believes that a pan-European investment plan is urgently required for the public investment component of the Clean Industrial Deal. The current approach relies heavily on national state aid to support industry, which increases divergence and reduces socio-economic cohesion across the EU. Member States with greater fiscal capacity can finance industrial policy, while poorer Member States cannot, risking the reproduction of an intra-EU “beggar-thy-neighbour” approach and further socio-economic fragmentation. This undermines the EU's ability to act as a unified bloc in the volatile global context.³⁷

Therefore, CAN Europe, alongside other civil society organizations, has called for a **Social and Green Investment Plan**³⁸ that would double the regular Multiannual Financial Framework. This proposal includes a Green Industry pillar to support an EU green industrial strategy, aimed at enhancing the production of clean technologies, accelerating industrial decarbonisation, and advancing the transition to a circular economy.

For this ‘Investment Commission’ to effectively benefit both people and the planet, it is crucial that additional support to industry be funded by fresh own resources, without diverting existing funds earmarked for climate, environmental, and social

³⁵ https://caneurope.org/content/uploads/2024/06/EU-Fossil-fuel-subsidies_2024.pdf

³⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0017>

³⁷ <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>

³⁸ <https://caneurope.org/content/uploads/2024/05/Public-statement-on-EU-investment-Plan.pdf>

investments from current and future EU funds (e.g., cohesion policy funds). This will require action on both the quantity and the quality of EU funds.

On the **quantitative side**:

- **The EU needs to create at least €1 trillion-strong Next Generation 2.0 fund³⁹** to foster Europe's transformation in response to the ongoing polycrisis and geopolitical challenges.
- **Total additional investment needs for the industry** are around € 346 billion in total to 2040⁴⁰, of which the estimated share to be financed through **public investment is around €70 billion**.
- **Fresh own resources will be absolutely essential** as industrial policy will require public investments, which are severely constrained at the national level under the EU's new fiscal rules, as attested by the latest Autumn forecasts⁴¹.

On the **qualitative side**, several substantive reforms to the EU budget and individual EU funds, are required whilst avoiding the pitfalls of current EU financial schemes to support industry:

- **EU funds dedicated to financing industry decarbonisation should embed strong conditionalities** in exchange for support. Indeed, although the EU already directs substantial funds to the industry through dedicated funds (e.g. Innovation Fund, InvestEU, STEP) and wider instruments (Recovery and Resilience Facility, Cohesion Policy) evidence suggests that it lags behind other economic blocks vis-a-vis social and environmental conditionalities⁴² while existing climate mainstreaming and Do No Significant Harm (DNSH) safeguards are not effective in current EU funds⁴³. This gap is hampering the effectiveness of industrial policy in delivering economic, environmental and social goals in exchange for public support⁴⁴. As such, both existing and new instruments (e.g. announced "Competitiveness Fund", or, better "**a Clean Competitiveness Fund**") should embed strong conditionality (see also in the previous pillar) principles for delivering both climate and social goals, beyond strict economic performance criteria.
- **Stop providing financial support for harmful investments**. The EU should permanently exclude the eligibility of fossil fuel infrastructure projects from its

³⁹ <https://caneurope.org/content/uploads/2024/09/Letter-MEPs-Next-Generation-2.0.pdf>

⁴⁰ See figure 2

⁴¹ https://economy-finance.ec.europa.eu/document/download/7173e7c9-3841-4660-8d6a-a80712932f81_en?filename=ip296_en.pdf

⁴² See for instance: <https://www.econstor.eu/bitstream/10419/305292/1/1907199276.pdf> & https://rooseveltinstitute.org/wp-content/uploads/2023/10/RI_Multi-Solving-Trade-Offs-and-Conditionalities-in-Industrial-Policy_Brief_202310.pdf

⁴³ For climate mainstreaming see: https://www.eca.europa.eu/ECAPublications/SR-2024-14/SR-2024-14_EN.pdf & for DNSH see: https://caneurope.org/content/uploads/2024/09/CAN-E_Contribution_DNSH_SCF.pdf

⁴⁴ https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/conditionality_mazzucato_rodrik_0927202.pdf

own budget funds⁴⁵ through the implementation of science-based **do no significant harm** (DNSH) criteria⁴⁶. At the very minimum, all fossil gas, fossil-based hydrogen, and nuclear investments need to be permanently excluded from eligibility in all EU budget instruments.

- **Prioritise investment in grids, renewables-based electrification, energy efficiency actions and projects and renewable energy sources for affordable energy**, through improved climate mainstreaming. Conversely, uncertain, less important and non-cost-effective technologies (for delivering the energy transition) should be deprioritised within relevant EU budget funds. Among others, expectations should be significantly lowered investments concerning **carbon capture and storage and hydrogen**, given the risks and costs⁴⁷ associated with these technologies⁴⁸.
- **Derisking tools should only be used when there is clear additionality**. EU budget and off-budget funding instruments (e.g., ETS funds) should target companies and projects that would otherwise not be financed on the capital market. These instruments could also include profit-sharing mechanisms to avoid regressive distributional impacts, where public budgets bear the risks while companies reap the profits
- **Eligibility criteria should be tightened in instruments dedicated to economy-wide electrification infrastructure**: for example, the **CEF-EN** (Connecting Europe Facility Energy window) criteria should be tightened in order to orient investments towards infrastructure that genuinely supports renewables-based electrification, such as electricity transmission and distribution networks and, energy storage, and smart grids. Furthermore, additional **Important Projects of Common Interest (IPCEI)** should go to proven technologies that can support a 100% renewable energy scenario, including for energy efficiency projects. IPCEI support should not remain concentrated in a very limited number of member states and should be more beneficial for EU SMEs.⁴⁹

Provided the aforementioned reforms are enacted, the **Multiannual Financial Framework (MFF)** can act as a powerful lever for an industrial transformation and to bolster the EU energy transition by ensuring public financing for implementing the “energy efficiency first” principle. Furthermore, a European Competitiveness Fund (ECF), as announced by the European Commission, could be a useful tool to

⁴⁵ https://caneurope.org/content/uploads/2024/06/EU-Fossil-fuel-subsidies_2024.pdf

⁴⁶ For example: https://caneurope.org/content/uploads/2024/09/CAN-E_Contribution_DNSH_SCF.pdf

⁴⁷ https://www.oilchange.org/wp-content/uploads/2024/08/OCI_funding_failure_Final_09_10_24.pdf

⁴⁸ CAN Europe sees no role for CCS for sectors where other options are available to reduce emissions, such as the energy and the steel sector. Upon further technological development to ensure that it is climate-proof and socially just, it could play a role for residual emissions after emissions reduction options from both technological/technique process changes and demand-side measures have been exhausted. This will maintain the incentive to reduce emissions at source over end-of-pipe technologies.

⁴⁹ https://www.svensktnaringsliv.se/english/pslsyr_sn-ipcei-analysispdf_1224418.html/SN+IPCEI+Analysis.pdf & <https://www.bruegel.org/blog-post/opaque-and-ill-defined-problems-europes-ipcei-subsidy-framework>

support investment in strategic net-zero industrial projects; **it should avoid replicating the deficiencies of existing dedicated funds.**

EU funds entail several instruments for industry and economy-wide electrification financing, both through the EU budget (InvestEU, CEF, RRF, Cohesion Policy funds) and off-budget instruments (Innovation Fund, Modernisation Fund, European Investment Bank). In the context of the Green Deal Industrial Plan, however, the only dedicated financial instrument that has been created is the **Strategic Technologies for Europe Platform (STEP)**. Although the latter has been hailed as a positive example in several official documents⁵⁰, it, in fact, falls short of constituting a blueprint for financing industrial decarbonisation—and as such should not be used as a basis for future instruments. As already analysed by CAN Europe in previous publications⁵¹:

- Instead of being composed of “fresh” financial resources, it cannibalises existing EU funds that are necessary for filling the climate investment gap in public infrastructure, households’ investment support and regional cohesion—in a context whereby available EU funds are insufficient to address national climate investment gaps across the periphery of the EU⁵².
- STEP does not guarantee positive social or environmental outcomes: it does not include serious social and environmental conditionalities when providing finance to industry, especially to large companies, lacking binding conditionalities on the social front whilst having weak climate mainstreaming and DNSH provisions.
- It is poorly targeted and lacks prioritisation, as it entails the eligibility of sectors that are irrelevant to a “Green Deal Industrial Plan” *stricto sensu* (e.g. microelectronics, quantum computing, artificial intelligence, biotechnology, biomanufacturing, defence technologies) whilst green industries consist in a fraction of the envelope.
- The list of “green sectors” whose companies are eligible for finance is highly problematic, as it entails the eligibility of sectors that are either outright environmentally harmful, or unproven at scale or linked to fossil fuels – such as “alternative fuels” (presumably including biomass, biofuels, biogas), Carbon Capture Utilisation and Storage (CCUS) and fossil-based hydrogen.
- It fails to ensure a genuine additionality of public finance, as it does not earmark any funds for financial support to SMEs that face genuine barriers to accessing public finance—*de facto* putting SMEs at a disadvantage compared to large companies. Technical assistance to help SMEs access those funds is insufficient to ensure equal opportunities in the absence of dedicated earmarking.

⁵⁰ See eg. the recent Competitiveness Compass:

https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en

⁵¹ <https://caneurope.org/the-step-proposal-recovery-funds/>

⁵² https://caneurope.org/content/uploads/2022/08/Final-report_UNIFY_EU-FUNDS.pdf

Hence, CAN Europe's and other CSOs' positions on instruments such as STEP, or indeed a future Competitiveness Fund, include more detailed proposals to ensure genuine additionality and better targeting of eligible green technologies, sectors and companies, through stronger social and environmental conditionalities⁵³.

Last but not least, the current relaxation of **state aid rules** (through the Temporary Crisis and Transition Framework) is disincentivizing richer Member States to agree to the creation of a new joint EU funding framework for the delivery of the European Green Deal, including industry decarbonisation. As such, any extension of the **Temporary Crisis Framework or reform of State Aid rules** should be made contingent on the financing of joint EU funding instruments, as per the joint CSO proposal for a **Green Investment Plan** post-Next Generation EU⁵⁴. In the same vein, the Letta report proposal for a State Aid Contribution Mechanism, which would require Member States to allocate a portion of their national State Aid expenditures to financing pan-European initiatives and investments should be envisaged⁵⁵.

5. Inclusive governance for effective and transparent EU industrial policies

Transforming our industrial base into an economic model that generates social benefits within planetary boundaries⁵⁶, amid geopolitical competition, will require a more decisive and unified European approach. Both China's state-led industrial development policy and the US' green and social industrial policy under the Inflation Reduction Act have, among other external factors, highlighted the EU's delay in its industrial transformation.

As Draghi recently stated, "our organisation, decision-making, and financing are designed for the world of yesterday." The "Maastricht-EU⁵⁷," which emphasizes negative integration—removing barriers to the single market—is ill-suited for reviving industrial policy at the European level. In the longer term, institutional changes will likely be necessary to adopt and implement a genuine EU industrial strategy.

In the shorter term, given the **lack of formal institutional capacity** and a clear and transparent governance mechanism for EU industrial policy, CAN Europe is worried that backroom deals with incumbent industries will steer policy developments. The heavy corporate lobbying on the Draghi-report⁵⁸ and the exclusion of civil society in

⁵³ https://caneurope.org/content/uploads/2023/01/proposal_for_a_sovereignty_fund.docx.pdf &

https://caneurope.org/content/uploads/2023/03/Joint-CSO-statement-GDIP_March2023.pdf

⁵⁴ <https://caneurope.org/content/uploads/2024/05/Public-statement-on-EU-investment-Plan.pdf>

⁵⁵ <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>

⁵⁶ <https://caneurope.org/discussion-paper-economy-of-tomorrow/>

⁵⁷ <https://dezernatzukunft.org/wp-content/uploads/2024/11/Krahe-2024-Beyond-Maastricht-1.pdf>

⁵⁸ <https://corporateeurope.org/en/2024/09/between-lines-corporate-interest-shapes-narrative-over-draghis-report>

the drafting process of the Antwerp Declaration⁵⁹ are a case in point of the potential of corporate capture of the industrial policy agenda. Therefore CAN Europe:

- warns that the increasing use of non-transparent and exclusive **alliance structures** to develop and implement EU policy objectives and activities is a rolling back of established participatory mechanisms. **Civil society contribution** is particularly important to ensure the framing of the objectives, priorities, measures and timelines are scientifically based and will benefit society at large and respect planetary boundaries rather than a happy few.
- insists that the **Industrial Forum**'s strategic role must include ensuring that a systemic and holistic approach is taken to transformation and it must have a clear element of assessment, monitoring and evaluation, to regularly evaluate the effectiveness of targets and actions.
- calls for Systematic Alliance monitoring and evaluation to ensure we are on good trajectories. **An independent observatory** would be better placed than the Industrial Forum for monitoring and evaluation.

Finally, CAN Europe warns against undifferentiated deregulation including arbitrary burden reduction targets. The business community's main ask⁶⁰ is legal certainty and a stable regulatory framework. CAN Europe calls:

- for identifying **targeted simplification possibilities** which can be supportive of the roll-out of climate-friendly technologies without lowering environmental and social standards, which may include simplification of planning and approval processes & streamlining of reporting duties
- for a **swift roll-out of secondary legislation** of industrial policy files, including delegated acts on transformation plans in the Industrial Emission Directive and swift definition of ecodesign requirements for intermediary products within the Ecodesign for Sustainable Products Regulation.

⁵⁹ <https://antwerp-declaration.eu/>

⁶⁰ <https://www.business-humanrights.org/en/latest-news/business-letter-omnibus/>



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