Policy Brief 2026/1

The European Competitiveness Fund and MFF 2028-34

Author: Samuel Fleischman

Brussels, March 3 2026

1. INTRODUCTION: EUROPE'S INNOVATION GAP EXPLAINED

The EU Invests Significantly Less In R&D Than Its Peers

While Public R&D investment in the EU has at times matched U.S. levels, Business R&D intensity (BERD) in the EU lags well behind the U.S. (1.5% vs. 2.6% of GDP). As a result, the EU's Gross Expenditure on R&D (GERD) is less than both China and the U.S. while remaining below the target goal of 3% of GDP set out in the 2005 Lisbon Strategy. Roughly half of EU business innovation is also focused on relatively mature industries, compared to roughly 85% of R&D for high-tech fields in the U.S. This low and skewed mix dampens Europe's frontier innovation, which is key to boosting productivity growth, as described in the Draghi Report.

Financing Of EU-Level Industrial Policy Is Fundamentally Constrained

To reach the 2030 target, the European Commission estimates that an additional €477 billion of green investment will be needed each year, equivalent to 3.2% of 2023 GDP.[1] Yet the EU's fiscal strength is severely limited. The EU annual budget is relatively small compared to member state budgets while EU deficit spending and debt financing are ruled out by treaty provisions. The EU also has no meaningful taxing powers that could increase its revenue base[2] or allow it to offer tax credits – like the Biden Administration did with the U.S. Inflation Reduction Act – as this remains fundamentally a member state competence.

Member states remain significantly constrained in their ability to finance large-scale industrial investment. The EU's Stability and Growth Pact imposes strict fiscal limits, requiring national governments to keep their budget deficits below 3% of GDP and public debt below 60% of GDP. These rules, enforced through the Excessive Deficit Procedure, were suspended during the COVID-19 pandemic but have since been reinstated.

Despite this limited fiscal space, the European Commission has embarked on a range of financing strategies including:

[1] European Central Bank, 2025 Bulletin, Green Investment Needs in the EU
[2] Article 310 TFEU https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12008E310:EN:HTML

- Redirection of EU structural funds for industrial policy purposes, like the European Regional Development Fund (ERDF) and European Social Fund Plus (ESF+)
- Endorsing Important Projects of Common European Interest (IPCEIs) – through existing treaty provisions that allow for national investments that target market failures or societal challenges – to avoid state aid restrictions and enable subsidies for strategic sectors.
- The rules on state aid are now being relaxed again through the general block exemption regulation and the CID.
- Issuing joint EU-27 bonds backed by the EU budget and the EU's collective borrowing capacity.

Europe's Financing Ecosystem Doesn't Support Enough Risk or Room to Scale

Annual venture capital investment in the U.S. is roughly 6–8 times that of Europe.[3] EU funding also remains too cautious and upstream: the European Innovation Council (EIC) allocates roughly 70% of its budget to late-stage projects and only 30% to early, high-risk breakthroughs, a mirror opposite of DARPA, the now-famous US government research agency.

To fill the gap, Europe relies more heavily on public VC than the U.S. but with little effect on overall capital depth. This could be the result of lack of investible opportunities or, more likely, because the EU is unable to source new deals by leveraging its unique assets, instead following the lead of the private sector. For instance, the government has exclusive knowledge of land usage, supply chain issues, and more, that could be leveraged to put together new investment deals, but we rarely see this happen.

Public finance is instead often a derisking vehicle, shielding private capital by absorbing risk while guaranteeing returns and offloading responsibility for the twin transition to a profit-driven system. This market-centric approach yields limited leverage, as dependence on venture capitalists to set lending terms often leads to weak conditionalities.

Regional and Sectoral Inequalities Weaken the EU Innovation System.

Innovation capacity is unevenly distributed across Europe, as public R&D funding in the EU overwhelmingly flows to well-endowed regions with existing capabilities. Peripheral regions lack research infrastructure and networks, weakening their potential contribution to EU-wide goals. EU public R&D often acts "as an anti-regional policy," exacerbating spatial disparities rather than bridging them, undermining EU-wide growth and resilience. Without concerted place-based policies, the EU's cohesion funds are not yet integrated with innovation funds.

Many flagship EU initiatives are also layered onto existing schemes, curbing experimentation and learning. Many national governments and EU agencies often lack the technical skills, bureaucratic structures or incentives for innovation policy. Public-sector capacities – from strategic procurement to programme management – remain underdeveloped, while poor coordination across regions and between member states, business, and civil society further blunts impact.

The EU Lacks a Culture of Public Sector Risk-Taking

Europe remains stuck in a middle technology trap and needs bold early-stage R&D, but has no true equivalent to high-risk, mission-driven agencies like DARPA. Existing EU programmes (e.g. Horizon Europe, EIC) lack sufficient autonomy and tolerance for failure. To cap it off, institutional rigidity compounds this as short funding cycles and tight fiscal rules discourage long-term bets.

[3] EIB Report, 2024: The Scale Up Gap

2. HOW THE COMPETITIVENESS AGENDA HAS OVERTAKEN INNOVATION POLICY

The competitiveness agenda has become a central priority for the current European Commission, building on the Draghi Report on EU Competitiveness (Summer 2024)[4] and the Competitiveness Compass (adopted in January 2025). In the Compass, the Commission announced its intentions to boost productivity growth while maintaining high living standards and safeguarding strategic autonomy in an increasingly complex global environment. This vision moved beyond traditional cost-based competition to highlight the importance of innovation funding, resilience, and industrial dynamics as fundamental drivers for securing Europe's long-term prosperity.

Nestled within the larger push for greater competitiveness in the upcoming 2026 legislative period and the MFF proposal is a slightly jumbled set of innovation policies. While the commission's MFF proposal is set to undergo nearly 18 months of debate and revisions, it is already clear how innovation policy – previously championed by the Horizon Europe programme in the 2021-27 MFF with a clear focus on Science, Technology and Innovation (STI) policy – has become replaced with a deregulatory approach under the language of 'competition'. The key upcoming initiatives include:

The Competitiveness Compass

The **Competitiveness Compass** (Jan 2025) is a broad Commission "roadmap" to restore EU economic dynamism. This non-legislative strategic framework spans EU priorities like innovation, the green transition and supply-chain resilience. To strengthen Europe's competitiveness, the compass highlights the need to address overlapping national investments, and supply chain dependencies, as well as intensifying global competition, through a more robust and institutionalized coordination framework. The need is clear for a mechanism that could align national industrial policies, pool strategic resources, and enhance the EU's collective capacity to act as a unified industrial power on the global stage. To this end, the Competitiveness Compass has introduced a Competitiveness Coordination Tool (CCT) designed to support the coordinated implementation of shared EU policy objectives at both the European and national levels. Although details of the compass are still vague, under the forthcoming Multiannual Financial Framework, it will be backed by a new EU Competitiveness Fund.

EU Startup and Scaleup Strategy

The Startup and Scaleup Strategy (adopted May 2025) is a Commission strategic plan (not itself a regulation) that bundles legislative, policy and funding measures to make Europe more attractive for tech-driven start-ups. It targets deep-tech SMEs by easing regulatory hurdles, improving access to venture capital and talent, and even proposes a new public–private "Scaleup Europe Fund" to support late-stage growth.

The European Innovation Act & 28th Regime for Innovative Companies

The **European Innovation Act (Set for Adoption in the EP in Q1 2026)** will be a formal legislative proposal. Launched as a flagship of the Startup and Scale-up Strategy, it aims to ease commercialisation of R&D by strengthening academia–industry links, making IP and infrastructure more accessible, and cutting red tape

[4] Draghi, M. (2024). *The future of European competitiveness: A competitiveness strategy for Europe*. https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en

to create a more innovation-friendly regulatory environment. A public consultation ran in mid-2025, and the Commission plans to table the bill in 2026.

Alongside this will be the 28th Regime for Innovative Companies Act, a new corporate legal framework allowing companies to grow more easily across borders by making it easier for them to register their companies at the national or EU level.[5] Legislators however are planning to file it via directive rather than as a regulation, which would require all 27 EU countries to unanimously agree in Council, weakening its potential impact.[6] The ETUC has come out in strong opposition to the 28th Regime Package, arguing it would negatively impact hard-won safeguards at the European level around labour law, taxation, social security, and insolvency rules. Experiences with the European Company (SE) revealed how this EU-wide structure is exploited to bypass worker participation and labours standards. The ETUI has instead called for the EU policymakers to focus instead on precise eligibility criteria for 'innovative' firms; strong anti-abuse rules to prevent shell companies; and robust safeguards for worker participation and collective bargaining.[7]

Horizon Europe 2028–34

Horizon Europe (which continues as a R&I programme under the 2028–34 MFF) is currently allocated a €175 bn budget. DG R&I would continue to manage it, and it keeps the familiar three-pillar structure (science, partnerships, innovation/EIC) but with a doubled budget. In particular, the Innovation pillar would further expand the European Innovation Council (EIC) to fund high-risk deep-tech projects. However, the current proposal indicates that Horizon funding would be in "alignment" with the European Competitiveness Fund (ECF). Inter-institutional negotiations are now under way (Parliament's ITRE committee and the Council) and will continue to heat up throughout the next few months, especially as to how Horizon Europe relates to the ECF.

3. THE EUROPEAN COMPETITIVENESS FUND

The European Competitiveness Fund (ECF) is an EU-wide investment vehicle aimed at concentrating and streamlining funding for strategic industries and is a centerpiece of the Commission's ~€2 trillion MFF proposal. The ECF is designed to implement the Competitiveness Compass, boost EU autonomy in key sectors and support a tech-led growth strategy. The proposed structure reflects a shift towards greater budget flexibility and more centralized governance of EU funding programs by the Commission.

The proposed ECF budget is enormous by EU standards. At roughly €451 billion the ECF would represent about 22% of the total MFF[8], with a portion of this funding coming through the Horizon Europe budget (€175 billion) but overseen directly by the ECF. However, this amount is small compared to the annual €800 billion investment gap identified in the Draghi report (which Draghi later updated to €1.2 trillion per year), showcasing how much the EU is betting on private sector funds to cover the investment gap. In addition, the Commission is proposing a total budget of €1.98 trillion (including NGEU debt repayments), equivalent to 1.26% of the EU's GNI, while the expenditure capacity for 2021–2027 amounted to €2.018 trillion (MFF + NGEU). So, the ECF is commanding a huge portion of an EU-wide budget which has shrunk in real terms. With significant annual repayments coming up on existing NEGU debt that further limits the

[5] Science | Business, Oct. 16. It's now or never for EU-wide company status
[6] Euractiv, Oct 19, 28th regime won't be a regulation, Commission document leak suggests
[7] ETUI, Sept 12, 2025, https://www.etui.org/news/28th-regime-proposal-unnecessary-and-harmful-workers-rights
[8] ECF budget estimations range from €409 to €451 billion depending on the inclusion of the Innovation Fund, For more info, see IDDRI's *The European Competitiveness Fund: will it fulfill Europe's clean transition ambitions?*

actual fiscal capacity, the actual MFF budget is closer to 1.15% of the EU's GNI. Furthermore, the additional resources for the ECF are being diverted from cohesion funds. As a result, funding for competitiveness is largely coming at the expense of regional development, undermining both the EU single market and social cohesion.

The ECF's budget largely consolidates existing funding instruments, which makes the headline figure far less impressive. The ECF has set four broad thematic pillars for funding. Each of these four policy windows has an indicative envelope – subject to a 20% flexibility margin set jointly by the Parliament and Council.[9] The ECF's large defence funding envelope comes amid a broader EU push on military industry. In May 2025 the Council adopted the SAFE instrument – a €150 billion loan facility (outside the regular budget) to support joint defence procurement by member states. The draft allocations for the ECF are roughly:

- **Resilience & Security (Defence & Space):** ~€125 billion
- **Health/Biotech/Agriculture/Bioeconomy:** ~€51 billion
- **Clean Transition & Industrial Decarbonisation:** ~€26 billion
- **Digital Leadership:** ~€20 billion

Along with the €26.2 billion designated for the "Clean Transition and Industry Decarbonization" policy window an additional €41.2 billion is proposed to come from the Innovation Fund, bringing the total amount to €67.3 billion. The Clean Industrial Deal also signalled an intention to channel €100 billion through the forthcoming Industrial Decarbonization Bank, financed via the Innovation Fund and supplemented by revenues from parts of the ETS. The purpose of the Clean Transition window is to support industry in adopting decarbonization technologies; promote energy efficiency, renewable and clean energy solutions, and energy system flexibility; and help create lead markets for clean products. However, the €67 billion allocated over seven years falls far short of the well-established climate investment gap, estimated at €406–462 billion per year.[10] The European 2040 Climate Target Plan Impact Assessment further projects that transforming the four most energy-intensive industrial sectors (chemicals, basic metals, non-metallic minerals, and paper) will require €340 billion between 2031 and 2040, and €500 billion between 2025 and 2040.[11] This plan also foresees €23 billion in investment from 2031 to 2040 to meet the Net-Zero Industry Act's goals and expand EU clean manufacturing capacity for wind, solar PV, batteries, heat pumps, and electrolysers. In addition, the energy sector will need an estimated €140 billion in investments for power plants—80% of which would go to renewables—between 2031 and 2050.[12] Current estimates leave a substantial funding shortfall for clean transition, climate action, and decarbonization that the ECF will not be able to fill.

In response, several leading climate and cleantech groups have urged major strengthening of the Clean Transition window, arguing the proposed €26 billion envelope is too small to address Europe's "valley of death" between demonstration and deployment, and calling for a binding budget, fit-for-purpose financial instruments (including a minimum €50 billion InvestEU guarantee, instead of the current €17 billion, and a €10 billion Cleantech Guarantee Facility), and stronger demand-side tools, such as clean procurement and affordable retail finance for households and SMEs.[13]

[9] The ECF Draft Legislation can be found here
[10] 2024 Climate Strategy & Partners Report
[11] EU 2040 Climate Target Impact Assessment
[12] IDDRI, Oct 2025 The European Competitiveness Fund: will it fulfill Europe's clean transition ambitions?
[13] Consortium of clean tech companies, climate organizations, and think tanks, Tuesday December 2nd, 2025 Nine recommendations for the European Competitiveness Fund and Horizon Europe

ECF Structure

The fund would be managed centrally by the European Commission with DG GROW set to have the main responsibility for coordination along with DG RTD.[14] This would put the fund under the primary responsibility of Executive Vice-President Stéphane Séjourné. Within each thematic pillar, operational budgets would be set by EU budget legislation and flexibly reallocated year-to-year via delegated acts. The ECF would absorb many existing programmes – from parts of Horizon Europe and the European Innovation Council to various defence, space, digital, and health programmes – under one rulebook and single application gateway. Other DGs would be involved but with reduced influence, effectively losing direct control over the programmes they previously managed.[15]

Of importance for the green transition, the Innovation Fund, funded by revenue drawn from carbon emission rights in the EU Emission Trading System, would remain separate but function "in coherence" with the ECF. The recent Clean Industrial Deal communications also suggest these funds would be routed directly to the EU to bypass national governments[16] and enable the Innovation Fund to support a new €100 billion Industrial Decarbonisation Bank. The ECF proposal seems to suggest that this new bank will also be placed under the governance structure of the ECF.[17] Finally, the current MFF has a "do no harm principle" and clear spending targets for climate and biodiversity that are absent in the new MFF

Table 1. Consolidation of 14 funding programmes into the ECF[18]

Programme	**Budget (€bn) 2021–27**	**Relationship with ECF**
Horizon Europe (HEU)	86.1	Remains separate but partial coordination by ECF + joint rule book
InvestEU	26.2	Integrated into ECF
European Space Programme (ESP)	14.9	Integrated into ECF
Innovation Fund	8.3	Remains separate but cohere with ECF funding priorities
European Defence Fund (EDF)	8	Integrated into ECF
Digital Europe Programme (DEP)	7.6	Integrated into ECF
LIFE programme	5.4	Integrated into ECF
EU4Health	5.3	Integrated into ECF
Union Secure Connectivity (IRIS2)	2.5 (2023–2027)	Integrated into ECF
Connecting Europe Facility (CEF)	2.1 (digital)	Digital component moved to ECF. The rest remains separate

[14] Naujokaitytė (2025), Science | Business, European Competitiveness Fund to be jointly run by Commission research and industry directorates
[15] Johannes Jarlebring, Swedish Institute for European Policy Studies, September 2025, One Fund to Rule Them All: An analysis of the proposed European Competitiveness Fund
[16] The Association of European Renewable Energy Research Centers, The Clean Industrial Deal
[17] Found Under Section 1 of the ECF Proposal here
[18] Johannes Jarlebring, Swedish Institute for European Policy Studies, September 2025, One Fund to Rule Them All: An analysis of the proposed European Competitiveness Fund

European Defence Industry Programme (EDIP)	1.5 (2025–2027)	Integrated into ECF
Single Market Programme	1 (SME strand)	SME strand moved to ECF. The rest remains separate
Act in Support of Ammunition Production (ASAP)	0.5	Integrated into ECF (probably)
European Defence Industry Reinforcement through Common Procurement Act (EDIRPA)	0.3	Integrated into ECF (probably)

ECF Governance

The ECF's draft structure puts significant power in the hands of the President and Commission. **Ongoing governance of the ECF would have three major components:**

First, the *Competitiveness Coordination Tool (CCT)*, announced in January 2025, would work to align industrial policies and investments across the EU and national levels.

Second, a *Strategic Stakeholder Board* would advise on the direction of the ECF. Board members would be appointed by the Commission, which will also set rules on its composition.

Third, the *InvestEU Instrument* would oversee financial governance of the ECF, continuing to operate with an Advisory Board comprised of one representative from each implementing partner and one from each Member State. The board would advise on the design of financial products, the strategic direction of investments and coordination with the EIC to ensure complementarity with other EU and private sector investments. The board would be chaired by a Commission representative.

Critique: Changes in Work Programmes are Undemocratic

The ECF would make the entire comitology process essentially ceremonial. Most EU funding programmes are implemented through work programmes (WP). As a rule, WPs can be adopted only after review by a committee of member state representatives (so-called comitology) and for some programmes the committee even has the power to block approval of a WP. The ECF draft regulation reverses those rules.[19] The procedure by which a committee could block the commission would be used only in WPs related to space systems, the defence industry, and civil industrial security, and would require an actual negative opinion to be issued by the committee.

The proposed ECF regulation simultaneously gives the Commission much greater freedom to pick investments with less member state control than before. Changes include:

- External experts in evaluation committees of the ECF are now, by default, excluded.
- Including external experts for research and innovation specifically will rest with Commission officials not the evaluation committee.
- The requirement that that the InvestEU Investment Committee be "fully independent" has dropped. Instead, the draft the Commission is tasked with detailed rules on the committee's composition, procedures, remuneration, conflicts of interest and confidentiality.

[19] See section 3.1: Johannes Jarlebring, Swedish Institute for European Policy Studies, September 2025, One Fund to Rule Them All: An analysis of the proposed European Competitiveness Fund

- In parallel with reducing member states' control over WPs, the ECF appears to push for stronger direct consultation with stakeholders. This appears to be a commission move that politically balances reduced member state oversight over work programmes with greater stakeholder input.

Critique: Avoiding A One-Size-Fits-All Approach to Industrial Policy

While many have pointed out that increased EU centralization is needed to solve major cross-border grid, telecom, and finance issues, this draft legislation may signal von der Leyen's decreased willingness to engage in a robust, democratic process. This is a worrying sign for the European Parliament, which should be demanding increased transparency and engagement when it comes to the EU budget. In addition, when managing industrial policy across such a diverse range of geographies, governments, and sectors, more centralized power in the hands of the commission could create a democratic deficit. In fact, we know decentralized industrial policy experimentation and active management at the national level, as seen in Denmark or France[20], strengthens both our democracy and economy. State action is legitimized through formal, accountable decision-making, while the EU drives national, regional, and local actors towards the agreed upon macro goal by fostering innovation and bottom-up solutions, all in an agreed upon timeframe. Instead of dictating a one size fits all approach, this allows for experimentation and sharing of innovative solutions between actors when it comes to tackling the grand challenges for which no easy answers exist.

ECF Funding Logic

The ECF is designed to de-risk private finance while also leveraging public funds at the highest possible ratio, using the full array of monetary policy levers to deliver the greatest return per euro. Although the ECF offers public procurement and grants financed directly through the EU budget, the EU's budget guarantee facility would also be deployed with a much larger envelope (up to €70 billion, triple today's level). Many actions (mostly research and innovation projects) would still receive direct grants, but the ECF would expand the budget guarantee process – currently used by the InvestEU programme – to offer loans, guarantees, and importantly, equity. Member states will also be able to channel additional cohesion or national funds into ECF projects using a new "Competitiveness Seal", intended to mobilise even more matching public and private investment for high quality applications.

Like InvestEU, the ECF would channel its financial products through a network of intermediaries, notably the EIB Group (EIB, EIF), national promotional banks (e.g. KfW, Bpifrance) and international financial institutions. By derogation, any eligible public or private entity with proper governance could be entrusted with these funding instruments if given financial guarantees. In practice, this means the EIB & EIF remain central co-investors (as under InvestEU) and tap other financial intermediaries, funds or special vehicles to reach portfolio investment targets.

Critique: The ECF Funding Process is Undemocratic and Overly Benefits Private Capital

InvestEU functions as a risk-sharing mechanism designed to attract private capital into areas the EU considers strategically important. By backing investments with an EU budget guarantee — currently set at €26.2 billion — the programme aims to give investors the confidence to commit to projects they might otherwise consider too uncertain. Essentially, this credible public guarantee protecting a certain portion

[20] See Green Indicative Planning for more info on Denmark's energy-system transformation, weaving together multi-year plans by the Danish Energy Agency with municipal and regional participation and political legitimization through legislation; as well as France's post-war indicative planning involving the Finance Ministry, High Planning Council (with trade union membership), Planning Commissariat (with sectoral divisions), and deliberation by a corporatist body with two hundred representatives of various interest groups.

of private capital lowers the perceived risk, unlocking investment that would not otherwise materialise. The European Commission projects that this guarantee could ultimately leverage at least €372 billion in total investment across the bloc.

This arrangement was co-shaped by the financial sector, including InvestEurope, the world's largest association of private capital providers that include private equity, venture capital, and infrastructure investment funds.[21] In fact the Commission has set up multiple structured dialogues with the financial industry using these spaces today in order to, in their words, "de-risk energy efficiency financing and make private investments more attractive."[22]

Providing public guarantees on so-called risky loans while simultaneously rating the underlying portfolio as Triple A is a contradiction. When the state assumes investment risk on behalf of private actors, it can distort the incentives that should govern capital allocation. Investors who know a portion of their downside is covered by a public guarantee have reason to exaggerate both the riskiness of a project and its anticipated returns. Doing so maximises the share of their capital that falls under public protection, effectively shifting more of the burden onto the public purse.

The investment evaluation process under the ECF is likely to remain just as untransparent, undemocratic, and skewed towards the interest of private capital, as it has with the current InvestEU program. Companies seeking funding approach the financial intermediaries, who negotiate the % of risk coverage with the EIB Group and Commission, and the InvestEU Investment Committee makes final decisions. The financial intermediaries sometimes negotiate public guarantees that may cover up to 80 per cent of their losses[23], effectively using public money to cushion private risk.[24] These intermediaries function as gatekeepers over public capital, selecting which companies or projects receive financing. A European Court of Auditors' Special Report in 2025 found a "lack of systematic data on the actual benefits passed on to final recipients," of InvestEU-linked funds.[25]

The risk guarantees, which are tripled in size under the new ECF, are adopted through Council regulations that exclude the European Parliament. Currently, individual MEPs must proactively request access to risk guarantee contracts made between companies or investors, and even then, they only gain access to censored versions due to so-called "commercial confidentiality" considerations.[26]

There are also concerns that the ECF's "excellence criteria" overemphasise new industries and sectors when we also need to be defending existing industries in all regions. It is particularly important for the ECF to maintain regional cohesion criteria if state aids remain the main vehicle to provide public finance, especially with the dissolution of Just Transition Funding and the folding up of cohesion funds into new national and regional partnerships. Otherwise, ECF could exacerbate regional fragmentation and investment-capacity differences between member states. Moreover, Member States can potentially transfer portions of their cohesion allocations into ECF projects. This could again indirectly benefit larger countries who rely less on cohesion funds and could therefore spend more on ECF-related investments, gaining an unfair advantage over smaller states still reliant on regional funds. As recently as October, several 'periphery' member states (Portugal, Czech) were lobbying the commission to accept amendments

[21] Angela Wigger, SOMO, 18 August 2025, Behind InvestEU's Trojan Logic
[22] European Commission: Energy, Climate change, Environment Unit, De-Risking Investments
[23] OECD, 2025, InvestEU Sustainability Guarantee Programme in the European Union
[24] Angela Wigger, SOMO, 18 August 2025, Behind InvestEU's Trojan Logic
[25] EGOV, European Parliament, April 2025, InvestEU Programme: functioning, performance and future challenges
[26] Angela Wigger, SOMO, 18 August 2025, Behind InvestEU's Trojan Logic

that would widen the eligibility criteria for ECF funds beyond the 'excellence criteria' to include geographical considerations while 'core' countries (Germany, Sweden) voiced strong opposition.[27]

Critique: The ECF Doesn't Fund our Future (no basic research funding)

The ECF as written cannot legally fund research and innovation activities, and therefore none of the anticipated €220 billion in direct ECF funding for the 4 policy windows could be used for R&I. Large parts of Horizon Europe's funding (roughly €68 billion) would instead be programmed directly by the ECF for research-and-innovation under each theme, with the ECF funds focusing exclusively on deployment. The European Innovation Council would likewise invest in start-ups "in close synergy" with ECF priorities.

If the ECF budget does not contribute to R&I, and particularly to basic research, only the European Research Council (ERC) would explicitly fund fundamental research at the EU level. Europe would therefore have a guaranteed basic research budget of just €31.5 billion (less than 10% of the proposed funds), plus minor contributions from a few other funding sources.[28] This amount – roughly €4.5 billion per year — is a fraction of what the USA and China invest in fundamental research, and would only serve to widen the gap between Europe and its global competitors regarding the next generation of breakthrough technologies.

European investors seem obsessed with the EU's inability to foster 'unicorns.' However, the next era of 'unicorn' companies will come through major breakthroughs in frontier technologies, not by using funds to deploy existing technology. Funding for basic research requires a long-term, experimental mindset rather than a short-term profit incentive mindset. Instead, the ECF draft is skewed towards making more public money available for private investment with no strings attached instead. To solve this problem, the EU must reconsider the size and distribution of the Horizon Europe budget or transfer ECF funds to Horizon Europe, since the ECF cannot legally fund R&I.

In a good sign, Christian Ehler the new lead rapporteur for Horizon Europe and co-rapporteur for ECF, has signalled that the programme's research objectives should not be co-opted by industrial policy or competitiveness goals. On top of that, leading R&I universities and networks across Europe are calling for the next Horizon Europe programme (also known as FP10) to have fundamental legal autonomy from the ECF, while also strengthening the autonomy of the ERC Scientific Council and EIC Boards.[29]

Conclusion: The Competitiveness Agenda Reigns

As of late 2025, the competitiveness agenda has fully arrived via the form of a major regulatory rollback. In early 2025 the Commission announced an "Omnibus" package that waters down the planned Corporate Sustainability Reporting Directive (CSRD) and Due Diligence Directive (CSDDD). The Commission explicitly framed these changes as needed to "boost competitiveness", "ease regulatory burden" and "unlock investment." While regulatory fragmentation is a justifiable issue highlighted by the EIC, the Omnibus does not address this issue at all, using 'competition' as a red herring. Removing regulation is not harmonizing regulation. The much more needed reform, as competition authorities have noted, is lifting the many barriers which fragment the Single Market in key sectors like telecom, energy or financial services.

The Omnibus is also a retreat from social and environmental goals. Loosening ESG rules will undermine corporate accountability, push violations farther down the supply chain (which incentivizes other harmful economic practices like subcontracting and shield the largest employers) and create a two-tier system of regulation. The ECF would then be poised to supercharge the companies and private investors who stand to gain the most from this loosening of regulation and have the resources to navigate the application

[27] Science | Business Oct, 23 2025, EU countries divided over geographical rules in Competitiveness Fund
[28] Kurt Deketelaere, LERU (September 2025) The alarm bells are ringing for EU basic research funding
[29] LERU Joint Letter, December 1 2025, Cover note Joint amendments to the FP10 legal texts

process. On top of this, the business lobby has also called to reverse the planned cut to industries' free pollution permits next year, and to reform competition rules to allow more mergers by considering them in the context of the global market. Again, there is no data to support the idea that a broad merger-friendly environment creates stronger competition.

Competitiveness must not become code for "race to the bottom" on wages or rights. A pure focus on private-sector leverage and deregulation will spell disaster for Europe's workers and environment. Instead, investment must be tied to social conditionalities. Public funding should only go to companies that guarantee quality, unionized jobs, respect collective bargaining and fair wages. Strategic funds should include ESG safeguards and full transparency (for both the European Council/Parliament and civil society/trade unions), and the EU must attach meaningful conditions to its investment – in job quality, collective bargaining and sustainability – while preserving democratic control and accountability.

Any centralized fund also cannot come at the expense of regional cohesion and therefore we must reject a "winner-takes-all" model focused solely on 'picking winners'. All regions need support for a just green & digital transition. Industrial policy should instead be about mobilizing a coalition of the willing, i.e. those motivated to solve the grand challenges facing society, not just those who offer the best value for money.

Finally, innovation should be driven by strong, patient, and long-term public investment, not just corporate profits. The ECF's crowding-in logic currently overstates the role of markets and price signals in achieving key public policy goals like the green transition, while neglecting to incorporate fundamental social, environmental and health outcomes into its decision-making process.

4. PRO-WORKER RECCOMENDATIONS FOR EU INNOVATION POLICY

If we want to ensure a future Europe that delivers social prosperity, we need to propose an alternative for EU innovation policy centered around public purpose and democratic governance. Key proposals towards that end include:

Adopt A Place-Based Industrial Strategy.

EU policy must explicitly target regional and local development, coupling innovation with cohesion investment. ECF funds should not be awarded simply on merit criteria, which will exacerbate regional differences and ultimately weaken the EU's political legitimacy.

Industrial policy can have major political ramifications, helping to strengthen or weaken or democracies. In a sophisticated study, Rodríguez-Pose and colleagues (2024) found that European regions stuck in "development traps" - where the area suffers from long-term underperformance on income, productivity, and employment compared to national and European peers were more likely to support Eurosceptic populist parties.[30]

In practice, this could mean dedicating ECF, Horizon Europe and structural funds jointly to target funds to build R&D capacity in lagging regions, supporting local technology clusters and skill development. Complementary measures include decentralising decision-making and enhancing regional innovation agencies so that these regions have the capacity to capitalize on EU-level funds.

[30] Rodríguez-Pose A, Dijkstra L, Poelman H (2024) The geography of EU discontent and the regional development trap. *Economic Geography* 100(3): 213–245.

Invest in Public Services to Strengthen Innovative Capacity

Funding of public services is often framed as a cost rather than an investment. This reflects a deep **bifurcation in policy logics of innovation:** socio-technical systems, such as energy and mobility, are targeted with large, investment-driven missions—think the Green Deal or digital transformation—while public services are subjected to managerial reforms, efficiency drives, and austerity measures. The result is a "dual regime": experimentation in technical domains, stagnation in social domains.

This is a profound misreading of what public services are. They are not consumption items, nor mere safety nets. They are **infrastructures of human capability.** Schools, hospitals, and care systems shape whether societies can adapt to technological change, build resilience against crises, and ensure inclusive growth. Without strong public services, no green transition, digital revolution, or productivity surge will take hold.

Highlight the Role of Social Innovation in Industrial Policy

Social Innovation is the process in which new ideas both meet social needs and build the capacity of society. Examples of social innovation processes include co-creation with community, tripartite dialogues, and place-based polices. For instance, evidence shows workplace innovation is strengthened through worker representation and input, especially in places where there is a high union density.

Therefore, social innovation as a practice should be embedded across industrial policy. **We need to double down on the vision for industrial transformation created by Industry 5.0 that goes beyond productivity to put people and planet at the centre of how industry innovates, including through concrete measurements of human-centricity, sustainability, and resilience.** In practice, this means re-designing technologies, workplaces, business models and value chains so they protect worker wellbeing, respect planetary boundaries and can absorb shocks.

However, the output of Industry 5.0 (reports, policy recommendations, etc.) has slowed (one report published on the website in the last 2 years) and it has become overshadowed by the competitiveness debate. Therefore:

- All innovation funding calls should be aligned to the Industry 5.0 principles
- Industry 5.0 should be given the remit and funds to provide challenge grants, creating a policy sandbox where innovative organizations are incentivized to solve complex social challenges.
- This should be matched with increase support to the community of practice to diffuse learnings from the challenge grants as well from the discussions themselves through increasing networked relationships with national innovation agencies, universities, and civic orgs.

Rebalance Funding Tools and Impose Strong Conditionalities.

As a first principle, the EU should demand a share in value when it funds innovation, and to do that EU financing needs to shift from passive guarantees toward active public investment and accountability. For too long, the EU has socialized risks and privatized rewards. Instead of predominantly "crowding in" capital, public funds should act as a co-investor, providing equity with strings attached.

We know that successful industrial upgrading in countries like South Korea, Malaysia, or China depends on the capacity to create state mechanisms that can discipline corporate behaviour. Getting conditionalities right – whether this be in tax policies, subsidy regimes, or public procurement contracts – is essential for shifting corporate behaviour, and could include:

- Requirements for funding could include **making subsidies conditional on technology transfers, agreeing to social outcomes or environmental criteria, firm-level managerial practices,** and **meeting sectoral or national industrial goals.**
- Measurable examples of a shift in corporate behaviour include **creating new directionality (measured through business investment decisions and levels), ensuring access to knowledge & technology, public/private profit-sharing or joint-ventures, and demanding reinvestment when future gains are realized.**
- Concretely, corporate recipients could even be asked to **meet export targets, local content requirements, debt-equity ratio ceilings, national ownership floors, operating scale minima, investment time-table obligations, regional location criteria, and product quality specifications and environmental rules.**
- If corporate beneficiaries failed to meet these conditions, the EU would need to have certain clawback mechanisms.

Embed Democracy and Social Dialogue in Innovation Governance

Technology policy must be transparently governed with citizens, workers and unions involved at every stage. The example of the EU's Digital Rights Declaration (which mandates consultation with social partners) illustrates how governance can be opened up. In policy terms, this means expanding platforms like the European social dialogue in R&I and requiring public oversight bodies for major investment projects.

By contrast, current practice often sidelines Parliaments and civil society in favour of financial intermediaries. More broadly, social partners (trade unions, civil society and public employers) should shape our innovation priorities:

- For instance, the current funding envelopes of the ECF, with heavy emphasis on defence spending, are not a reflection of social partners' priorities.
- As another example, as the EU now has rules protecting workers from algorithmic management, and this should be a binding clause for partners receiving funds through the ECF's digital leadership pillar.

Currently much of the decision-making process behind EU investments into innovation and large-scale decarbonization happen behind closed doors. Too often, by the time an investment project case reaches an EWC, it is too late, as companies have already decided to shift production or cut jobs without consulting with the affected workers. Tripartism is a cornerstone of EU governance and needs to be a represented at all stages of government, from social dialogues to Invest EU's Advisory Board and ECF's proposed Strategic Stakeholder Board, including direct involvement with trade unions.

Deepening democracy in innovation governance puts Europe on the path towards enabling create public ownership over our future economy. The twin transition needs to be publicly managed. A central fight should be for European public digital infrastructure rather than leaving everything – from ownership over the technological stack to planning of the energy transition – to big tech firms. In a future world this struggle would extend to pushing for publicly owned LLMs, data centres, clean-energy and battery manufacturing facilities, and more.