

## EconPol Update

# From Crisis to Competitiveness: The Imperative for the Clean Industrial Deal

## Brussels Economic Monitor 1/2025

## Focus: Clean Industrial Deal



Press conference: Teresa Ribera Rodríguez, Executive Vice-President.

The European Commission has introduced the Clean Industrial Deal, a comprehensive strategy that aims to integrate climate action and competitiveness to foster economic growth, accelerate decarbonisation and guarantee reindustrialisation across Europe. The main goal is to enhance sustainable and resilient production, focusing on two key sectors: **energy-intensive industries** and **clean-tech sectors**. The Commission identifies six main business drivers along the entire value chain: (1) **affordable energy**, (2) **lead markets**, (3) **financing**, (4) **circularity and access to materials**, (5) **global markets and international partnerships** and (6) **skills**.

The Deal contains an **Action Plan for Affordable Energy** to lower energy bills and incentivise investments in electrification and decarbonization while respecting the principle of **technology neutrality**. By 2025 the Commission proposes a new **Clean Industry State Aid Framework** to improve predictability for businesses and provide more flexibility for Member States. The latter should **lower taxes on electricity** to the legal minimum threshold to offer a short-term relief to industry. An **Industrial Decarbonisation Accelerator Act** is supposed to remove permitting bottlenecks and cut long procedures for renewables, grids, and storage projects. In 2026 the Commission plans to revise the current **Public Procurement Framework** to extend the application of **non-price criteria** and introduce a **European preference** as structural feature in strategic sectors. While funding instruments need to be aligned **InvestEU** and the planned **Competitiveness Fund** of the next **Multiannual Financial Framework** must facilitate and leverage private investments in industrial decarbonisation. The approval of **IPCEIs** is expected to become simpler and faster.

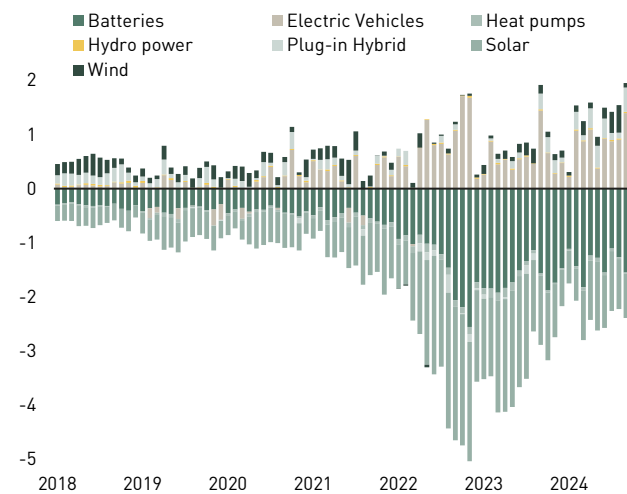
Besides working on a swift implementation of the **Critic Raw Materials Act** the Commission will put forward a **Circular Economy Act** in 2026. The goal is to establish a functioning market and free movement of circular products, secondary raw materials and waste. A higher supply of quality recyclates should increase demand for circular goods. Third countries restricting exports of their critical raw materials will face export limitations of European **critical raw material waste**. On the global stage the Commission seeks to protect the **level playing field**, address **non-market overcapacities** and seal **Clean Trade and Investment Partnerships**. Aligned national **FDI screening mechanisms** should avoid "forum shopping" and **anti-dumping/subsidy investigations** will be tightened and intensified. **CBAM** will undergo a comprehensive review followed by a legislative proposal in 2026. An updated CBAM is supposed to be simpler, more effective and reduce circumvention risks. The legislative measures laid down in the Deal are accompanied by a **Union of Skills** and **several sector specific plans** in 2025: Industrial Action Plan for an Automotive Sector, Steel and Metals Action Plan, Chemicals Industry Package, Sustainable Transport Investment Plan, and Bioeconomy Strategy.

The goal of the **Clean Industrial Deal** is to **boost manufacturing** that drives **decarbonisation** through **innovation**, creates **quality jobs** and strengthens the **open strategic autonomy**. The ambition is to make the EU the **world leader on circular economy** by 2030.

## Indicators to watch

### EU clean tech trade balance

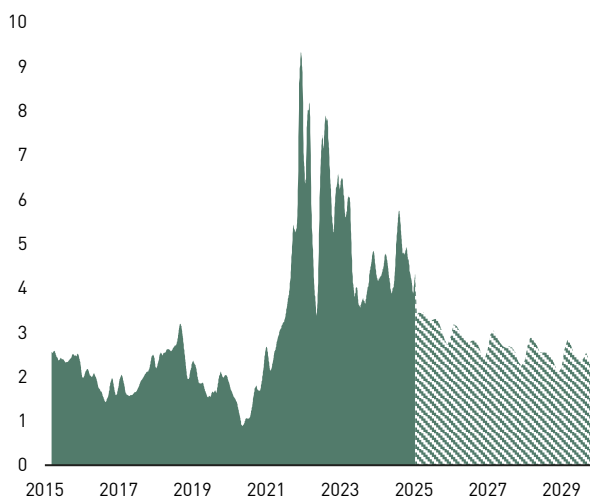
Net exports, in billion EUR



Source: Bruegel Clean Tech Tracker, see [link](#) for details on data collection.

### Ratio of EU gas benchmark to US counterpart

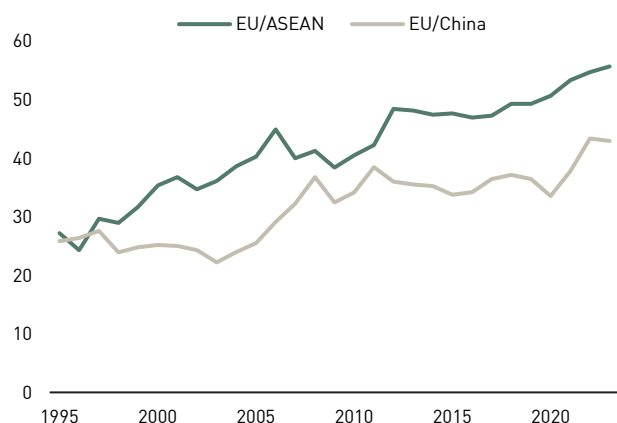
DutchTTF/Henry Hub in EUR/MWh, dashed area = futures



Source: Trading Economics, Barchart, Investing.com.

### Sectors with share comparative advantage

In %, share of sectors where both regions display a RCA > 1



Source: UNCTAD, own calculations.

### The EU is wasting its opportunity for energy independence

Europe was an early adopter of green tech. While PV was invented in the US and first used in spacecraft, it was arguably German subsidies that allowed the scaling up of the sector and kickstarted the impressive cost declines that have made solar the cheapest energy source in human history. In combination with batteries, it is expected to form the backbone of most future energy systems, which would mean greater energy independence for the vast majority of countries compared to today's reliance on fossil fuels. However, the EU is now a net importer of green tech. While it is a net exporter of new energy vehicles and wind power components, it has lost its solar industrial base to China and is also lagging behind in batteries. Although the nature of dependencies is different for renewables, this risks trading one dangerous dependency for another.

### Gas prices remain an obstacle for EU competitiveness

Europe's scarcity of fossil fuels has long meant an energy cost disadvantage. Historically, gas prices were 2-3 times higher than in the US, but the recent crisis has temporarily pushed the ratio to almost 10 times. Wholesale gas prices in the EU are still four times higher at the start of 2025 and are expected to approach the twofold level only slowly until 2030, with price volatility remaining a threat to competitiveness. The transition to clean energy is essential in the path to lowering costs but any improvements depend on making the right policy choices. Although decarbonisation is indeed progressing, with clean electricity generation overtaking power generated by fossil fuels last year, the latter still dominate end-user costs. Electrification of heating, transport and other sectors, together with coordinated EU investment and stronger cross-border interconnections, will be key to reducing costs and boosting competitiveness.

### Asia is increasingly competing in the same sectors

Europe is in the midst of a renewed China shock. The first one turned out relatively benign for EU manufacturers because Chinese exporters largely operated in different (low-value-added) sectors as those in Europe. This can be seen by looking at the share of sectors where both exporters specialize in relative to the rest of the world - a concept called revealed comparative advantage or RCA. As the chart shows, this is no longer the case and Chinese and other Asian competitors have moved up the value chain in recent years. The closing gap with the EU/ASEAN ratio is a case in point, showing how China's unprecedented industrial policy push since the pandemic is driving the global manufacturing base to concentrate in China itself.

### EU: Net EV Exports to the US and China

In billion EUR, 12-month moving sums



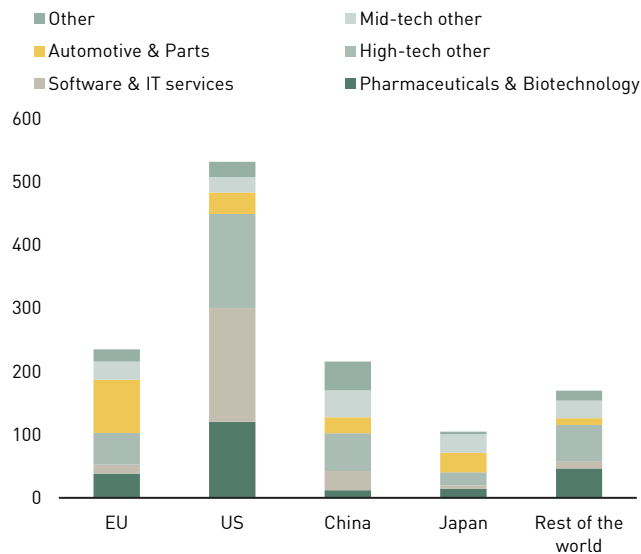
Source: Eurostat.

### EU EV exports are increasingly headed to the US

European carmakers have been in crisis mode of late amid weak domestic demand and rising Chinese competition. China is currently exporting 5 million more cars than it imports, compared to German net-exports of 1.2 million. The one silver lining has been exports to the US, where strong consumption growth and generous EV tax credits have boosted demand for imported cars and where European producers have enjoyed a competitive advantage due to the high import tariffs that the US imposes on Chinese-made vehicles. This shows that European manufacturers are still competitive if not compared to their heavily subsidized Chinese counterparts. However, this dependence on the US market is also cause for concern, as the new administration is determined to impose harsh tariffs on any trading partner that it perceives as having an imbalanced trade relationship with the US. With Chinese demand highly unlikely to pick up and US demand increasingly uncertain, Europe's only hope is likely to lie at home, in the single market, where the EU fortunately still has many unused policy levers.

### Private R&D expenditure by top 2000 firms in 2023

In millions of USD, by technological sophistication



Sources: European Commission; ifo Institute.

### EU private R&D investment prioritizes mid-tech

The Draghi report has led to a renewed focus on R&D expenditure as a key variable for future competitiveness. A look at the world's top 2000 R&D spenders shows that innovation activities in the EU and the US differ both in terms of nominal private spending the sectoral composition. Corporate R&D expenditure in the EU is highly concentrated in so-called mid-tech industries (~48%), with the automotive industry among the largest contributors to R&D spending. By contrast, in the US, corporate R&D activities are mainly focused on high-tech industries (~85%). As the latter have exhibited higher growth rates than mid-tech sectors for quite some time, the EU risks staying caught in a mid-tech trap. It should be noted that there are doubts about whether the official figures for Chinese companies reflect their true R&D intensity. By drawing on the resources of state universities, private companies receive an 'in-kind' boost that isn't fully reflected in their financial figures.

**TAKE:** The Draghi report highlights the widening productivity gap between the EU and the US, revealing a concerning decline in Europe's competitiveness relative to other global economic powers. While US companies are primarily investing in high-growth, high-tech sectors, European member states risk falling into the so-called mid-tech trap. Several countries that were severely affected by the energy price shock following Russia's aggression against Ukraine are still grappling with an industrial recession. Now, they face additional pressure from a new China shock, driven by substantial Chinese subsidies for advanced industrial goods, which strikes them at a particularly vulnerable moment. To safeguard Europe's competitiveness, especially in future technologies, it is essential to develop a cohesive EU industrial strategy. The Clean Industrial Deal offers a solid foundation for this endeavor, but it must now be effectively implemented in a way that serves best the interests of European companies.



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