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European Industrial Policy Monitor

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Industrial policy has returned to the centre of Europe's economic and political agenda.
EU and national programmes, regulations, investments and trade measures are reshaping production systems and the scope of public action in the economy.
Promoted by the LUISS Centre on European Policy and Analysis (LEAP) and its Observatory on Policy, Industry, Europe (PIE), the European Industrial Policy Monitor tracks these developments each month, focusing on major policy decisions, funding instruments and strategic initiatives at both EU and national levels. It also bridges policy practice and industrial strategy with academic research and expert analysis in order to support an informed debate on the transformation of Europe's industrial landscape.

This issue is curated by Greta Micol Narsini and Michele La Bella under the supervision of LEAP and PIE at Luiss University of Rome.

European Industrial Policy in October 2025

EU – COUNCIL ENDORSES CLEAN TECH TAX INCENTIVES

On 10 October, the Council endorsed conclusions supporting the use of targeted tax incentives - including tax credits and accelerated depreciation - in favour of the European clean industry. Member States are encouraged to adopt cost-effective, simple and timely measures to strengthen EU industrial competitiveness.

Council of the EU

EU – COMMISSION PROPOSES NEW STEEL SAFEGUARD PLAN

The Commission proposed a plan that nearly halves duty-free steel imports to 18.3 million tonnes, with a 50% tariff on volumes above that limit. Set to replace the existing safeguard measure expiring in June 2026, the plan is formally autonomous but closely tied to EU–US trade talks and concerns over Chinese overcapacity.

EU Commission Directorate-General for Communication

EU – PROVISIONAL AGREEMENT ON €1.5 BILLION EUROPEAN DEFENCE INDUSTRY PROGRAMME (EDIP)

On 16 October, the European Parliament and EU Council reached a provisional agreement on the EDIP, designed to strengthen Europe's defence industrial base and expand manufacturing capabilities. The programme allocates €1.5 billion (2025–2027) - including €300 million for the Ukraine Support Instrument - and will require formal approval by both the Parliament and the Member States.

Directorate-General for Defence Industry and Space

GERMANY – €6 BILLION INDUSTRIAL DECARBONISATION PROGRAM LAUNCHED

On 6 October, Germany unveiled a €6 billion funding program for industrial decarbonization. The scheme will support carbon capture and storage (CCS) projects via 15-year contracts that subsidize clean production in energy-intensive sectors (steel, chemicals, cement, glass).

Reuters

European Industrial Policy in October 2025

UK – INDUSTRIAL STRATEGY ATTRACTS £250 BILLION INVESTMENT

The UK government announced that its Modern Industrial Strategy, launched in June, has already attracted over £250 billion in investment commitments across manufacturing, clean energy, creative industries and digital technologies, predicting to create 45,000 jobs nationwide.

GOV.UK

AIRBUS, LEONARDO AND THALES – MOU FOR PAN-EUROPEAN SPACE COMPANY

On 23 October, three of Europe's largest aerospace firms signed a memorandum of understanding to merge their space activities into a new company with an expected annual revenue of €6.5 billion. The new entity seeks to strengthen Europe's strategic autonomy, accelerate space innovation, and enhance global competitiveness in satellite manufacturing and services.

Airbus

ITALY – STRENGTHENING EUROPEAN LEADERSHIP IN FUSION ENERGY RESEARCH

On 3 October, the new high-performance PITAGORA supercomputer, dedicated entirely to nuclear fusion research, was inaugurated at CINECA's Data Center in Bologna. Funded by the EUROfusion consortium, the system marks a new milestone in Europe's scientific and technological capacity for fusion energy research.

CINECA

NETHERLANDS – €50 BILLION GREENHOUSE GAS REDUCTION SCHEME

On 30 October 2025, the European Commission approved an updated Dutch state aid scheme with a budget of €50 billion to reduce greenhouse gas emissions via a range of technologies including renewable electricity and heat, hydrogen and transport fuels.

Renewables Now

Headline Analysis
UK – Industrial Strategy Attracts £250 Billion Investment

In a significant early milestone, the UK government reports that its "Modern Industrial Strategy", launched in June 2025, has already secured over £250 billion of investment into eight priority sectors (the "IS-8"), while supporting 45,000 jobs nationwide. This rapid mobilisation underscores that the strategy is part of a long-term delivery programme aimed at sustained economic transformation.

A central reason for this early success is the government's broader effort to create conditions that give investors confidence. The publication of Invest 2035: The UK's Modern Industrial Strategy set out a 10-year plan designed to provide a long-term clarity. The strategy also seeks to reduce key barriers to investment, including tackling high industrial electricity prices and shortening waits for grid and infrastructure connections - issues long cited by energy-intensive and advanced-manufacturing sectors.

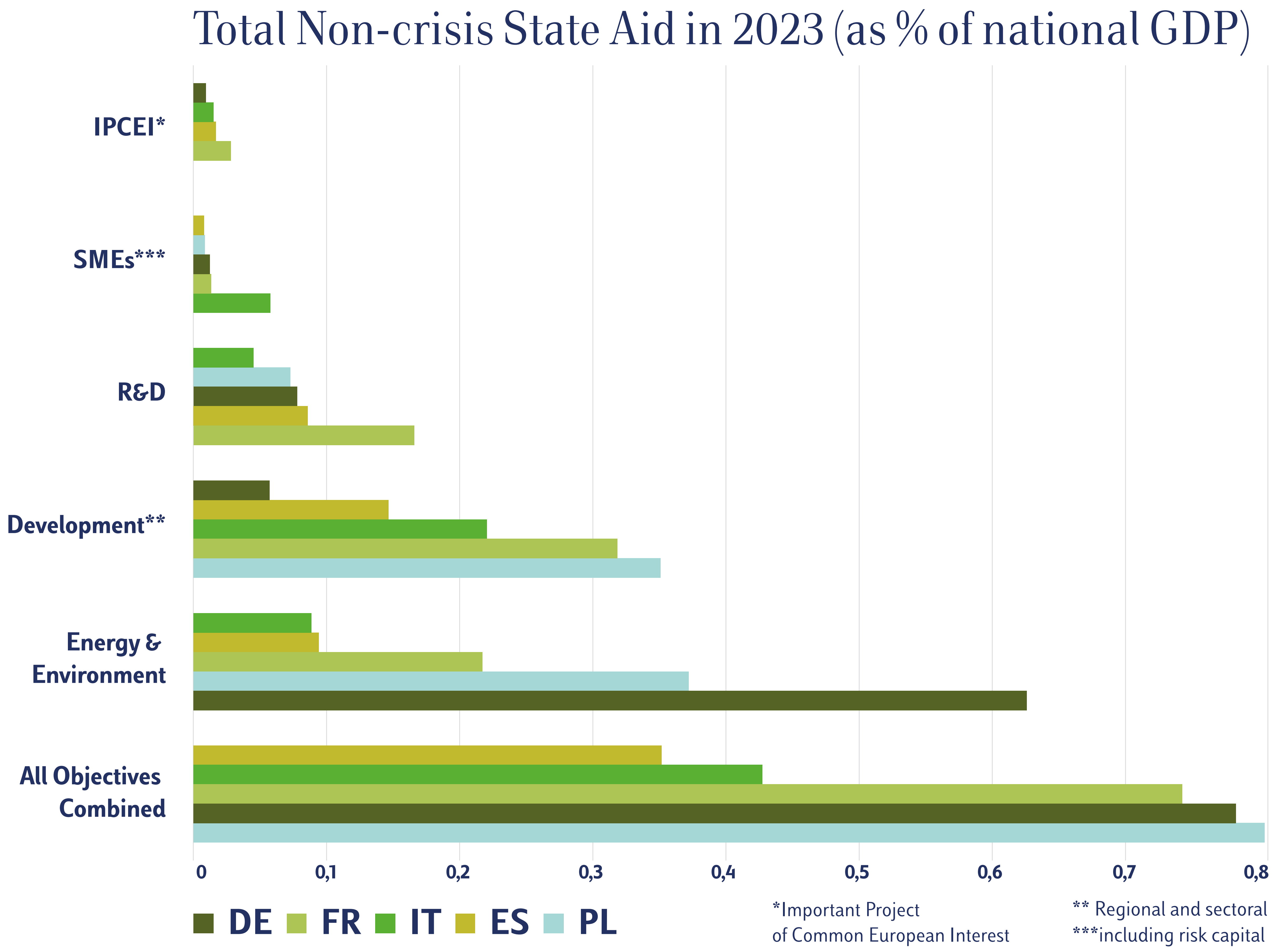
The IS-8 sectors - advanced manufacturing, clean energy, creative industries, defence, digital and technologies, financial services, life sciences, and professional/business services - were selected for their capacity to drive future-oriented growth. This aligns with a wider government effort to create favourable conditions in strategic, high-growth sectors, including AI, space, batteries, and agri-tech.

Several major programmes illustrate how the strategy is being operationalised. A £2.5 billion DRIVE35 programme supports capital investment and R&D in the automotive sector, complemented by a large-scale EV adoption scheme. In clean energy, a £544 million Contracts for Difference Allocation Round 7 signals a strengthened push toward net-zero projects, while hydrogen and carbon-capture initiatives are expected to generate significant regional employment, notably in North Wales and the North West.

Institutionally, the government emphasises a new partnership with business, aimed at ensuring investment decisions are supported by regulatory clarity, coordinated action, and appropriate infrastructure. This first Quarterly Update (July-September 2025) introduces detailed sector plans across all eight priority areas, reinforcing the long-term framework around which public and private actors can align. Investment is also being strategically channelled into the UK's most productive regions to unlock high-growth potential.

In sum, the early outcomes indicate a serious commitment to structural economic change. Whether this momentum endures will depend on execution, regional balance, and the continued ability of public investment to catalyse private capital.

Numbers
Total Non-crisis State Aid in 2023



The graph illustrates total non-crisis state aid in 2023 as a percentage of national GDP across five EU Member States - Germany (DE), France (FR), Italy (IT), Spain (ES) and Poland (PL) - broken down by five major industrial policy-related objectives.

Aid for the energy sector was the largest category in Germany and Poland, highlighting in the latter an ongoing industrial capacity build-up. Regional and sectoral development dominated the mix in France, Italy and Spain. Overall, these two objectives coupled with R&D represent the three largest areas of investment, signalling an increased interest of Member States on growth, innovation and competitiveness. Aid to SMEs remained comparatively modest overall, with Italy being a significant outlier in light of its traditional industrial structure rooted in a dense network of small and medium-sized enterprises. Important Projects of Common European Interest (IPCEI) remained the smallest category across the countries considered, suggesting limited alignment on common European projects.

Further data from the State Aid Scoreboard 2024 show that the EU-27 spent EUR 136.78 billion on non-crisis measures in 2023. When adding aid for crisis measures (COVID-19 and the TCTF), the figure rises to EUR 186.78 billion, corresponding to 1.09% of EU-27 GDP in 2023. As the graph shows, however, significant differences in spending persist across Member States, with Germany alone accounting for EUR 50.59 billion.

Source: PIE elaboration of data from the European Commission, Directorate-General for Competition – State Aid Scoreboard (dataset "Total State aid as % of GDP", accessed November 2025).

Recommended Reading

INDUSTRIAL POLICY: MANAGING TRADE-OFFS TO PROMOTE GROWTH AND RESILIENCE

Chapter 3 of the *World Economic Outlook: Global Economy in Flux, Prospects Remain Dim*, International Monetary Fund (2025)

This chapter of the latest IMF World Economic Outlook examines the circumstances in which industrial policies (IP) – particularly those aimed at developing strategic industries – are most likely to be effective. It concludes that although industrial policy can boost output in targeted sectors, such gains must be weighed against fiscal burdens, temporary increases in consumer prices during the adjustment phase, and risks of inefficient resource allocation. Building on a stylized model drawn from the infant-industry literature, the chapter maintains that the success of IP is highly contingent on existing domestic conditions, specifically learning-by-doing dynamics, proximity to the technological frontier, and market size. In light of the global relevance of energy security, the study then turns to Europe's energy-related IP and finds that, in the absence of such policies, tariff removal would likely leave domestic producers vulnerable to competition from lower-cost imports. At the same time, the chapter stresses that for IP to secure lasting gains, it must be complemented by macroeconomic stability and credible market discipline.

WHY IT MATTERS

The analysis highlights that when industrial policy is carefully designed and directed at correcting production-side market failures, it can improve economic outcomes at both the sectoral and aggregate levels. Drawing from the Korean export-oriented IP strategy, the chapter demonstrates how well-structured incentives, defined by clear goals and embedded in robust institutional frameworks, can catalyze structural transformation. Even so, the chapter cautions policymakers that the feasibility of successful IP implementation depends on country-specific factors – such as institutional capacity, good governance, and the presence of complementary structural reforms – which must be carefully considered when designing such policies. Most importantly, because IP instruments often entail substantial fiscal expenditures, poorly targeted interventions risk dissipating limited public resources without yielding meaningful returns. Finally, the chapter warns that adverse cross-country spillovers and retaliatory cycles may reduce, or even negate, the net benefits of domestic IP initiatives.

Expert's view

THE TURNING POINT OF EUROPEAN INDUSTRIAL POLICY

SCALE, RESOURCES, AND IMPLEMENTATION FOR A NEW COMPETITIVENESS

Paolo Guerrieri
PSIA, Sciences Po

Europe is at a turning point in industrial policy. After years of being overshadowed by competition, trade and the single market, industrial action has returned firmly to the centre of the European agenda. Three trends explain this resurgence in Europe and beyond: (i) the climate emergency, which requires new regulations and public funding; (ii) increasingly security-focused geopolitics, with inter-country relations becoming more and more power-driven; and (iii) the "second digital wave", centered on AI, where economies of scale and learning economies are important. This is not the return of the state "against" the market; rather, it is the state using the market to accelerate the transition and reduce vulnerabilities. Consequently, a "race for instruments" is underway in all major countries, shifting the focus from whether industrial policy should be pursued to how it can be implemented effectively.

The new European cycle has multiple objectives: to boost growth and technological leadership; to drive the twin green and digital transitions; and to strengthen economic security. This will enable Europe to recover ground vis-à-vis the USA and China after a decade of low productivity and structural fragility. To achieve these goals, a paradigm shift in industrial policy is required: moving from a collection of horizontal incentives to an integrated strategy that links the green and digital transitions, the security and resilience of value chains, the protection of the single market and cohesion. Several steps mark this qualitative leap: (i) the financial turning point marked by the launch of the NGEU, followed in 2025 by the Competitiveness Compass (which leverages energy, capital and simplification); (ii) greater flexibility in state aid, which is useful for projects that would otherwise be difficult to implement, but which poses a risk to the integrity of the internal market; (iii) "vertical" acts, such as the Chips Act, which redefine the scope of industrial policy, placing production capacity at the centre alongside scale objectives, faster permits and diversification; and (iv) defensive instruments that safeguard competition in the internal market and economic security.

Expert's view

Designing future policies requires the following methodological premise: as Philippe Aghion reminds us, an effective industrial policy is a "strategic game" between government and firms, rewarding market entry, "healthy" rivalry and the adoption of new technologies. In 2025, the Commission set shared objectives for the following decade, including closing the innovation gap, decarbonising, reducing excessive dependencies, strengthening skills, governance and procurement, and promoting a non-protectionist "European preference". Implementation, however, is only just beginning.

To this end, four priorities appear fundamental: (1) placing the Single Market at the centre and avoiding the renationalisation of industrial policy by selecting achievable missions within the decade through public–private partnerships and strengthening innovation-oriented procurement; (2) providing more common and better-targeted resources, as the greatest threat is an ambitious architecture without adequate shared means; (3) moving from regulatory proliferation to the simplification and effective implementation of rules; and (4) building a broad and coherent international diplomatic dimension with agreements in the Global South, partnerships on critical raw materials and less fragmented management of the Global Gateway.

Clear and verifiable outcome indicators are also needed, such as activated private investments, shorter approval times, an increased EU share in strategic technologies and reduced territorial disparities. Furthermore, it is essential to link competitiveness and cohesion in industrial policies to prevent territorial polarisation while simultaneously strengthening and deepening the Single Market.

Finally, it must be remembered that success in the face of the triple challenge of productivity, sustainability and security can only be achieved by "playing as Europe".