

# Focus, Excellence, Competitiveness

## WKÖ position on the ECF and Horizon Europe in the MFF 2028-2034

### Executive Summary

In light of the green and digital transitions, as well as security challenges, the EU faces a massive need for investment. With the proposal for the Multiannual Financial Framework 2028-2034, including the new European Competitiveness Fund (ECF) and closer integration with 'Horizon Europe', the Commission is setting the right course towards competitiveness, innovation and technological sovereignty. The WKÖ supports this strategic reorientation, but also sees the ongoing negotiations as a decisive turning point, the outcome of which will determine the success of the reform.

### Key demands

- **Maintain the budgetary weight of the Competitiveness Pillar:** Any cuts in the MFF must not disproportionately affect the 'Competitiveness, Prosperity and Security' pillar (~30% of the budget). In particular, Horizon Europe must be funded at least at the level proposed by the Commission.
- **Cover the entire innovation and investment chain:** There needs to be a clear functional division of labour between Horizon Europe for excellence- and knowledge-driven research and the ECF for first application, deployment and scale-up. Europe's weakness lies not in research, but in commercial exploitation: the 'Valley of Death' must be prevented with appropriate instruments.
- **The ECF and Horizon Europe must remain excellence-based:** funding must be allocated primarily on the basis of excellence, impact and European added value. Cohesion objectives should be pursued through cohesion policy and national and regional partnership plans (NRPPs), not by diluting competitiveness programmes.
- **Integration with clear governance:** The interlinking of the ECF and Horizon Europe makes sense, but Horizon Europe must remain autonomous so as not to subject basic research to short-term exploitation logic. Strategic priorities must be supported by independent scientific expertise. Comitology and the structured involvement of industry (including SMEs and start-ups) also remain central.
- **Flexibility, but rule-bound, transparent and independently reviewed:** The ECF's adaptability is necessary in light of geopolitical volatility, but must not result in opaque and excessively reactive management. Clear guardrails are required: pre-defined reprioritisation margins, transparent activation criteria, reporting obligations, sunset clauses and independent evaluations.
- **Simplification as a prerequisite for success, particularly for SMEs:** consolidation of fragmented programmes, a uniform set of rules, coherent application and reporting requirements, a genuine one-stop shop, and national/regional advisory services through the proposed 'EU for Business Network'. Access and the combination of instruments must be made noticeably easier for SMEs, start-ups, scale-ups and universities.
- **'Made in the EU and Partner Countries', targeted and based on objective criteria:** European preference instruments should be used as a targeted resilience and lead-market instrument, for example to strengthen the EU's defence capabilities, not as a general protectionist tool. Prerequisites: a uniform EU-wide selection framework, an open definition of 'local' (the EU plus reliable partners), reciprocity with clear sanction options, and application based on objective criteria.

## Introduction

Europe faces enormous **economic and geopolitical challenges**. To tackle these major challenges, massive investment is needed in the green and digital transitions (including research and innovation), as well as in resilience and defence. Based on the estimates updated in 2025, which build on the Draghi Report, the EU's additional annual investment requirements for the period 2025-2031 now amount to just under **€1.2 trillion per year**. **Neither the EU budget nor national budgets alone will be able to close this gap**. This makes it all the more important to focus scarce European resources more strongly on strategic investments in key areas of transformation and to deploy them in such a way that they mobilise additional private and national investment.

In its **proposal for the Multiannual Financial Framework (MFF) 2028-2034**, the European Commission has responded to this with a far-reaching **reorganisation of the EU budget**. The aim is to make the budget more strategic, simpler and more flexible, and to place **greater emphasis on competitiveness, innovation, resilience and security-related investments**.

The strengthening of the second heading (**Competitiveness, Prosperity and Security**) underlines the clear focus on a technology- and innovation-driven approach as the basis for Europe's long-term competitiveness. Innovation is a driver of growth; at the same time, it plays a key role in managing complex transformation processes, particularly in the context of the digital and green transitions, and thus contributes to strengthening technological sovereignty in Europe. In this context, the consolidation of previously fragmented instruments within the European Competitiveness Fund (ECF) is particularly welcome. The ECF is fundamentally addressing the right issues here: it is intended to **consolidate programmes, define strategic priorities more clearly, make programming more flexible and better cover the entire investment chain**. An important innovation is the closer integration of Horizon Europe (HEU) with the ECF. Whilst HEU is primarily geared towards scientific excellence and knowledge generation, the ECF can focus more strongly on scaling, industrial application and strategic value creation. Closer integration of both instruments opens up the possibility of linking innovation and industrial policy more closely and accelerating the transfer of research results into marketable applications.

The industrial base plays a central role in translating research results into marketable applications, scaling up, and securing value creation and employment in Europe. This base is in turn formed by large enterprises as well as SMEs and specialised suppliers, whose interaction accelerates innovation and anchors value creation more broadly within the region.

After several months of negotiations, key areas of disagreement have already emerged: at the level of the MFF, these relate in particular to the size of the future EU budget and the level of funding for the Competitiveness Pillar. With regard to Heading 2 and in particular the ECF, points of contention arise primarily over the question of strictly merit-based versus a more geographically balanced allocation of funds, the link between the ECF and Horizon Europe, the use of European preference instruments, and the thematic focus of the ECF (in particular the governance of future work programmes).

Against this background, we believe **the following key requirements** arise for the design of the ECF and Horizon Europe:

### 1. The budgetary weight of the 'Competitiveness' pillar must be maintained as the MFF negotiations proceed

**Objective:** Should cuts to the overall budget become necessary in the course of the negotiations, these must not be made solely at the expense of programmes for competitiveness, research and innovation. Rather, any necessary reductions should be spread proportionally across all expenditure areas, so that the relative weight

of the ‘Competitiveness, Prosperity and Security’ heading (~30% of the total budget) in the EU budget, as envisaged in the Commission’s proposal, is maintained. It is precisely the instruments bundled within this pillar - which are predominantly merit-based - that make a disproportionately large contribution to productivity growth, innovation, scaling and European added value. The ECF addresses the **EU’s competitive challenges** by aligning its policy windows - in line with the thematic priorities of Pillar 2 in Horizon Europe - with these strategic areas. The aim of these funds is to secure and expand industrial value creation, production and key technologies in Europe; a strong budgetary foundation for the Competitiveness Pillar and a sufficiently funded Horizon Europe are prerequisites for this. Against this backdrop, it is particularly important to ensure that Horizon Europe’s financial allocation at least matches the Commission’s proposal. Questions of focus and the treatment of cross-cutting issues such as digitalisation are also crucial. The cross-cutting logic implies, for example, that critical digital key technologies such as AI, connectivity and semiconductors should be eligible for funding from all ECF policy windows and not exclusively from the Digital Leadership window.

**Why:** The ECB’s 2025 updated estimate puts the EU’s additional annual investment requirement for green, digital and defence-related priorities at just under €1.2 trillion per year, of which the additional public funding requirement, according to [Bouabdallah et al. \(2025\)](#), stands at around €510 billion annually. This contrasts with the Commission’s proposal for the entire ‘Competitiveness’ area, including Horizon Europe, which amounts to €409 billion in current prices or €363 billion in 2025 prices over seven years - i.e. only around €58 billion or €52 billion per year, respectively. Thus, the funds allocated to ‘competitiveness’ amount to just under 10% of the annual public investment gap. Despite the increase, the ‘competitiveness’ pillar therefore remains relatively small in relation to the economic policy objectives. This is also because, despite the nominal increase, the new MFF creates only limited additional financial leeway. A significant portion of the increase is tied up in debt servicing for NextGenerationEU. The actual freely available scope is therefore considerably smaller than the nominal total figures might initially suggest.

There has long been a consensus in the economic literature regarding the importance of innovation and technological progress for sustainable growth (Aghion and Howitt 1990). Today, however, as the [Draghi \(2024\)](#) report highlights, European competitiveness is increasingly shaped by three key areas of transformation: the decarbonisation of the economy, the reduction of strategic dependencies, and the strengthening of security and resilience. Key and future technologies, particularly digital technologies ([OECD 2026](#)), act as cross-cutting technologies ([Bresnahan and Trajtenberg 1995](#)) that play a central role in all areas of transformation and must therefore be prioritised for funding. Investment in these areas is crucial to closing the innovation gap between the EU and the US and China in the long term and to structurally strengthening competitiveness. It also follows from this cross-cutting logic that critical key digital technologies such as AI, connectivity and semiconductors should be eligible for funding from all ECF policy windows, and not exclusively from the Digital Leadership window. Otherwise, cost-intensive infrastructure expansion (e.g. semiconductor production) in particular would tie up a disproportionate share of the Digital Leadership budget. The positive effects of European research and innovation programmes on overall economic growth are clearly evident. For instance, the [ex-post evaluation of Horizon 2020](#) showed that the programme not only made substantial contributions to EU GDP but also had significant effects on employment, business growth, and the development of new technologies and solutions for major societal challenges.

Furthermore, these programmes in particular are economically particularly well-justified. For instance, [Anev Janse et al. \(2025\)](#), [Claeys and Steinbach \(2024\)](#) and [Felbermayr and Pekanov \(2024\)](#) argue that EU funds should be used primarily for European public goods, i.e. where national funding leads to under-provision because cross-border spillovers, network effects and economies of scale do not fully benefit those who bear the costs. This applies in particular to research, innovation, strategic infrastructure and technology-related scaling.

Equally important is the fiscal context: national budgets are currently under considerable pressure and cannot simply make up the shortfall. [Bouabdallah et al. \(2025\)](#) show that even under optimistic assumptions, only a limited portion of the additional public funding requirements can be mobilised through existing national fiscal leeway. [Guttenberg and Heckhausen \(2026\)](#) also point out that fiscal consolidation pressures typically go hand in hand with lower public investment and that additional defence spending further restricts the scope for other future investments. This is precisely why strengthening key EU instruments makes sense: it relieves the burden on national budgets, reduces the risk of further fragmentation through asymmetric national aid, and pools resources where they promise the highest return across Europe.

## 2. The Competitiveness Pillar should cover the entire innovation and investment chain

**Objective:** The ‘Competitiveness’ pillar should cover the entire innovation and investment chain. However, this requires a clear functional division of labour between Horizon Europe and the ECF. Horizon Europe should remain focused on long-term, high-quality and knowledge-driven research. The ECF should be more strongly geared towards development, demonstration, first application, deployment and scale-up relevant to industrial policy. It is crucial that eligible projects do not fail due to unclear responsibilities or a lack of follow-on instruments during the transition between research, demonstration, deployment and scale-up, but can instead be developed coherently along the investment chain. The appropriate instrument should be available for each phase, ranging from grants and public procurement to guarantees, equity investments and other financing instruments, as well as large-scale collaborative project formats that are particularly suited to the strategic scaling of digital transformation and critical infrastructure.

This is particularly important with regard to strengthening the competitiveness of the security and defence industry. The proposed ECF offers considerable potential for synergies between funding instruments and measures that benefit future defence capabilities. To fully exploit this potential, it is crucial to ensure appropriate coordination within the ECF. Taking the defence window as an example, this would need to be ensured in particular - between the various activities (R&D, procurement, development, etc.), the policy areas (defence, space, security and resilience) and the policy windows (defence and digitalisation) - and beyond (Cohesion Fund, infrastructure, CEF).

This coordination should definitely also encompass the R&I elements of dual-use technologies and focus more on how cooperation and the exchange of results between related sectors can be improved. In this context, the proposed introduction of a ‘DARPA-style approach’ to the targeted promotion of highly innovative dual-use and defence start-ups and scale-ups is also essential, particularly those of strategic importance to the interests of the Union and its Member States.

Due to its specific market structure, the defence sector generally requires a tailored governance approach. The defence market is dominated by a small number of buyers (nation states) and a manageable number of suppliers, often large OEMs and many smaller subcontractors who do not supply the defence market exclusively. Demand is therefore heavily dependent on public defence procurement plans. Defence industrial activities should therefore be carried out with the close involvement of Member States to ensure that production does not miss the mark. One way to ensure this would be to establish a Defence Industrial Steering Board, staffed by Member States, which would set the basic guidelines for defence industrial policy work within the ECF. The Defence Industrial Advisory Board already provided for in the Commission’s proposal could be used to involve industry more closely.

**Why:** From the perspective of the business location, the chain logic is particularly important because the fundamental problem facing the EU is not insufficient research output, but rather, above all, a lack of market-oriented exploitation and scaling. Although Europe produces many innovations and start-ups, it too rarely manages to nurture them into globally leading companies (“[of death](#)”). What is important here is not only

the development of new technologies, but also their widespread application and diffusion, in order to strengthen Europe's technological capabilities and industrial competitiveness in the long term ([Edler et al. \(2020\)](#)). A striking example of the existing challenges in commercialising cutting-edge research in Europe can be seen in the European Research Council (ERC). The ERC is regarded as one of the world's most successful instruments for basic research and stands for scientific excellence, which is reflected, among other things, in the high number of [Nobel laureates](#) among its grantees. At the same time, a recent study by [Nagar et al. \(2024\)](#) shows that a significant proportion of the innovations resulting from the ERC are commercialised outside Europe. In particular, companies and start-ups in the US benefit disproportionately from these knowledge spillovers, whilst economic exploitation within Europe remains comparatively limited. An effective competitiveness pillar must therefore address areas where demonstration, first-of-a-kind projects, growth financing, infrastructure and industrial market launch have so far too often been underfunded. Overcoming the 'Valley of Death' requires, in particular, the involvement of industrial players with established production capacities and value-added networks. In addition to large-scale flagship projects, there is a continued need for flexible and low-threshold funding opportunities for practical and experimental R&D.

The [OECD \(2024\)](#) emphasises that governments should help firms to “[valleys of death](#)” at various points in the innovation chain, for example through guarantees, blended finance and other risk-mitigation instruments. [Van der Lee et al. \(2025\)](#) also show that technological maturity alone does not guarantee market success. Funding approaches that focus too heavily on technical development stages often fail to adequately assess whether an innovation can actually be produced, scaled up and successfully launched on the market. It is precisely at this transition from development to industrial implementation that critical gaps frequently arise. Sector-specific evidence also shows that a lack of demonstration capacity and inadequate de-risking instruments are key barriers between technological development and commercial production ([Biggs et al., 2021](#)).

Whilst it is difficult to put an exact figure on it, experts such as [Moretti et al. \(2025\)](#) estimate that a consistent dual-use strategy can boost an industrial location's innovative capacity by around 15-20 per cent, as skilled workers and resources are no longer deployed multiple times to tackle similar problems (e.g. autonomous driving versus autonomous drones). In countries where military and civilian research are closely intertwined, such as Israel or the USA, the sectors concerned record annual growth that is 0.5 to 1 per cent higher than in countries with separate research landscapes. To realise this potential, however, additional measures are required that go beyond the ECF. It would be important, for instance, for universities and research institutions to lift their self-imposed 'civil clauses' or their distancing from military research - and to cooperate more closely with national defence at the national level.

### 3. The ECF and Horizon must remain excellence-based

**Objective:** Funding allocation in the ECF and Horizon Europe should be based primarily on excellence, impact and European added value, as this is the only way to achieve technological breakthroughs and ensure long-term competitiveness. Although the resulting 'innovation divide' within the EU represents a structural locational disadvantage, regional pre-allocation or ring-fencing in favour of structurally weaker regions would contradict the logic of both instruments. We therefore take [a critical view of the widening measures](#). Cohesion objectives remain important, but should be pursued through cohesion policy or via the future *National and Regional Partnership Plans* (NRPPs) under Pillar 1, and not by diluting the programmes for competitiveness. The geography of innovation will continue to concentrate on certain technology hubs, which is not problematic in itself. What is crucial, rather, is to strengthen innovation capacities in less competitive regions in a targeted manner, particularly through investment in skills, infrastructure and institutional capacities.

**Why:** From an economic and industrial policy perspective, regional pre-allocation or ring-fencing within the ECF and Horizon Europe would be problematic, as this would incorporate additional distributive objectives into instruments whose primary purpose is to strengthen innovation, productivity and strategic value chains. The interim evaluation of Horizon Europe 2021-2028 shows that the widening measures have already contributed to a certain degree of convergence. For instance, the share of widening countries has increased in all three categories—participation, funding and project coordinators—whilst the share of non-widening countries has correspondingly decreased, indicating a stronger overall involvement of these countries in Horizon Europe.

[Fink et al. \(2024\)](#) show that the geography of innovation is structurally unequal and heavily concentrated in a few urban centres, which, on the one hand, enables efficiency and growth gains, but on the other hand generates significant regional inequalities. In the European context, [Fitjar \(2025\)](#) demonstrates that, for example, Horizon Europe inevitably favours more developed regions due to its principle of excellence. Nevertheless, an independent expert report for the European Commission ([Richardson et al., 2024](#)) concludes that existing technology hubs should not be diluted. Rather, appropriate regional policy instruments should aim to develop new technology hubs based on existing strengths and integrate them into the European innovation system through networking. Under no circumstances should this be achieved by weakening excellence-based programmes ([Richardson et al., 2024](#)). [Fink et al. \(2024\)](#) also argue that policy should neither hinder agglomerations nor act in a purely market-driven manner, but rather build on regional strengths in a context-specific manner whilst simultaneously addressing the social consequences of this inequality. This has been happening in the EU for some time now within the framework of EU cohesion policy, which, at least since the [Europe 2020 strategy](#), has systematically geared European regions towards research, innovation and competitiveness via the European Regional Development Fund (ERDF), in particular through approaches such as smart specialisation ([European Court of Auditors 2025](#)). The innovation gap between the respective countries should be bridged by precisely these instruments. In future, this will be the role of the NRPPs. The ‘Competitiveness’ pillar should therefore remain focused on European projects with high impact, economies of scale and strategic added value.

#### 4. Integration of Horizon Europe and the ECF - with clear governance

**Objective:** A stronger link between Horizon Europe and the ECF makes sense in principle and should be maintained in the further negotiation process (see points 1 to 3). However, a functional differentiation is required here, because whilst the ECF will be more strongly geared towards application-oriented, market-driven activities, Horizon Europe must remain largely autonomous in its design so as not to align the funding of excellent, including basic, research one-sidedly with short-term exploitation logic.

To date, governance in Horizon Europe has been exercised, among other things, through comitology, whereby Member States have a decisive influence on the design of the work programmes via programme committees. The proposal for FP10 suggests stronger strategic governance by the European Commission, combined with greater flexibility in programme design. This could go hand in hand with a changed role for Member States, particularly with regard to a shift from operational involvement towards a more strategically oriented influence.

Against this backdrop, it seems sensible to further develop the governance structure in a differentiated manner. The setting of strategic priorities should be more strongly supported by independent scientific and innovation policy expertise. At the same time, comitology remains important for the design of the work programmes and the involvement of Member States. In addition, economic actors ranging from small to large enterprises and start-ups should be systematically involved in the design of the work programmes to ensure the programmes’ practical applicability and accessibility. This structured involvement should explicitly

include those industrial companies that translate research results into scalable applications via existing production capacities and value-added networks.

**Why:** Recent literature on industrial policy emphasises that government intervention takes place under conditions of high uncertainty and must therefore be understood as a process characterised by learning and adaptability. [Rodrik \(2004\)](#) and [Foray et al. \(2009\)](#) highlight that industrial policy should be based on so-called ‘discovery processes’, i.e. iterative learning processes between the state and a broad range of stakeholders, in which new information about technological possibilities, market potential and bottlenecks is generated. This perspective implies that governance structures in research and innovation policy must be sufficiently open, experimental and decoupled from short-term political priorities in order to enable such learning processes. Excessive strategic pre-structuring or political steering can restrict these processes and thus hinder the discovery of new technological and economic potential.

Furthermore, an overly close institutional link between the ECF and Horizon carries the risk that application-oriented and industry-driven research will be systematically prioritised over basic and high-risk research. In this context, the German [Expert Commission on Research and Innovation \(2025\)](#) highlights conflicting objectives between short-term competitiveness and long-term knowledge generation.

The analysis by [Fuest et al. \(2024\)](#) also shows that a highly pre-structured and politically negotiated approach in Horizon Europe tends to favour established players. This can lead to a narrowing of the innovation spectrum and hinder the emergence of radically new ideas. Accordingly, collaborative research should remain open and sufficiently bottom-up in design, and should not be overly constrained by politically dictated priorities or high levels of technological maturity, in order to preserve space for experimental and high-risk innovation processes.

## 5. Flexibility yes - but rule-bound, transparent and independently reviewed

**Objective:** The flexibility built into the ECF is fundamentally sound and should be retained in the ongoing negotiation process. Particularly in light of a volatile geopolitical situation, rapid technological change and recurring strategic dependencies, European industrial policy must have the capacity to adjust its priorities within the seven-year MFF period and beyond, based on evidence.

However, flexibility must not lead to opaque or purely discretionary control by the Commission alone. Clear guardrails are required: predefined reprioritisation margins, transparent activation criteria, and binding reporting obligations and sunset clauses for special measures. These should be supplemented by written justification requirements for deviations from committee positions, as well as regular independent interim and ex-post evaluations.

**Why:** Economically, this combination of flexibility and discipline is well justified. Recent literature on industrial policy emphasises that government intervention typically takes place under considerable uncertainty and should therefore be understood not as a one-off decision but as a learning and adaptive process. [Juhász, Lane and Rodrik \(2023\)](#), for instance, highlight that modern research on industrial policy focuses much more on robust evaluation approaches and the actual impact of specific instruments. The [OECD](#) and [Bruegel](#) also argue that a successful industrial policy requires flexible instruments that are regularly reviewed and adjusted as necessary. In the current MFF, including NextGenerationEU, more than [90% of funds](#) were earmarked from the outset for specific purposes, programmes or national allocations. New priorities could therefore often only be addressed through lengthy reallocations or ad hoc instruments. The [Draghi Report](#) also argued that the EU budget architecture must focus more on strategic projects and become more flexible in order to be able to reallocate funds more quickly between and within programmes.

An independent external evaluation, robust indicators and clear accountability rules are essential for the credibility and democratic legitimacy of flexible industrial policy programmes. In its review of the Recovery and Resilience Facility, the [European Court of Auditors](#) found that, whilst the Commission’s assessment was generally appropriate, internal procedures were not always sufficiently transparent and evaluations were not consistently systematic or uniform.

**Objective:** We very much welcome the fact that the European Commission is addressing digitalisation as a separate ‘policy window’ to strengthen Europe’s digital competitiveness. The ECF thus takes up and addresses the transformation requirements set out in the Draghi Report for boosting competitiveness, in particular ‘closing the innovation gap’ and ‘strengthening digital sovereignty’. It is important to align support across the entire value chain: from research and development, through innovation, scaling and industrial implementation, to market launch. The greater focus on SMEs and implementation or market launch is essential for businesses and addresses the current pain points of companies and the Austrian

## 6. Simplification as a prerequisite for success, especially for SMEs

**Objective:** The simplification envisaged in the reform proposal should be retained as far as possible during the negotiations. A key prerequisite for the reform’s success is the consolidation of previously fragmented programmes, a set of rules that is as uniform as possible, coherent participation, application and reporting requirements, and a genuine one-stop shop for applicants. Particularly for SMEs, start-ups, scale-ups, universities and smaller project promoters, access, the application process, funding logic and the combination of different instruments must become significantly simpler. This applies both to the ECF itself and to the interface with Horizon Europe. Although Horizon Europe will remain a standalone programme with its own governance, the operational integration with the ECF should be designed to be as seamless and straightforward as possible for applicants - particularly in the case of collaborative and application-oriented research.

Simplification should not only facilitate access for SMEs, but also enable research-intensive industrial companies and industrial consortium projects to participate in a reliable and practical manner.

The proposed “EU for Business Network” should build on established SME-focused institutions such as chambers of commerce and technology funding agencies (similar to the current Enterprise Europe Network) to ensure low-threshold and regional support for businesses (particularly SMEs). This is intended to raise awareness of ECF measures among SMEs and prepare them for these initiatives.

**Why:** From an economic and industrial policy perspective, simplification is a fundamental prerequisite for the success of the ECF and Horizon Europe. The literature shows that regulatory costs and administrative procedures hinder entrepreneurship, innovation and growth, placing a disproportionate burden on small businesses ([Audretsch et al., 2024](#); [OECD, 2025](#)). For SMEs and start-ups in particular, complex funding landscapes, differing regulatory frameworks and high application barriers act as a barrier to participation. Established national and regional business associations and technology agencies remain necessary to guide SMEs towards funding opportunities.

## 7. A targeted ‘Made in the EU and Partner Countries’ or ‘Made with Europe’ approach with objective criteria for selecting prioritised sectors

**Objective:** European preference instruments within the ECF should be used in [a targeted, partner-open and strategic manner](#), and not as a general protectionist tool. They should only, in clearly defined cases - such as in the defence industry - help to reduce critical dependencies, secure European minimum capacities and create reliable lead markets for strategic technologies and intermediate products within the single market.

The economic policy core of such an approach lies in the EU making more targeted use of its own demand: when public procurement and public support in strategic areas are linked to European or partner-based value creation, a predictable market emerges within the single market. This improves investment incentives, facilitates the development of production capacities, accelerates learning curves and helps to anchor supply networks in Europe and within a circle of reliable partners.

European preference instruments should only be used where there is clear strategic added value and where the costs of increased European or partner-based procurement are justified by gains in resilience and economies of scale. This implies, firstly, a uniform EU-wide selection framework for prioritised sectors; secondly, an open definition of 'local' as the EU plus reliable partners rather than a narrow EU-only approach; thirdly, reciprocity and coherence with trade policy; and fourthly, application based on objective criteria rather than ad hoc political decisions or individual national interests (cf. [Kiel Institute, 2026](#)).

**Why:** In a geo-economic world, it is no longer sufficient to assess economic policy instruments solely on the basis of short-term price efficiency. It is also crucial whether they help to reduce strategic dependencies and secure European production and innovation capacities. European preference instruments should therefore be understood less as purely efficiency-driven tools and more as instruments of resilience and lead markets: they can help to steer European demand in a targeted manner so that this also generates investment, learning curves and value creation in Europe or within a circle of reliable partners. Particularly with regard to the European Union's defence capabilities, it is essential to secure the relevant production capacities and the highest possible European share in supply chains, as well as the necessary know-how within the EU and among reliable partners. This is all the more important given that European demand today faces competition from third countries that support their industries through subsidies, localisation requirements, credit-financed capacity expansion and macroeconomic imbalances. Without a targeted European anchor for demand, there is therefore a risk that the demand created by decarbonisation, regulation and public funding will primarily benefit imports and finance economies of scale outside Europe.

Imprint:

Publisher: Austrian Federal Economic Chamber, Wiedner Hauptstraße 63, 1045 Vienna, wko.at

Responsible for content: European Policy Department, Head: Barbara Schennach, eu@wko.at

All information is provided without guarantee, despite careful checking. The WKÖ accepts no liability.