



Industrial policy in the European Union: Towards a forward-looking agenda

Key Points

- **Complex mission:** The EU's industrial policy faces the challenge of executing the twin (green and digital) transformation.
- **Outdated foundations:** It still depends on fragmented national structures and an outdated budget system, neither of which are fit for such an ambitious goal.
- **Need for institutional reform:** Significant institutional change is required to coordinate and govern the transformation effectively.
- **Collective funding mechanism:** A new shared financing model is essential, whereby resources are pooled instead of relying solely on national budgets.
- **Governance and coordination** are needed to steer policy, ensure alignment, and avoid duplication or fragmentation.
- **Risks without reform:** Without governance and funding reforms, progress will be slow, uneven, and vulnerable to both external competition and internal mistrust.
- **Social legitimacy:** Building public trust and social legitimacy is essential for the long-term success of such a collective European mission.

Background

The climate crisis, the digital revolution ('the twin transformation') and growing geopolitical rivalries (such as those between the US and China) are forcing industrial policy powerfully onto the EU agenda. The current debate centres on whether the EU is pursuing a narrow, defensive industrial policy focused mainly on competitiveness and security, which could result in the dilution of green and social objectives, or whether it will embrace a

more forward-looking, mission-oriented and inclusive approach.

Europe is facing major challenges in shaping its industrial policy, including external dependencies in the fields of energy, raw materials and digital technologies, labour-market hurdles to a just and green transition, institutional fragmentation, and a significant investment gap.

A forward-looking agenda requires accelerating the twin transformation by empowering workers and citizens, closing the funding gap through EU-level investment tools and strengthening governance with social conditionalities to ensure the fair distribution of benefits and burdens. At this pivotal moment, Europe has the opportunity to forge a distinct model of industrial policy rooted in democracy, sustainability, and inclusion.

Main Findings

1. The necessity and direction of industrial policy

Industrial policy has returned forcefully to the EU agenda, driven by the climate emergency, the digital revolution, geopolitical rivalries, and the war in Ukraine. The prevailing view that the state should merely fix market failures is no longer tenable. Instead, the state must act as an active shaper and co-creator of markets.

A crucial finding is that the EU stands at a crossroads: it must choose between a narrow, defensive industrial policy focused primarily on competitiveness and security, which risks entrenching incumbents and exacerbating inequalities, or a forward-looking, mission-oriented industrial policy designed to accelerate the green and digital transitions while distributing benefits fairly. Current initiatives risk being fundamentally reconfigured, prioritizing security and competitiveness objectives over social and environmental agendas.

A forward-looking agenda requires four core priorities:

1. Doubling down on missions (ambitious, measurable goals) to galvanize innovation.
2. Strengthening public sector capabilities so that its institutions can function as co-creators of markets.
3. Aligning fiscal and monetary finance to support long-term investment.
4. Invest in people and their minds to build the qualifications, skills and competencies needed for the digital and green future.

2. External dependencies and vulnerabilities

Europe's resilience hinges on how it tackles the connected challenges of energy security, resource access, and technological autonomy. Reducing fossil fuel dependence is crucial for climate stability and sovereignty, yet progress remains uneven. Similarly, Europe's push for critical raw materials risks reproducing extractive patterns instead of building fair global partnerships. Falling behind in R&D and digital technologies further weakens its position.

The EU faces critical external dependencies in three main domains:

- **Energy:** Reducing dependence on fossil fuels is vital for fighting climate change, preventing inflationary shocks, and regaining economic sovereignty. Progress remains slow. The green transition risks deepening internal divides as vulnerable countries often lack the technological capabilities and fiscal capacity needed for restructuring. Furthermore, decarbonization risks replacing old dependencies (oil/gas) with new dependencies on foreign suppliers, particularly China, for clean technologies like solar panels and lithium batteries.
- **Critical raw materials (CRMs):** Demand for minerals essential to the twin transformation is expected to increase many times over. While the 2024 Critical Raw Materials Act (CRMA) sets targets, the EU will remain highly import-dependent. The EU's strategy must move beyond extractive relationships towards equitable global partnerships, particularly with the Global South, to ensure fair and sustainable access.
- **Technological sovereignty:** The EU is falling behind the US and China in R&D investment, especially in the business sector. It lacks a comparative advantage in any of the key digital technologies. Technological dependency, particularly on foreign digital technologies (like AI, semiconductors, and cloud computing), constitutes a significant structural vulnerability.

Building technological sovereignty requires robust, targeted industrial policies and enhancing strategic intelligence capabilities, potentially through a new organisational unit, such as a Department for Technological Sovereignty (DTS).

3. Employment, social and governance challenges

Europe's green industrial transition faces a pivotal moment. Despite ambitious decarbonization goals, structural weaknesses, from uneven job creation and social inequality to fragmented governance and sluggish innovation, threaten progress. Slow implementation and weak social safeguards risk widening divides, while the Just Transition Fund and innovation agencies struggle to deliver transformative impact. To ensure both competitiveness and fairness, Europe must adopt a coherent, socially anchored, and mission-oriented industrial policy for the post-carbon future.

- **Green jobs crisis:** The major employment risk is slow decarbonization, which threatens that new, low-carbon industrial jobs will be created outside Europe. Job creation in key clean technology sectors has been muted and uneven, with some sectors experiencing job losses between 2017 and 2022. For instance, only seven per cent of EU solar jobs are in manufacturing, compared to two-thirds in China.
- **Skills agenda:** Developing skills, education, and training is essential for creating quality jobs and improving lives. A strong education and training system provides the foundation for a well-qualified workforce and serves as a driver of new ideas and innovation. Strengthening skills in science, technology, engineering, and mathematics (STEM), promoting STEM careers, attracting more women into these fields, and preparing people at all qualification levels for the digital and green transitions are crucial steps for successful transformation.
- **Just Transition Fund (JTF):** The JTF, designed to mitigate social inequalities, is hampered by slow implementation, significant gaps in institutional capacity across regions, and a lack of coherent long-term strategies for post-carbon economies. There is concern that the fund's transformative potential is weakened and that its resources may be diverted to new geopolitical priorities.
- **Governance and legitimacy:** For long-term success, industrial policy must secure democratic legitimacy by integrating the interests of all stakeholders, including workers and civil society. The current EU policy setup suffers from major deficits in strategic outlook, coordination, and implementation capacity.

- **Social conditionalities:** A key finding is that the implicit social contract underlying public subsidies is often violated. Social conditionalities (such as mandates for collective bargaining, profit sharing, or technology transfer) are essential for guaranteeing the public purpose of financial transfers and securing input legitimacy.
 - **Innovation agencies:** EU innovation agencies need radical reform to move beyond fragmentation and bureaucratic processes. In order to successfully implement mission-oriented innovation, they must develop dynamic capabilities – the organisational ability to anticipate, shape and adapt to technological change.
2. Implementing **forward-looking European taxation including adequate EU-own resources** (e.g., on financial transactions).
 3. Leveraging **European development banks** (such as the EIB) to provide credit creation and take equity stakes in technology start-ups.

The **new EU fiscal rules**, enacted in April 2024, prioritise fiscal prudence, which will exert downward pressure on public investment in the green and digital agendas, especially given the temporary exemption for increased defence spending. Options to expand fiscal space under these rules include modifying technical assumptions in the Debt Sustainability Analysis (DSA), expanding national co-financing of EU programs, and establishing a dedicated EU investment fund.

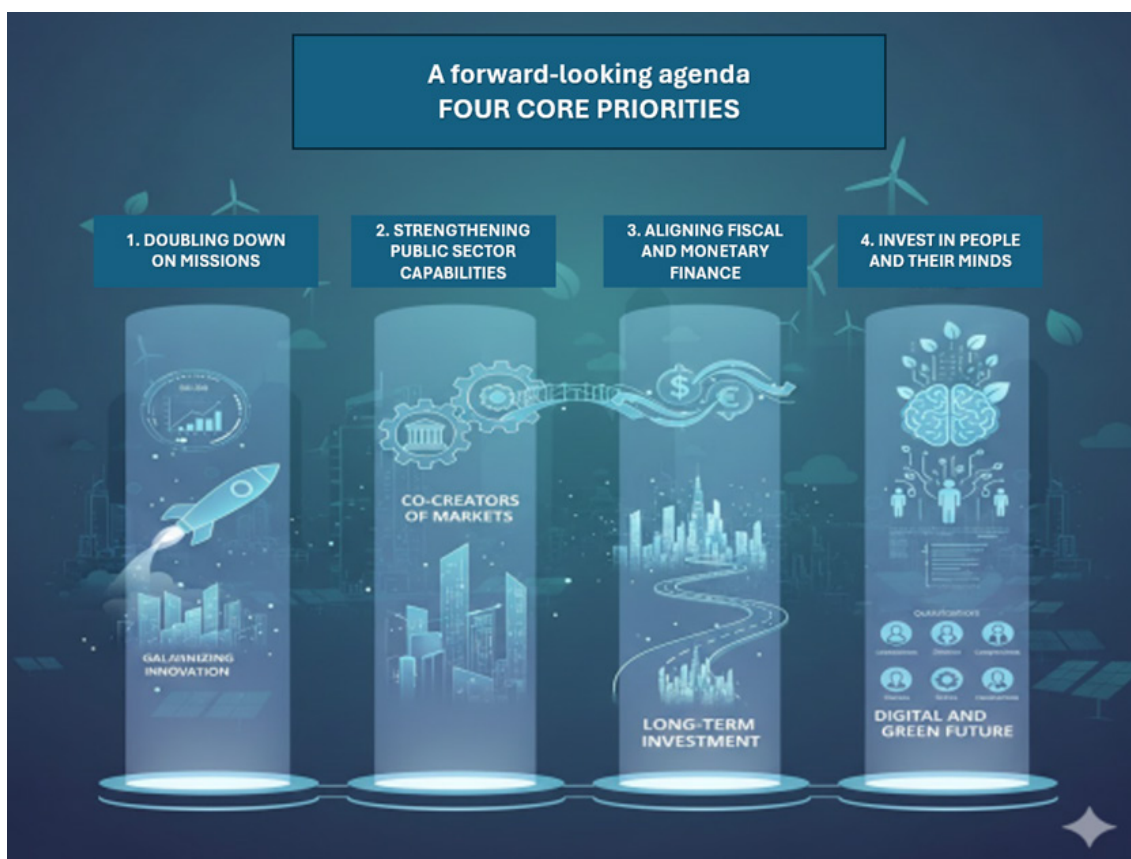
4. Funding challenges

The twin transformation faces a **massive investment funding gap**, estimated to require an additional €180–400 billion per annum. Policymakers relying on “de-risking” private investment through guarantees have failed to close this deficit.

Finally, the **European Central Bank (ECB)** must further integrate the EU’s sustainable finance framework, including the EU Taxonomy and Green Bond Standard, into its operations to enhance policy coherence, support financial stability, and align capital flows with the Paris Agreement.

Solutions to close the gap include:

1. Creating a **permanent EU investment fund**, such as a Sovereignty Fund.



Demands

- **Close the funding gap:** Create a permanent EU investment fund of around one per cent of GDP over ten years, to address the investment shortfall. Leverage development banks and align the ECB's monetary policy with sustainability goals through tools such as green targeted longer-term refinancing operations (TLTROs) and greener collateral frameworks.
- **Skills agenda:** Strengthening education, training, and lifelong learning is key to creating quality jobs and fostering innovation. Developing STEM skills, encouraging STEM careers (especially for women) and preparing workers of all qualifications are all vital for the digital and green transformations.
- **Implement strong social conditionalities:** Tie public funding to clear social obligations – fair profit sharing, reinvestment in R&D and worker training, collective bargaining, decent wages, and limits on excessive shareholder payouts.
- **Enhance public sector capacity and governance:** Build dynamic public capabilities to anticipate change, coordinate effectively, and foster innovation. Reform agencies to better address major societal challenges.
- **Accelerate the twin transformation:** Launch ambitious, measurable missions to drive investment in renewables, energy efficiency, rail, and public digital infrastructure for greater sustainability and digital sovereignty.
- **Strengthen democratic participation:** Ensure citizens and workers actively shape transformation strategies through national and EU Twin Transformation Councils, make the Just Transition Mechanism permanent to support affected workers and regions and invest in education and training.
- **Forge equitable global partnerships:** Shift from extractive relations toward fair partnerships, especially with the Global South, promoting high ESG standards, technology transfer, and equitable benefit-sharing to align industrial policy with people and planet.
- **Strategic use of public procurement:** Strategic public procurement helps to create demand and lead markets ("Made in Europe"). We call for an application of non-price-related social and environmental criteria in the awarding of contracts.
- **Targeted research and development:** In order to catch up with the innovation leaders, we call for a focus on societal missions in the R&D system and on key enabling technologies.
- **Bring down energy prices:** High energy prices are a burden on the economy and society. Structural solutions are needed. There has to be a rapid expansion of renewable energies, a fair distribution of costs among all stakeholders and an increased investment in European grid infrastructures which should be addressed by the MFF 2028-2034.

Literature

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Authors

Michael Soder
michael.soder@akwien.at

Peter Hilpold
peter.hilpold@akwien.at

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AK EUROPA

The Austrian Federal Chamber of Labour (AK) is the legal body which represents the interests of approximately 4 million employees and consumers in Austria. It represents its members on all social, educational, economic and consumer policy-related issues at a national level and in Brussels at an EU level.