

Designing the European Competitiveness Fund for lasting impact

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Introduction

Competitiveness has risen to the top of the EU's policy agenda in recent years, with the Draghi report providing the most systematic diagnosis of Europe's structural economic weaknesses and investment shortfalls vis-à-vis its major global competitors.¹ The European Competitiveness Fund (ECF), proposed by the European Commission in July 2025 as the centrepiece of the 2028–2034 Multiannual Financial Framework (MFF), is one of the EU's main industrial policy responses. The proposal is currently tabled in the European Parliament, in which the Committee on Industry, Research and Energy (ITRE) is responsible for producing a final parliament position.

Negotiations between co-legislators are expected to last throughout 2026 and 2027, with a prospective adoption of the regulation before the MFF 2028–2034 period. With a proposed overall allocation of €234 billion, the ECF would consolidate 14 existing funding programmes into a single framework structured around four policy windows covering research and innovation, clean transition and industrial decarbonisation, resilience and security, and digital leadership.² A further €68 billion of Horizon Europe's overall €175-billion budget will be jointly managed, and aligned with the ECF's priorities; however, it remains legally distinct. The combined budgets of the ECF and Horizon Europe sum to €409 billion, 21% of the next MFF.

Whether the ECF will genuinely advance lasting competitiveness, however, depends on how it is designed. The industries and technologies around which global markets will be organised over the coming decades are increasingly clean,³ meaning that building European industrial leadership in clean energy, sustainable manufacturing and related sectors is not a peripheral concern but a condition for durable competitiveness. The current political climate in the EU, however, risks prioritising short-term cost reduction over the technology leadership and innovation needed to secure that position – a tendency that, if reflected in the ECF's design, would undermine the fund's own stated objectives. The European Commission's own Competitiveness Compass explicitly recognises that decarbonisation and competitiveness are mutually reinforcing rather than competing goals.⁴ This paper analyses five levers on three different levels (strategic, technical and financial) to align the ECF with the broader goals of Europe's clean transition.

The strategic level

Before technical or financial questions can be meaningfully resolved, two prior questions must be answered: what sort of competitiveness the fund is actually meant to build, and according to what strategic logic its investments will be directed. Without clear answers embedded in or linked to the regulation, the ECF risks becoming a large but directionless instrument, responsive to political pressure rather than oriented toward a coherent vision of where European industrial leadership can and should be built. This chapter examines two levers at the strategic level: the definition of competitiveness enshrined in the regulation, and the governance architecture that links ECF spending to a broader European industrial strategy.

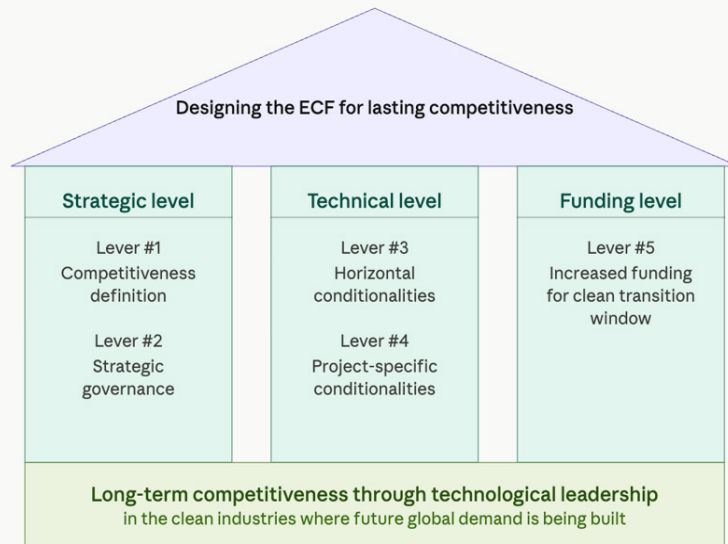
¹ Mario Draghi, *The Future of European Competitiveness*, September 2024.

² European Commission, *Proposal for a Regulation establishing the European Competitiveness Fund*, COM(2025) 555, 16 July 2025.

³ International Energy Agency, *World Energy Outlook 2024*, 16 October 2024.

⁴ European Commission, *A Competitiveness Compass for the EU*, COM(2025) 30, 29 January 2025.

Figure 1: Overview of the five presented levers for designing the ECF for lasting impact



Source and design: Authors.

Lever #1: Defining competitiveness in the ECF

The European Commission's original proposal for establishing the ECF contains no definition of competitiveness. A definition would do more than resolve conceptual ambiguity about what the fund is meant to achieve. It would also provide a legal and political anchor, shaping which activities qualify for support and against what standards performance is ultimately assessed.

Recognising this gap, the ITRE committee's draft report on the ECF seeks to insert a definition of competitiveness into the ECF regulation. Its definition centres on the ability of European companies to compete in global markets, emphasising cost factors such as lower energy prices and ease of doing business.⁵

This definition, however, leaves room for conceptual improvement. When defining competitiveness, it is crucial to distinguish between short-term cost competitiveness (concerned with reducing the price of inputs for existing production models) and long-term technological competitiveness. The latter is about building leadership in the sectors and technologies around which future global markets will be organised, with a lot of the demand being for 'green' technologies, driven by both physical realities of climate change⁶ and decarbonisation commitments across major trading partners. The global market for key clean energy technologies, such as solar photovoltaics, wind and electric vehicles, has grown nearly fourfold between 2015 and 2023, and is projected to nearly double from current levels before 2035.⁷ Europe already has a significant presence in the global cleantech market, a comparative advantage that can be built upon to secure long-term competitiveness.⁸

A similar approach must be taken to security and resilience ambitions, which the ECF explicitly covers with half its budget. While present debates are often focused on a quick build-up of military capacity, the long-term improvement of societal and economic resilience must not be neglected. Such resilience building largely overlaps with pre-existing decarbonisation and sustainability ambitions. Measures aimed at building capable decentralised energy grids, improved recycling of critical materials, upgrading of rail infrastructure and protection against ecosystem collapse through improved biodiversity create crucial positive environmental and security outcomes.⁹

For a fund operating over a seven-year horizon and explicitly designed to drive structural transformation, long-term competitiveness should take precedence. That long-term orientation is, in fact, already embedded in the ECF's own structure: the inclusion of €175 billion of Horizon Europe funding reflects a recognition that sustained technological leadership, not just cost reduction, is central to the competitiveness the ECF is meant to build.

⁵ European Parliament, Draft Report on the proposal for a regulation establishing the European Competitiveness Fund, co-rapporteurs Christian Ehler and Dan Nica, 20 April 2026 (PE786.xxx);

European Commission, Proposal for a Regulation establishing the European Competitiveness Fund, COM(2025) 555, 16 July 2025.

⁶ Swiss Re Institute, The economics of climate change: no action not an option, April 2021.

⁷ International Energy Agency, World Energy Outlook 2024, 16 October 2024.

⁸ Springford and Tordoir, Europe can withstand American and Chinese subsidies for green tech, June 2023.

⁹ Marks & Arnold, Sustainability for Resilience How to Deliver NATO's 1.5% Resilience and Security Investment Target, March 2026.

Lever #2: Strategic governance of the ECF

One of the central lessons of successful industrial policy is that directing public investment effectively requires a prior view of where long-term competitive advantage can be built. Without a clear long-term industrial strategy to which ECF investment priorities are coupled, the fund risks becoming a reactive instrument, dispersing support across whichever sectors generate the strongest political pressure in any given budget cycle rather than systematically building European leadership in the industries and technologies of the future.

A credible European industrial strategy would identify and prioritise the sectors where European investment can generate genuine long-term competitive advantage,¹⁰ many of which – clean energy, sustainable mobility and circular manufacturing – are precisely the green industries where global demand is growing fastest.¹¹ Coupling ECF disbursement to such a strategy would provide a structural mechanism for channelling support towards them.

The Competitiveness Coordination Tool, announced in January 2025, was conceived to serve this function, yet its repeated delays and the continuing uncertainty surrounding its scope render the absence of a strategic framework within the ECF itself all the more consequential.

The technical level (conditionalities)

The ECF will be one of the defining frameworks for European (green) industrial policy in the coming years. Being implemented mainly via (financial) support to the private sector, it is crucial to put in place effective conditionalities that ensure a reciprocal deal between the public and private sector¹² to achieve public objectives such as decarbonisation and environmental protection.

Horizontal conditionalities that apply across the whole ECF should ensure that even measures outside the dedicated Clean Transition and Industrial Decarbonisation window are held to necessary environmental standards and are in line with the EU's decarbonisation commitments. Project-specific conditionalities, determined at the level of work programmes, must be ambitious and ensure that environmental and decarbonisation commitments are actually achieved.

Lever #3: Horizontal conditionalities

The ECF's conditionality design reflects the strategic shift towards security considerations as the driving political force and the lack of a green angle for the EU's vision of competitiveness. The proposal establishes a framework on EU preferences (Art. 10) that applies across the whole fund but contains no climate-relevant horizontal conditionalities. From the parliament's side, the ITRE committee's current draft report¹³ does not propose any changes to this situation. However, the opinion of the Committee on Environment, Climate and Food Safety (ENVI) does suggest relevant changes to the horizontal eligibility criteria (Art. 9).

First, explicitly making activities in violation of the Do No Significant Harm (DNSH) principle ineligible for support, including compliance breaches during ongoing multi-step support. Second, introducing the requirement for award criteria to consider decarbonisation and environmental qualities of a proposal 'where relevant and appropriate'.¹⁴ The ITRE and ENVI documents also point to the crucial contest over the interpretation of resilience.

The ITRE report suggests outright replacing the objective of resilience in the ECF window 'Resilience and Security, Defence, Industry and Space' with 'support for Critical Raw Materials policy'. The ENVI opinion, in contrast, seeks to expand the definition of the resilience objective to explicitly include 'green transition, resource efficiency, remanufacturing, [and] circularity'. Recognising this dimension of resilience will be crucial to secure any environmental ambition for the projects under the largest (€125.2 billion) ECF window.

Climate mainstreaming and the performance regulation

Despite the absence of direct green conditionalities, the ECF, like the whole MFF, is still subject to the climate mainstreaming targets and methodology established by the Performance Regulation, as well as the DNSH principle.

¹⁰ Bertram et al. (2024), A unified industrial strategy for the EU. Industrial Policy Recommendations to Promote Decarbonisation, Competitiveness and Cohesion in Europe.

¹¹ International Energy Agency, World Energy Outlook 2024, 16 October 2024.

¹² Mazzucato and Rodrik, Industrial policy with conditionalities: a taxonomy and sample cases, 19 March 2026.

¹³ European Parliament, Draft Report on the proposal for a regulation establishing the European Competitiveness Fund, co-rapporteurs Christian Ehler and Dan Nica, 20 April 2026 (PE786.xxx);

European Commission, Proposal for a Regulation establishing the European Competitiveness Fund, COM(2025) 555, 16 July 2025.

¹⁴ European Parliament, Opinion of the ENVI committee on the proposal for a regulation establishing the European Competitiveness Fund, rapporteur Stine Bosse, 5 May 2026.

The performance regulation demands a minimum of 43% of the ECF's budget¹⁵ be spent on climate and environmental objectives.¹⁶

The spending requirements are checked using a 'tagging' approach for which each budget-relevant activity is assigned to a pre-defined intervention field. The performance regulation sets coefficients (100%, 40% or 0%) for the contribution of each intervention towards specific goals, which determine the eventual climate and environmental spending share. The regulation also aims to introduce a streamlined application of DNSH via a 'single and simple guidance', which might ease the exclusion of harmful activities but does not per se create a spending on climate-positive activities.

The Performance Regulation addresses several issues with the EU's current climate mainstreaming framework¹⁷ by consolidating the legal base into a single act, with common rules for evaluation responsibilities. It further provides defined intervention fields, including output and result indicators that can be used for assessment and performance-based support. However, fundamental issues remain. Intervention fields are assigned coefficients without a coherent methodology and based on expected results rather than proven impact. Reporting and assessment frameworks remain too broad,¹⁸ with no view to collecting information on the environmentally harmful impact of projects.

Similar shortcomings in uniform application and reporting for DNSH¹⁹ are also unlikely to be resolved by the yet-to-be-drafted guidance, foreseen by the performance regulation. Several civil society organisations in the climate space have also taken issue with the definition of intervention fields and assignment of coefficients, offering an extensive list of proposed changes.²⁰ Next to these technical detail adjustments, the World Wildlife Fund has called for an MFF-wide climate spending target of 50%, with a dedicated 10% biodiversity spending target.²¹

In the absence of an ambitiously green definition of competitiveness, the ECF's overall environmental orientation will hinge largely on the effectiveness of the Performance Regulation. These links could be strengthened within the ECF by establishing ex-post analysis requirements for ECF activities, based on the performance framework indicators, or by making DNSH adherence a continuous eligibility requirement, as suggested by ENVI.

Competitiveness Seal

Another option would be to 'green' the Competitiveness Seal. The seal is a proposed instrument attached to the ECF, where projects that meet minimum quality criteria under an ECF award procedure but don't get funded would receive the seal, entitling them to streamlined access to other EU programmes, a simplified State Aid notification process for national co-funding and a quality signal to private investors. As currently designed, the seal carries no environmental conditionalities, with work programmes and award criteria to be set by the European Commission via implementing acts. Two approaches could address this gap: explicitly excluding projects that fail EU taxonomy criteria for sustainable activities, as proposed by Climate Strategy,²² or introducing a broader environmental condition as part of the general award criteria.

Lever #4: Project-specific conditionalities

The structure and design process of project-specific conditionalities (i.e. eligibility and award criteria) within the ECF remain very uncertain at this point in the legislative process. According to the European Commission's draft, the technical implementation, including actions, budget, funding instruments and conditionalities, will be determined by work programmes that the European Commission will adopt as implementing acts, with mostly limited input from committees of Member State representatives (Art. 15).²³ The eligibility and award criteria to be set in these work programmes will ultimately determine how Union support under ECF is spent and who will be able to access these funds. Therefore, the design of the work programmes is crucial to ensure the ECF's positive environmental impact, within the Clean Transition and Industrial Decarbonisation window and beyond.

¹⁵ The 43% applies only to the core ECF budget (€234 billion). For the €175-billion Horizon Europe budget, the Performance Regulation sets a climate and environmental spending target of 40%.

¹⁶ European Commission, Proposal for a Regulation establishing a budget expenditure tracking and performance framework and other horizontal rules for the Union programmes and activities, COM(2025) 545, 16 July 2025.

¹⁷ Bruegel, Greening the EU budget: why climate mainstreaming needs reform, 2 February 2025.

¹⁸ European Court of Auditors, Opinion 10/2026 concerning the proposal for a regulation of the European Parliament and of the Council establishing a budget expenditure tracking and performance framework and other horizontal rules for the Union programmes and activities, 24 February 2026.

¹⁹ Bruegel, Greening the EU budget: why climate mainstreaming needs reform, 2 February 2025.

²⁰ ClientEarth et al., EU performance regulation: Fixing the details, 12 March 2026.

²¹ World Wildlife Foundation, A more impactful EU budget: Performance regulation in the next MFF, 2 September 2025.

²² Climate Strategy, A targeted European Competitiveness Fund to deliver climate and energy security for European citizens and SMEs: Four principles for impactful simplification, efficiency and flexibility, May 2025.

²³ Swedish Institute for European Policy Studies, One Fund to Rule Them All: An analysis of the proposed European Competitiveness Fund, September 2025.

As things stand, the European Commission has the opportunity to create work programmes with strong environmental eligibility and award criteria but is under no obligation to do so. The flexibility to draft work programmes according to the needs of each targeted activity and outcome is helpful, but the decision-making process for determining the specific technical implementation could be far more transparent.

Clearly spelling out the principles for the choice of funding instruments, eligibility and award criteria would be the precondition for external assessment and control of the European Commission's environmental ambition under the currently proposed legal framework. Such work programme principles would also have to include a methodology for assessing the outcome and impact of funded activities, ideally based on the performance framework. The European Court of Auditors has noted that the current ECF proposal is missing crucial implementation and evaluation reporting obligations.²⁴ These ex-post assessments are essential to create transparency and accountability around the expanded use of simplified funding mechanisms like Financing Not Linked To Cost (FNLTC).

FNLTC could become a vital part of the ECF's environmental toolbox. The funding model is outcome based, making disbursement conditional on the achievement of specific objectives. Such an approach can easily be applied to the environmental indicators defined in the performance framework. This fundamentally simplifies delivery, compared to established bureaucratic ex-ante conditionalities.²⁵ In combination with a competitive bidding procedure, FNLTC could provide the ideal simple, fair and performance-based access to Union support.²⁶

Next to strengthening reporting obligations, the European Commission could already develop a concept for a green FNLTC mechanism to provide the needed guidance²⁷ for making this relatively new but promising funding mechanism effective for environmental use cases.

The funding level

Sound design at the strategic and technical levels will only translate into real-world impact if it is matched by adequate and appropriately directed funding. The ECF's internal allocation of resources is itself a policy choice with significant consequences for the balance struck between short-term political priorities and long-term structural transformation. This chapter examines how the budget earmarked for the Clean Transition and Industrial Decarbonisation window can be strengthened.

Lever #5: Increased funding for the clean transition window

In combination with the technical suggestions above, which would increase the impact on a per-euro basis, increasing the budget of the Clean Transition and Industrial Decarbonisation window would accelerate progress towards green transition objectives.

A larger window would permit more projects to be funded, allowing for a more comprehensive coverage of sectors in need of decarbonisation. As an extra benefit, a bigger budget could provide a more robust demand-side incentive for clean industry, allowing the achievement of scale and economic viability necessary to compete with fossil fuel-intensive industries.²⁸

The ECF consists of four policy windows under a total financial envelope of €234.3 billion, excluding the €175 billion for Horizon Europe. The four policy windows and their respective earmarked budgets are:

- Clean transition and industrial decarbonisation (€26.2 billion)
- Health, biotechnology, agriculture and bioeconomy (€20.4 billion)
- Digital leadership (€51.5 billion)
- Resilience and security, defence, industry and space (€125.2 billion)

In order to nominally increase the budget for the clean transition window, funds would either have to be reallocated from within the ECF budget, or from the EU's general budget. Intra-ECF reallocation is the least legislatively complex option, and the ITRE parliamentary committee has already suggested this, although at the expense of the clean transition window rather than in favour of it.²⁹

²⁴ European Court of Auditors, Opinion 01/2026 concerning the proposal for a Regulation of the European Parliament and of the Council on establishing the European Competitiveness Fund, 01 January 2026.

²⁵ Schmitz et al., The costs of conditionality. IPCEIs and the constrained politics of EU industrial policy, 26 February 2025.

²⁶ ZOE Institute, Progress Over Promises: Rethinking direct public support through a progress-dependent conditionalities regime, 12 June 2025.

²⁷ ESF Transnational Network on Simplification, Recommendation paper on Financing Not Linked to Costs, 12 February 2026.

²⁸ E3G, ITA, Building the EU's Clean Industrial Future: Unlocking Investment through Lead Markets, October 2025.

²⁹ European Parliament, Draft Report on the proposal for a regulation establishing the European Competitiveness Fund, co-rapporteurs Christian Ehler and Dan Nica, 20 April 2026 (PE786.xxx);

Augmenting the overall MFF envelope to facilitate an increase in the ECF budget is another option to increase funding for the clean transition. The negotiations over the next MFF are underway, with parliament seeking a 10% increase in real terms,³⁰ while Member States are more divided. The same ITRE draft report proposes increasing the headline budget of the ECF to €257 billion.³¹ Any reprioritising or augmentation of the ECF budget in favour of environmental priorities would be a political choice and hence involve more visible political bargaining than the technical level solutions discussed above.

An alternate option that wouldn't necessitate up-front reallocating of funds within the ECF or the broader EU budget would be to earmark recovered ECF spending for the clean transition window, under a 'decarbonisation first' logic. Two separate avenues could be used to achieve this: the recovery of misspent funds, or clawbacks of excess profits. First, the recovery of misspent funds: an average grant error rate of approximately 2%³² would result in an increase of ~€4 billion for the clean transition window. Second, a clawback mechanism: clawback provisions are especially relevant in areas where there is a funding gap, as the necessary subsidy is based on the applicant's projected revenues, which may be surpassed once up and running. To prevent excess profits, and therefore market distortion, the European Commission can, under a clawback provision, recover part of the subsidy.

What would constitute excess profits would be determined beforehand based on a funding gap analysis, such as in the case of Important Projects of Common European Interest (IPCEIs).³³ While clawbacks are important for ensuring proportionality of aid, the amount of extra funding generated by such a provision is by nature uncertain, as it relies on the market's reaction to a new entrant. Both types of recovered funds can potentially add significant funding to the clean transition window, yet come with risks of administrative burden, slow recovery timelines and limited additional funding.³⁴

Conclusion

The ECF is a defining piece of legislation for the EU over the next MFF period 2028–2034. Its consolidation of 14 funds into a total envelope of €409 billion, over a fifth of the entire next MFF, means this is where the execution of European industrial policy will take place. As such, it is important that it achieves what it says on the tin – competitiveness.

The current proposal, however, risks reflecting short-term political pressures rather than genuine long-term competitiveness. The focus on defence and security concerns, as well as simplification, has sidelined climate considerations. This risks embedding a faulty vision of competitiveness – one which fails to direct public spending towards the sectors and technologies around which future global demand will be organised. A fund that defines competitiveness primarily through the lens of input-cost reduction and near-term security priorities will leave European industry exposed precisely when the structural shift towards clean technologies accelerates further. Given its multi-annual horizon and its role as an important vehicle for European industrial policy, the ECF represents a genuine opportunity to set Europe's economy on a more resilient course.

The levers identified in this paper – a long-term definition of competitiveness, strategic governance anchored in a credible industrial strategy, robust horizontal and project-level conditionalities, and a strengthened clean transition funding window – are concrete suggestions to embed a more durable vision of competitiveness. Taken together, they would significantly enhance the climate ambition within the ECF, and contribute to the important mission of creating and implementing a more coherent and effective European industrial strategy.

European Commission, Proposal for a Regulation establishing the European Competitiveness Fund, COM(2025) 555, 16 July 2025.

30 European Parliament, EU long-term budget: MEPs want a 10% increase to support EU priorities, 15 April 2026.

31 European Parliament, Draft Report on the proposal for a regulation establishing the European Competitiveness Fund, co-rapporteurs Christian Ehler and Dan Nica, 20 April 2026 (PE786.xxx);

European Commission, Proposal for a Regulation establishing the European Competitiveness Fund, COM(2025) 555, 16 July 2025.

32 European Court of Auditors, 2024 - EU Audit in Brief, 9 October 2025.

33 European Commission, Criteria for the analysis of the compatibility with the internal market of State aid to promote the execution of important projects of common European interest, (2021/C 528/02), December 2021.

34 European Court of Auditors, The Commission's systems for recovering irregular EU expenditure – Potential to recover more and faster, May 2024.

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