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Observatory on
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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 December 2025

EU – COMMISSION LAUNCHES RAW MATERIALS SECURITY PLAN

On 3 December 2025, the European Commission launched the RESourceEU action plan to strengthen Europe's economic security by securing access to critical raw materials. The plan mobilises EU instruments and partnerships to diversify supply chains and will deploy €3 billion in EU funding over the next 12 months to reduce dependencies in strategic sectors, including EV batteries, defence and semiconductors.

European Commission, Directorate-General for Communication

EU – COUNCIL ADOPTS €1.5 BN EUROPEAN DEFENCE INDUSTRY PROGRAMME

On 8 December 2025, the Council formally adopted the European Defence Industry Programme (EDIP), allocating €1.5 billion for 2025–2027, including €300 million to support Ukraine's defence industry. The programme strengthens the EU defence industrial base through joint procurement, industrial ramp-up measures and European Defence Projects of Common Interest, while enhancing supply-chain security and reducing reliance on non-EU components.

Council of the European Union

EU – COMMISSION PROPOSES UPGRADE OF EU'S ENERGY INFRASTRUCTURE

On 10 December 2025, the European Commission presented the European Grids Package and the Energy Highways initiative to accelerate the development of electricity grids and cross-border energy infrastructure across the EU. The proposal seeks to improve the use of existing networks, ensure fair cost-sharing for cross-border projects, and facilitate clean-energy integration, with the aim of lowering electricity costs and strengthening the Union's energy security and independence.

European Commission, Directorate-General for Communication

GERMANY – €30 BN 'DEUTSCHLANDFONDS' TO SPUR INVESTMENT

On 18 December 2025, Germany launched the €30 billion Deutschlandfonds to mobilise up to €130 billion in private capital for industrial modernisation and green technologies. Operated via KfW, a German state-owned development bank, the fund provides guarantees, loans and equity to de-risk investments in decarbonisation, renewable energy infrastructure and deep-tech start-up, with the aim of strengthening competitiveness and improving innovation and supply-chain resilience.

Reuters

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European Industrial Policy Monitor

European Industrial Policy in December 2025

ITALY – NEW IPCEI ON AI AND CHIPS

On 18 December 2025, Italy's Ministry for Enterprises and Made in Italy (MIMIT) announced Italy's participation in a new Important Project of Common European Interest (IPCEI) focused on artificial intelligence and semiconductors. The initiative pools national and EU resources to support cross-border R&D and industrial investments in AI and chip technologies, enabling coordinated state aid and strengthening Italy's role in the EU's digital and technological strategy.

Italian Ministry press release

SPAIN – €408 M STATE AID SCHEME APPROVED

On 15 December 2025, the European Commission approved a €408 million Spanish state-aid scheme to support the decarbonisation of energy-intensive industries. Funded under Spain's Recovery and Resilience Plan, the scheme supports investments in electrification, renewable hydrogen, waste-heat recovery and carbon-capture technologies and was approved under the Clean Industrial Deal State Aid Framework (CISAF).

European Commission, Directorate-General for Communication

GERMANY – SEMICONDUCTOR STATE-AID SCHEME APPROVED

The European Commission approved €623 million in German state aid to support the establishment of two first-of-a-kind semiconductor manufacturing facilities. The measure includes €495 million for GlobalFoundries, an open foundry producing chips for third parties, and €128 million for X-FAB to expand open foundry capacity at its Erfurt site. The Commission found the aid compatible with EU state-aid rules, citing positive spillovers for the European semiconductor ecosystem.

Reuters

POLAND – NUCLEAR POWER PLANT AID PACKAGE

On 9 December 2025, the Commission approved a State aid package for Poland's first nuclear power plant, up to 3,750 MW capacity, expected to begin operations in the late 2030s. After an in-depth investigation, the aid was deemed necessary and proportionate to support Poland's energy security and to advance its long-term electricity decarbonisation strategy.

European Commission, Directorate-General for Communication

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European Industrial Policy in December 2025

FRANCE – ELECTRICITY CAPACITY MECHANISM REFORM

The Commission approved a major reform of France's electricity capacity mechanism to secure sufficient power during peak winter demand. The reformed scheme will run for 10 years from late 2026 with an estimated €20 billion budget, compensating power producers, storage operators, and demand-response providers to ensure reliability of supply in critical periods.

The Brussels Times Newsroom

UK – UK BUDGET ALLOCATIONS FOR RESEARCH AND INNOVATION

As part of the UK's record £86 billion public R&D funding package for the 2026–2030 Spending Review period (announced in June 2025), UK Research and Innovation (UKRI) set out its strategic budget allocations across three R&D priorities. These include £14.5 billion for curiosity-driven foundational research, £8.3 billion for targeted R&D addressing strategic government and societal priorities, and £7.4 billion to support the growth of innovative companies. In addition, £8.4 billion is allocated to cross-cutting R&D enablers, including talent, research infrastructure, institutes and facilities.

UK Research and Innovation

SWITZERLAND – EDGING CLOSER TO EUROPE

On 5 December 2025, the Swiss government announced that nearly three quarters of cantons, political parties and stakeholder organisations support deepening relations with the EU. The draft Swiss–EU agreement (Bilaterals III) covers areas including electricity trade, transport, state aid and freedom of movement, and would further align Switzerland with EU single-market rules while including Swiss contributions to EU cohesion funds. The Federal Council is expected to submit the package to Parliament by March 2026, with a referendum likely in 2027 or later.

Reuters

Headline Analysis

Germany – €30 bn ‘Deutschlandfonds’ to spur investment

In a strategic push to revitalise investment and enhance competitiveness, the German government unveiled the “Deutschlandfonds” on 18 December 2025, a €30 billion initiative designed to mobilise private capital for future-oriented investments across the economy’s key transition areas. This initiative reflects Berlin’s broader effort to address persistent investment shortfalls and position Europe’s largest economy for growth in energy transition, technology, and industrial modernisation.

A critical element of the Deutschlandfonds is its public-private mobilisation mechanism. Rather than direct subsidies, the fund will deploy guarantees, loans and equity stakes through the state-owned development bank, Kreditanstalt für Wiederaufbau (KfW), to de-risk private investment, thereby lowering the entry barriers for institutional and corporate investors. The fund is designed to generate a strong multiplier effect, with the €30 billion public commitment expected to mobilise up to €130 billion in private investment. This would mark a significant boost to capital formation in strategic sectors after years of comparatively sluggish private and public investment growth.

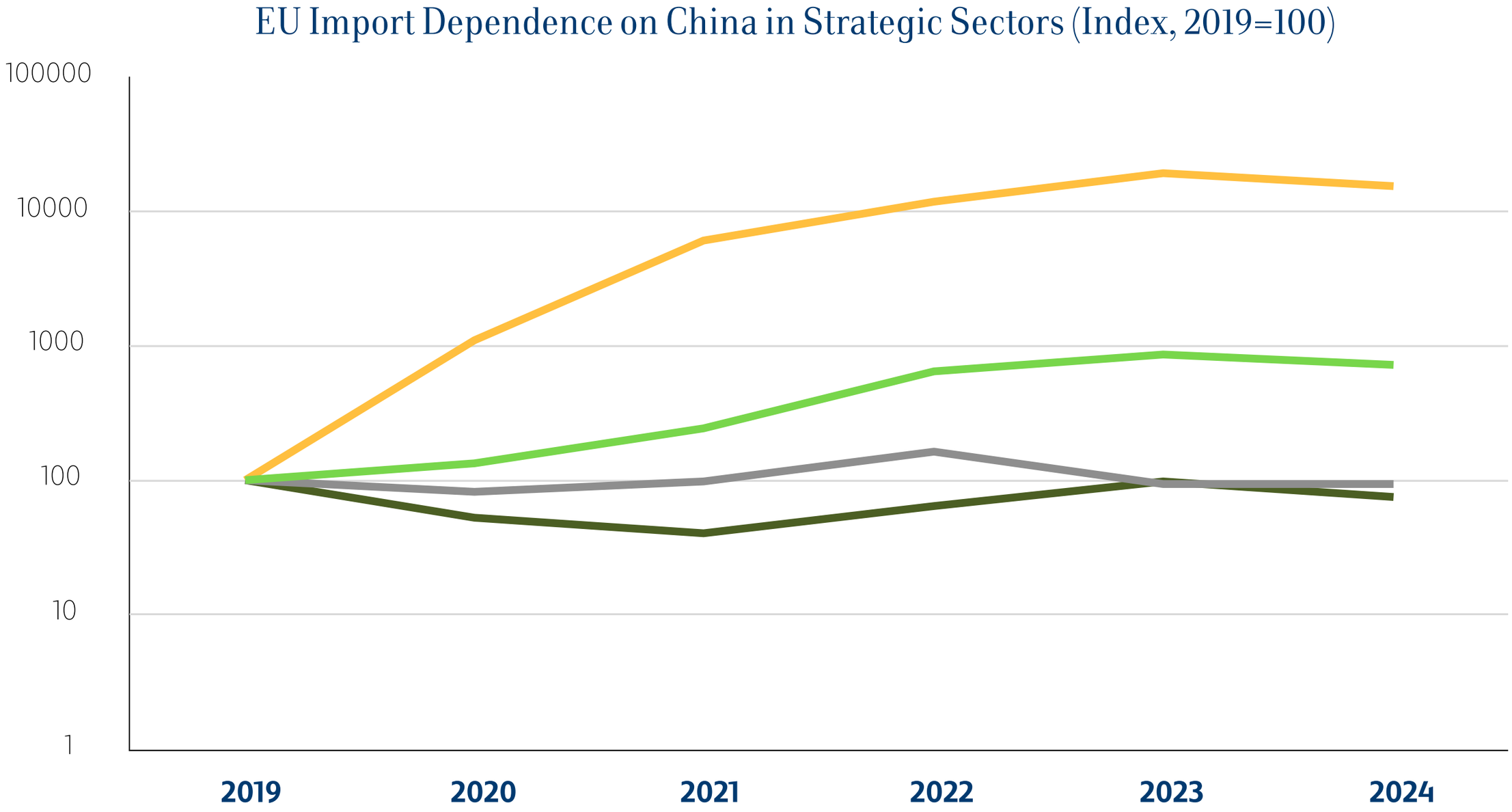
The Deutschlandfonds is targeted at three strategic clusters: (i) industrial decarbonisation and critical raw materials projects involving industry and SMEs, (ii) energy utilities investing in renewable infrastructure, and (iii) start-ups and scale-ups specialising in deep tech, biotech, and defence technology. This triad aligns with Germany’s twin priorities of technological leadership and climate transition, directing capital toward innovation-dense and future-oriented activities.

Operational measures underpinning the initiative include up to €8 billion in guarantees for industrial transformation projects, a €600 million guarantee framework for geothermal drilling, and expanded venture capital financing aimed at early-stage companies. KfW will also support lending to SMEs through securitisation and finance defence exports, further broadening the initiative’s economic footprint.

Institutionally, the Deutschlandfonds reflects coordinated policy action between the finance and economy ministries, with KfW acting as the chief implementing agency. Economy Minister Katherina Reiche has framed the initiative as essential to directing private capital “to where innovation is created,” enhancing supply chain resilience and preparing Germany for future economic challenges.

In sum, the launch of the Deutschlandfonds marks a significant strategic intervention in Germany’s investment policy, emphasising public risk absorption and private capital mobilisation as tools for structural transformation. Its success will hinge on private sector engagement, measurable leverage outcomes, and integration with broader reforms to improve the investment climate

Numbers
EU Import Dependence on China in Strategic Sectors



Note: Due to exceptionally large year-to-year increases in some sectors - most notably electric vehicles, with EU imports from China rising by 11% in 2020 relative to 2019 and by 153% in 2024 - the figure is displayed on a base-10 logarithmic scale to preserve readability. Of course, this transformation does not affect the underlying trends.

The graph illustrates the evolution of the European Union's import dependence, between 2019 and 2024, on China measured by value (EUR) in three selected strategic sectors: electric vehicles (EV), lithium-ion batteries, raw materials, and a subset of rare-earth mixed materials. Overall, the figure highlights a highly uneven pattern of dependence, suggesting that EU de-risking efforts have been partial and sector-specific rather than systemic.

Dependence on China for EVs increased dramatically, peaking in 2023 at more than 190 times the 2019 level before slightly declining in 2024. This reflects China's rapid consolidation of its position along the EV value chain. A similar trend characterises lithium-ion batteries, where EU imports from China rose sharply after 2020, indicating growing reliance on Chinese battery supply despite EU initiatives to build domestic capacity. In the case of critical raw materials, imports declined sharply in 2020-21 and only partially recovered thereafter, suggesting some diversification or substitution, albeit from a relatively small base. The compounded subset of raw materials displays broadly stable dependence over time with a similar decrease-increase pattern.

This pattern indicates that the EU is importing fewer raw materials directly from China while increasingly importing products that embed those materials, effectively outsourcing value-added manufacturing, learning, and scale. Economically and industrially, this implies a risk of clean-tech industrial hollowing-out, a worsening trade balance in strategic sectors, heightened exposure to foreign industrial policy and pricing power, and technological lock-in, suggesting that raw-material diversification alone is insufficient without a parallel strategy to scale domestic manufacturing and coordinate demand-side industrial support. As such, China's role remains significant, and complete diversification will take years of investment, polic implementation, and new supply chains.

Source: PIE elaboration of data from Eurostat COMEXT (Dataset "DS-059341 - International trade of EU and non-EU countries since 2002 by HS2-4-6", accessed January 2026).

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Recommended Reading

MANUFACTURING REVOLUTIONS: INDUSTRIAL POLICY AND INDUSTRIALIZATION IN SOUTH KOREA

The Quarterly Journal of Economics

by Nathan Lane (2025)

This paper examines South Korea's Heavy and Chemical Industry (HCI) initiative of the 1970s as a case of targeted industrial policy. In response to geopolitical and security concerns, the Korean government selected several upstream and midstream industrial sectors producing strategic inputs and capital goods — such as steel, machinery, shipbuilding, and petrochemicals— and supported them through direct credit, investment incentives, and preferential trade measures. Although these sectors did not appear profitable to foreign lenders at the time, policymakers believed they could develop into internationally competitive industries and supply essential intermediate goods for both civilian and defence needs. The author assembles newly digitized industrial and plant-level data and uses modern econometric methods to compare targeted industries with non-targeted ones before, during and after the policy period. The results indicate that supported sectors recorded stronger growth, higher productivity, and increased export competitiveness, while downstream industries benefited through input–output linkages. The paper concludes that temporary and coherent industrial policy contributed to lasting structural change in Korea and should be understood as a transferable policy episode rather than a historical exception.

WHY IT MATTERS

This paper is highly relevant for contemporary policymaking because it provides credible empirical evidence that well-designed industrial policies can accelerate industrial upgrading in targeted sectors and support the development of dynamic comparative advantages. The study does not treat industrial policy as a homogeneous intervention package but rather distinguishes and clarifies the policy mechanisms through which it operates. It shows that directed credit was the decisive lever enabling capital-deepening in upstream and midstream industries, while investment incentives and reduced input wedges alleviated constraints that private markets failed to resolve. For governments considering interventions in strategic areas such as semiconductors, green technologies or defence-related industries, these findings demonstrate that financial instruments aligned with sectoral priorities can mobilize investment and accelerate capability formation. The paper also highlights the role of input–output linkages in amplifying policy effects, showing that downstream industries benefited from improved access to intermediate goods. In a context of growing concern over supply chain resilience and technological sovereignty, this suggests that targeting upstream and midstream sectors can generate complementary effects that extend into broader segments of the economy.

Expert's view

IT IS TIME TO TRULY STRENGTHEN EUROPEAN INDUSTRIAL POLICY

Claudio De Vincenti
Luiss LEAP, former Undersecretary of State to the Government of Italy
and former Minister for Territorial Cohesion and Southern Italy

After an initial long phase in which the Green Deal was implemented without adequate consideration of industrial policy issues and social policy implications, it has now become unavoidable for the European Union to address the complex task of balancing three objectives: decarbonisation, economic competitiveness and energy security. It is a difficult challenge, because the three objectives involve mutually delicate trade-offs.

A number of EU documents on industrial issues have followed one another since the beginning of 2023, reflecting the emerging need to move away from the environmentally unilateral view of the Green Deal strategy that prevailed in its early stages. In particular: the Green Deal Industrial Plan (February 2023), the Net Zero Industry Act (March 2023), the Critical Raw Materials Act (April 2024), the Competitiveness Compact (January 2025), the Clean Industrial Deal (February 2025) followed by the Action Plans for energy, automotive sector, steel and metals. Finally, the proposed Multiannual Financial Framework 2028-34 (July 2025) provides for a significant increase in funding for EU industrial policies, which will reach €470 billion (but the necessary restructuring of the various funds involved - Horizon Europe, InvestEU, etc. - has yet to be clarified).

However, while acknowledging the progress made in raising awareness of competitiveness and strategic security issues, an overall assessment of the strategy at this stage cannot fail to highlight the persistence of certain factors that weaken the EU's ability to implement an adequate industrial policy:

- the environmental unilateralism of the first phase of the Green Deal is set aside but not overcome in principle;
- for too long EU documents have sought to base industrial policy solely on guidelines and rules, avoiding the issue of making adequate resources available;
- the greater flexibility granted to Member States in the field of state aid increases the risk of fragmentation of the internal market, preventing the economies of scale necessary for innovative investments;
- the Commission's proposal for the 2028-34 budget significantly increases the resources allocated to EU industrial policy, but by foregoing the issuance of new European debt, it still does not guarantee sufficient funding (the Draghi Report mentions €7-800 billions of public and private investments per year).

Expert's view

The time has therefore come to truly strengthen European industrial policy. As clarified by recent theoretical literature (Rodrik, Aghion, Onida), industrial policy must be conceived as a strategic game between government and firms, and its instruments must be constructed in such a way as to ensure a positive-sum game.

In this vein, its main instruments are:

- public-private partnerships as a means of capitalising on companies' drive for efficiency and innovation and giving a strong boost to infrastructure investments;
- tax and financial incentives designed in such a way to enhance – not dull – companies' capacity for innovation, a criterion that can be met by automatic incentives such as those in the Industry 4.0 package, but also by discretionary incentives managed by a public entity operating on the basis of technical and business criteria such as the guarantees offered by InvestEU;
- public stakes in the capital of strategic companies, while respecting their entrepreneurial autonomy, because only when policy guidelines are translated by company management into investment choices that are able to compete on the market, do they become truly effective.

Looking at the European context, it is now clear that there is an urgent need to strengthen the EU's capacity to coordinate national policies and implement its own priorities through instruments such as: those already available - InvestEU, Horizon Europe, Investment Projects of Common European Interest, to be oriented more towards supporting the technological leap that is needed – and possible innovative developments – direct EU investments in the so called European Public Goods, such as financing R&D and technology transfer investments, support for EIB and National Promotional Banks (CDP, CDC, KFW, ICO, BGK) in providing financing or equity participation to enterprises engaged in innovation processes, support for public-private partnerships for completing energy and transport networks.

But – to conclude this note – in order to strengthen the EU's coordination capacity and its own industrial policy instruments, it is essential to start building a genuine Central Fiscal Capacity (Buti-Messori) for the Union that will enable new European debt to be raised to finance the extraordinary investment effort that is necessary and urgent.