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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 January 2026



## EU – CBAM ENTERS DEFINITIVE PHASE

On 1 January 2026, the definitive phase of the Carbon Border Adjustment Mechanism (CBAM) entered into force. The scheme applies a carbon price to selected imports from non-EU countries to prevent carbon leakage and level the playing field with EU producers. Importers must report embedded emissions, register in the CBAM Registry and purchase CBAM certificates, whose price mirrors the EU ETS carbon price. The measure covers sectors including steel, aluminium, cement, fertilisers, hydrogen and electricity.

[Directorate-General for Taxation and Customs Union](#)

## EU – COUNCIL CLEARS SIGNATURE OF MERCOSUR AGREEMENTS

On 9 January 2026, the Council authorised the signature of the EU–Mercosur Partnership Agreement (EMPA) and an Interim Trade Agreement (iTA) – which took place in Paraguay on 17 January. The deal would grant EU firms enhanced access to a 280-million-consumer Latin American market where around 30,000 European companies already operate. Amid concerns over its potential impact on EU emissions and climate commitments, the European Parliament adopted a resolution on 21 January requesting a legal opinion from the European Court of Justice before deciding whether to grant its consent.

[General Secretariat of the Council](#)

## EU – EUROHPC AMENDMENT FOR AI & QUANTUM CAPABILITIES

On 16 January 2026, the Council adopted amendments to the EuroHPC Joint Undertaking Regulation to enable the creation of “AI factories” and “AI gigafactories” and to introduce a dedicated quantum pillar. Entered into force on 20 January, the reform aligns high-performance computing, AI and quantum under a strengthened governance and investment framework to support the EU’s leadership in strategic digital technologies. The measure aims to address infrastructure bottlenecks for European research and industry, with implications for data-intensive sectors such as advanced manufacturing, defence, healthcare and energy.

[Directorate-General for Communications Networks, Content and Technology](#)

# European Industrial Policy in January 2026



## EU – SAFE: TWO WAVES OF DEFENCE FUNDING APPROVED

Following a rigorous assessment of the countries’ “National Defence Investment Plans” under the Security Action for Europe (SAFE) initiative, the Commission approved a first wave of funding on 15 January (approved by the Council on 11 February), allocating a total of €38 billion to eight Member States – Belgium, Bulgaria, Cyprus, Denmark, Spain, Croatia, Portugal, and Romania. A second wave was cleared on 26 January (approved on 17 February), entitling eight additional Member States – Estonia, Greece, Italy, Latvia, Lithuania, Poland, Slovakia and Finland – to around €74 billion. The decisions unlock low-cost, long-term loans to scale up defence investment and procurement of modern equipment.

[European Commission](#)

## EU – LANDMARK FREE TRADE AGREEMENT WITH INDIA

On 27 January, the EU and India concluded a landmark free trade agreement at the EU–India Summit, creating a market of 2 billion people and covering bilateral trade of around €180 billion. Dubbed the “mother of all trade deals”, the agreement combines tariff reductions with provisions on standards, intellectual property and sustainability, with expected benefits for EU export-oriented value chains and broader de-risking and market diversification strategies. For entry into force, the agreement must be adopted by the Council, signed by the parties, and receive the European Parliament’s consent and the Council’s final decision on conclusion.

[European Commission](#)

## EU – DELAYS CONTINUE FOR INDUSTRIAL ACCELERATOR ACT

The Industrial Accelerator Act (IAA), a key pillar of the Clean Industrial Deal, aims to support the decarbonisation of energy-intensive industries while safeguarding their competitiveness. A central objective is the creation of “lead markets” to stimulate early demand for low-emission technologies through targeted regulatory and market conditions, thereby accelerating the scale-up of sustainable production. Originally scheduled for publication on 10 December 2025, the proposal was postponed to 29 January 2026, then to 25 February, and most recently to 4 March. The most contentious issue remains the potential inclusion of local production requirements (“made in the EU”).

[ECCO Climate](#)

# European Industrial Policy in January 2026



## SPAIN – €3.1BN CHP STATE AID SCHEME APPROVED

On 28 January 2026, the European Commission approved a €3.1 billion Spanish State aid scheme to support electricity generation from new or upgraded highly efficient combined heat and power ('CHP') plants, with a planned duration of 10 years. The scheme combines investment support (awarded through competitive auctions) with operational aid, adjusted quarterly based on market variables such as electricity prices, fuel costs and CO<sub>2</sub> prices. The measure is expected to have significant economic impact by improving energy efficiency, lowering industrial costs and supporting industrial decarbonisation.

[Reuters](#)

## NETHERLANDS – NEW INDUSTRIAL STRATEGY IN FORCE

As of 1 January 2026, the Dutch government has introduced a new, more targeted industrial strategy, focused on six priority markets: semiconductors, biotechnology, defence-related technologies (including 6G, radar, laser satellite communication and quantum), digital services (notably AI), mechanical engineering and innovative chemistry. The shift is framed as a response to intensifying global competition – particularly from the US and China – rapid technological change and growing geopolitical tensions. The objective is to strengthen national competitiveness, strategic capabilities and long-term economic resilience through a more targeted allocation of public resources.

[Netherlands central government](#)

## GERMANY – NEW ELECTRIC VEHICLE INCENTIVE PROGRAM WITH “SOCIAL SCALING”

On 19 January 2026, the German federal government published the details of a new incentive scheme for the purchase/leasing of electric and hybrid vehicles, applicable to new registrations from 1 January 2026. The measure provides grants ranging from €1,500 to €6,000 depending on vehicle type, income level, and household composition. The total budget indicated amounts to €3 billion (2026-2029), with an estimated target of around 800,000 vehicles. From an industrial policy perspective, the scheme aims to support domestic demand and the transition of the European automotive industry, reducing the risk of a slowdown in the EV market and protecting production capacity and local supply chains.

[European Commission](#)

# Headline Analysis

## EU – Council clears signature of Mercosur agreements



The European Union and Mercosur – comprising Argentina, Brazil, Paraguay and Uruguay – reached a political agreement in December 2024 on a long-negotiated partnership combining political cooperation and trade liberalisation. In September 2025, the European Commission proposed structuring the deal into two parallel legal instruments reflecting the EU’s division of competences:

- a comprehensive EU–Mercosur Partnership Agreement (EMPA), covering political dialogue and cooperation and qualifying as a mixed agreement requiring ratification by all Member States and the consent of the European Parliament;
- an Interim Trade Agreement (iTA), limited to trade and investment, falling under the EU’s exclusive common commercial policy competence, requiring approval only by the Council and the Parliament, and designed for provisional application pending full ratification of the EMPA.

On 9 January 2026, the Council authorised the signature of both agreements, which were formally signed on 17 January. If it enters into force, the deal will create a free trade area of more than 700 million people and strengthen the EU’s geopolitical positioning at a time of weakened WTO multilateral trade governance and increasingly unilateral trade policies by major powers.

Yet the agreement has proven deeply divisive. Supporters – notably Germany and Spain – frame it as a strategic tool to diversify supply chains and consolidate the EU’s presence in Latin America. Opponents – led by France and backed by farmers’ associations and environmental groups – warn of unfair agricultural competition and environmental risks.

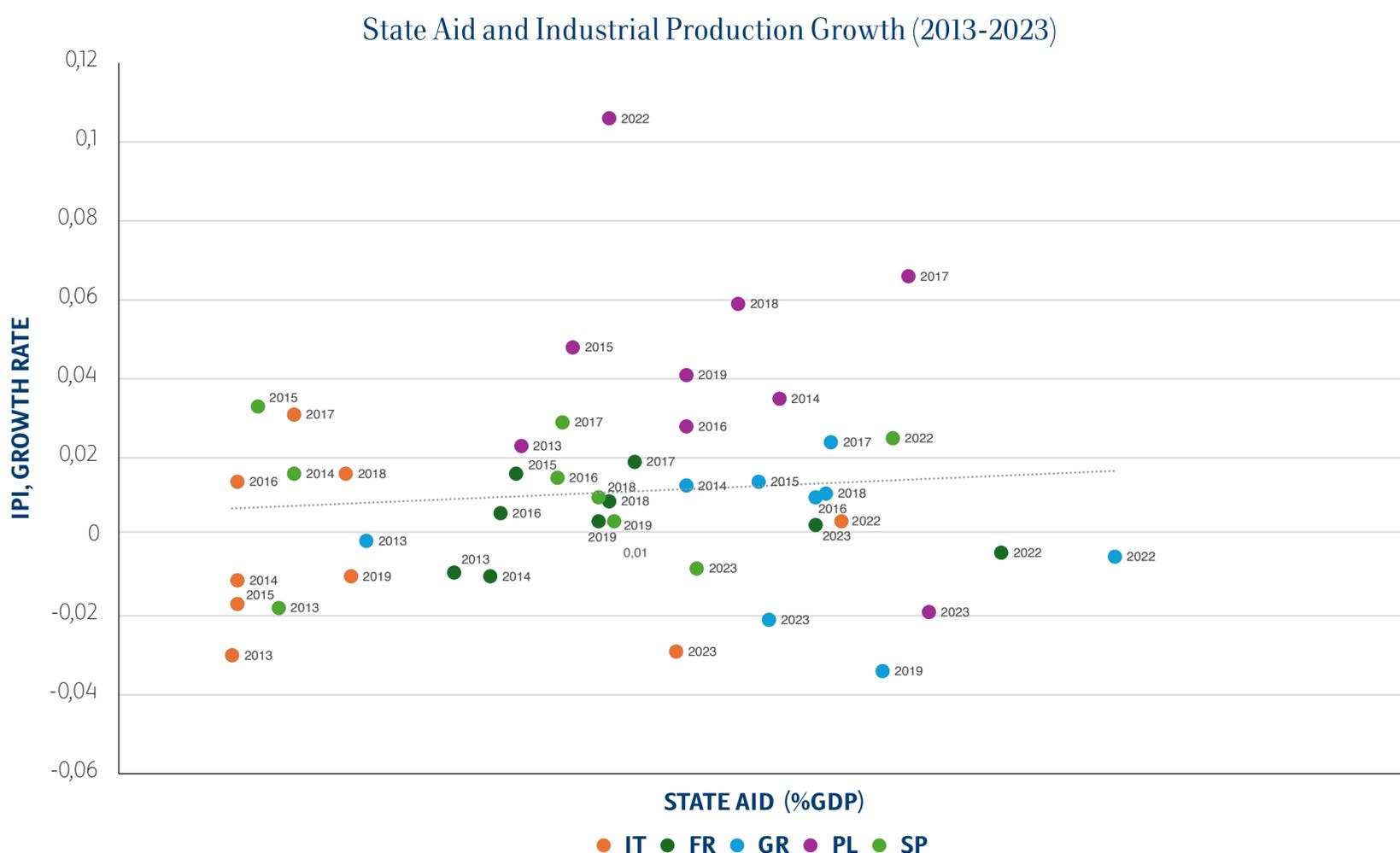
Against this backdrop, on 21 January the European Parliament requested an opinion from the Court of Justice under Article 218(11) TFEU on the compatibility of the trade pillar with the Treaties. The referral, centred on the legality of the agreement’s “splitting” and on a rebalancing mechanism that could allow Mercosur to adopt countermeasures in response to future EU regulatory changes, is expected to delay ratification by at least a year.

While environmental concerns must be taken seriously, the economic stakes are not negligible. According to model-based estimates, should ratification be deferred through 2026, total foregone EU exports could reach €216 billion, with lost GDP climbing to €344 billion.

The Court’s forthcoming opinion will not only determine the fate of this specific deal but may also shape the future design of EU trade agreements in an era where industrial policy, regulatory sovereignty and external economic relations are increasingly intertwined.

# Numbers

## State Aid and Industrial Production Growth: Evidence from Selected EU Countries



Note: Observations for 2020–2021 are excluded to avoid distortions associated with the COVID-19 shock.

The scatter plot displays the relationship between state aid as a share of GDP and industrial production growth across a small set of EU countries over several years, with each point representing a country–year observation. The fitted regression line shows a very slight positive slope, suggesting a weak association between higher levels of state aid and industrial production growth. However, the wide dispersion of observations around the line indicates that this relationship is weak and that state aid alone explains little of the variation in industrial performance across countries and years. The figure should therefore be interpreted with caution. Given the limited number of observations and the absence of controls for country-specific characteristics or broader macroeconomic conditions, the graph does not allow for strong conclusions about the effect of state aid on industrial performance.

More broadly, the graph suggests that this indicator alone may not be sufficient to capture the broader impact of industrial policy in these countries. Industrial policy operates through a wide range of instruments, and state aid represents only one of its possible channels. The observed pattern may also reflect a potential displacement effect, whereby increases in targeted industrial support are offset by reductions in other forms of public spending or policy support, leaving the overall magnitude of intervention largely unchanged. Precisely because these results are not decisive, they highlight the need for further research into the mechanisms through which industrial policy may affect industrial performance.

Source: PIE elaboration of data from (i) UNECE industrial production index (IPI), 2013-2023 and (ii) the European Commission State Aid Scoreboard, 2013-2023

# Recommended Reading



## THE COSTS OF CONDITIONALITY. IPCEIS AND THE CONSTRAINED POLITICS OF EU INDUSTRIAL POLICY

Competition & Change

by **Luuk Schmitz, Timo Seidl and Tobias Wuttke** (2025)

This article examines Important Projects of Common European Interest (IPCEIs) as the flagship instrument of the EU's renewed industrial policy. While much of the literature focuses on the return of “market activism” in Europe, the authors shift attention to how industrial policy operates in practice. IPCEIs, grounded in EU state aid law, attach strict eligibility and compatibility criteria to national subsidies in strategic sectors such as microelectronics, hydrogen and cloud computing. Drawing on interviews with policymakers and firms, as well as detailed document analysis, the authors argue that these conditionalities – designed to ensure efficiency and avoid distortion – also generate significant costs. They identify three main effects: perverse outcomes (notably long approval timelines that undermine innovation speed), adverse selection (disproportionate participation by large firms and fiscally stronger Member States), and workarounds (firms turning to alternative instruments such as GBER, TCTF or national schemes). The paper concludes that EU industrial policy is not constrained by lack of ambition, but by institutional, ideational and political limits embedded in the state aid regime.

### WHY IT MATTERS

This article is highly relevant for current EU industrial policy debates because it moves the discussion from whether Europe should pursue industrial policy to how it should govern it. The findings suggest that excessive ex-ante conditionality may slow down strategic investments in fast-moving sectors such as semiconductors and clean technologies, potentially weakening Europe's competitiveness. At the same time, the heavy administrative burden reinforces asymmetries within the Single Market, favouring large firms and Member States with stronger fiscal and bureaucratic capacity. For policymakers designing the Clean Industrial Deal, IPCEIs, the Chips Act or a future European Competitiveness Fund, the paper offers a crucial warning: safeguarding competition and ensuring accountability must be balanced against speed, scale and strategic coherence. More broadly, it highlights that conditionality is not merely technical design but a political choice, shaping who benefits from Europe's industrial transformation and how effective that transformation can be.



## ENHANCED COOPERATION AS A PATH TO PROMOTE A EUROPEAN INDUSTRIAL POLICY

**Ambassador Vincenzo De Luca**

Consultant Studio Gianni & Origoni

In January, Italy and Germany agreed on joint action plans on EU single market competitiveness, aimed at promoting regulatory simplification for European companies and defining cooperation projects in the most advanced industrial sectors. Similar commitments had already been undertaken last year by France and Germany during their bilateral summit. The document signed by Italy and Germany – also endorsed by Belgium on the eve of the Informal Competitiveness Council of 12 February – revives the proposal to introduce the “28th regime” by the end of the year. The aim is to overcome the fragmentation of national regulatory systems and support the development of innovative firms. The 28th regime would exist alongside legal frameworks of the 27 Member States, allowing companies easier access to the European internal market.

Italy and Germany both stated their intention to make use of the instrument of enhanced cooperation, provided for in the European Treaties. This mechanism allows a group of at least nine countries to advance joint initiatives in areas where progress among all 27 Member States proves difficult.

In recent weeks, President Ursula von der Leyen, while reiterating that the European Union’s objective remains to act collectively, has also argued that the Union “must not be timid” in using all the instruments available – including enhanced cooperation – in order to strengthen European competitiveness.

To avoid undermining the prospects of a stronger and more autonomous Europe, the most industrially advanced countries should move together and join forces to give new momentum to the development of a genuinely European dimension of industrial projects and technological competitiveness. Italy and Germany are the two largest manufacturing economies in Europe, accounting together for around 40% of EU industrial production. Bilateral trade between the two countries exceeded €155 billion in 2024, while reciprocal direct investments amount to more than €100 billion. In addition, over 2,000 Italian companies operate in Germany, generating a combined annual turnover of approximately €90 billion. These two production systems are deeply integrated and face common global competitiveness challenges. These range from the future of manufacturing in the era of artificial intelligence, to securing supplies of critical raw materials, and to advancing the integration of Europe’s defence and space industries.

## Expert's view



Some of these challenges were already addressed during the most recent Italian German summit, which resulted in agreements covering joint commitments on critical raw materials, cooperation in the defence sector following the agreement between Leonardo and Rheinmetall, new initiatives in innovation and start-up promotion, collaboration in the space sector, and the development of the Southern Hydrogen Corridor. In this broader effort, France – as well as other major European economies such as Spain, Poland, and the Netherlands, along with other technologically and industrially advanced countries – should also be involved.

Looking further ahead, it would be particularly valuable to explore the potential of enhanced cooperation within the EU in the crucial area of the application of artificial intelligence to manufacturing. This is a field where the future of European industry is at stake in the face of growing competition from China and the United States.

Italy and Germany could play a leading role in this effort. Both countries have already developed significant experience through competence centres established under their Industry 4.0 programmes, and through the initiative promoted by the European Commission to create so-called “AI factories.” This model aims to build local ecosystems around large-scale computing centres, linking companies, start-ups, and research institutions in a structure similar to industrial districts. Within the European industrial system, however, there remains a significant gap in the adoption of artificial intelligence technologies: while around 70% of large companies already use AI systems, the share among small and medium-sized enterprises does not exceed 20%.

The scale of these challenges requires renewed momentum in building European strategic autonomy. This will likely require mobilising additional resources, potentially through European debt instruments, in order to avoid widening asymmetries between EU Member States with differing fiscal capacities. At the same time, the commitment to completing the Capital Markets Union, reaffirmed at the Informal Competitiveness Council on 12 February, could facilitate the mobilisation of private capital alongside the necessary public resources.

In areas such as artificial intelligence, space, defence, and the supply of critical raw materials, the appropriate perspective can only be a European one. Without a Europe that is both more strategically autonomous and technologically stronger, it will be impossible to compete effectively in a global landscape where the United States and China are likely to dominate, leaving European countries, large and small alike, at the margins.