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One Fund to Rule Them All

An analysis of the proposed European Competitiveness Fund

In July 2025, the EU Commission proposed a Competitiveness Fund as a response to Draghi's call for a European "investment shock." This analysis, which examines the main elements and the governance of the new fund, shows that it could have a huge impact on the EU's ability to act as an industrial policy player, the EU's internal balance of power and the future of the internal market.

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Summary

The European Commission's proposal for a European Competitiveness Fund (ECF) is the EU's principal response to Mario Draghi's call for a European "investment shock." This €409 billion initiative is designed to boost competitiveness in strategic sectors such as defence, space, AI, clean tech and biotech. In addition, the fund aims to mobilise and coordinate many billions of euros in private sector and public financing. In this sense, it is "One Fund to Rule Them All".

This analysis examines the governance of the new fund. It shows that the ECF would entail a fundamental shift in the EU's traditional investment governance. Specifically, the ECF would: (i) pool resources from several current programmes into a more flexible 7-year funding pot; (ii) shift strategic decisions towards a more political and dynamic annual cycle; and (iii) substantially expand the European Commission's executive discretion over implementation. The overall effect would be to hugely enhance the EU's ability to act as an industrial player.

The fate of the fund now hinges on complex negotiations in the Council and the European Parliament, covering both the proposal itself and the wider EU budget. The outcome could influence not only the Union's industrial policy and internal balance of power, but also the future of the internal market and the EU's global role in a geopolitical era.

About the author

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The opinions expressed in the publication are those of the author.

Introduction

In July 2025, the European Commission unveiled its proposal for a new European Competitiveness Fund (ECF). Building on Mario Draghi's report on EU competitiveness,[1] the ECF is designed to channel large-scale investments into strategic sectors such as defence, space, AI, clean tech and biotech. With a budget of €409 billion – amounting to 20% of the EU's total budget – the fund would more than double EU-level investment in these areas. While this falls short of Draghi's recommendation to add €750–800 billion annually at the EU and national levels, the ECF is more ambitious than many observers had expected, particularly given the EU's limited track record on industrial policy.[2] If it succeeds in its catalytic ambitions – to crowd in significant private sector investment and coordinate national industrial policy funding – the ECF has the potential to deliver the "investment shock" that Draghi and others have called for.

"... the ECF proposal breaks new ground not only in terms of size but also of governance."

As this analysis highlights, the ECF proposal breaks new ground not only in terms of size but also of governance. It would enable the EU to intervene directly in markets by pooling public and private capital into large-scale initiatives, deploying not only grants but also guarantees, loans and direct investments. The ambition, fully aligned with the Draghi report, is to give the EU the means to act as an industrial policy player participating in the global "industrial policy renaissance".[3] This role could potentially leave the EU better positioned to pursue strategic, growth-oriented policies to counter or mirror the industrial policies pursued by China and the United States.[4]

Nonetheless, this ambition faces fundamental challenges. The effectiveness of industrial policy in driving growth and innovation is hotly debated among economists;[5] and the challenges involved in governing large-scale strategic investments are particularly daunting for the EU, which is not a state but a relatively decentralised union of 27 member states. Agile, strategic action would require nothing less than a transformation of how the EU exercises power, which is traditionally constrained by legal frameworks, dispersed networks of actors and numerous veto points. At present, the EU's funding architecture is highly fragmented. Money is pre-allocated across a fairly large number of small funds, each tied to specific regulations. In practice, different funds are managed by different parts of the EU machinery, shaped by layers of expert groups and committee structures. If adopted, the ECF proposal would reduce several of these constraints and radically strengthen the EU's ability to act (its "actorness" or "agency"), centred around the European Commission and the annual budget process.

This report aims to describe and analyse the Commission's ECF proposal, paying particular attention to its governance aspects. Based on this analysis, it considers the road ahead, including upcoming negotiations on the proposal in the Council and European Parliament, and the possible broader implications for the EU and Europe at large. The report does not examine industrial policy more generally. Nor does it assess the effectiveness of ECF instruments in strengthening the EU's economic competitiveness.[6]

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1 Draghi (2024). The future of European competitiveness part A: A competitiveness strategy for Europe.

2 The EU's traditional industrial policy was made up of an ad hoc assemblage of tools. The EU Treaty clause on industrial policy, art. 187 TFEU, still has no legal base for a dedicated financial programme.

3 Ohnsorge, Raiser & Xie (2025). The renaissance of industrial policy: Known knowns, known unknowns, and unknown unknowns

4 Cross-system comparisons are difficult to make but broken down on a yearly basis, the ECF proposal's €58.5 billion could tentatively be compared with the US Innovation and Competition act of 2021 ($22 billion per year), the Chips and Science Act of 2022 ($28 billion per year) or the parts of the American Jobs plan act targeting climate, R&D and manufacturing (some $119 billion per year)

5 For a recent overview of the state of the art, see Juhász, Lane & Rodrik (2024). https://www.annualreviews.org/content/journals/10.1146/annurev-economics-081023-024638?crawler=true-. Grafström (2024) highlights the risks and identifies a number of guiding principles. https://www.sou.gov.se/globalassets/nyheter/vertikal-industripolitik---principer-praktik-och-potential.pdf

6 For this broader debate on EU industrial policy, see for instance the analysis of Harvard economist Philippe Aghion (2024). https://www.bruegel.org/sites/default/files/private/2023-08/Bruegel%20Blueprint%2033_chapter%202.pdf. See also van Reenen & co (2019) who have developed an evidence matrix to explain what we know about the effect of different kinds of industrial policies https://www.aeaweb.org/articles?id=10.1257/jep.33.3.163.

The first three sections examine the main novelties in the governance of the ECF, which, taken together, could significantly strengthen the EU's capacity to act as a coherent political actor. First, the consolidation of multiple existing EU funds into a more flexible long-term pool of resources. Second, the introduction of a new system for dynamic, strategic steering of the fund in the short term, linked to the annual budget cycle. Third, a substantial expansion of the Commission's executive discretion, achieved by reducing member state control over work programmes and limiting reliance on independent experts in project selection.

Section 4 turns to what lies ahead. Over the next two years, the ECF proposal will be debated and negotiated by the EU's legislators. How much, and how, will the Council and the European Parliament amend the proposal? The concluding section considers broader implications and possible outcomes. These will depend not only on the decisions taken by EU legislators, but also on wider international and domestic developments. Ultimately, decisions on how to shape the ECF will have to be made under conditions of strategic uncertainty.

Before setting out, the reader should note that the €409 billion is in fact a package of two funds, set out in two interlinked regulations: the ECF regulation (COM(2025) 555 final/2) and a new Horizon Europe regulation (COM(2025) 543 final). Depending on the context, this report refers either to these two regulations specifically (sometimes denoted by the abbreviations ECF and HEU) or more generally to the package as a whole ("the ECF proposal").

1. A huge, flexible and catalytic pot of money

The ECF proposal sets out to establish a large, flexible and catalytic fund available for the seven-year period 2028–2034. It does this: first, by consolidating 14 different existing funding programmes and more than doubling the resources available; and, second, by channelling funding through four broad "policy windows", with flexible budget allocations and funding instruments that aim to generate catalytic effects in relation to private sector and public funding sources. The intention is to shift the governance logic from pre-allocated, programme-based expenditures towards more flexible, "policy-based" spending.

"The ECF proposal sets out to establish a large, flexible and catalytic fund available for the seven-year period 2028–2034."

1.1 Consolidation of current funds, combined with additional, fresh funding

The EU has developed a multitude of funding programmes across different sectors in recent decades, creating what some scholars have described as an EU "fund galaxy".[7] In its ECF proposal, the Commission highlights how this has generated considerable overlap between different funds and made it difficult to respond to new challenges and opportunities. A recent example is the EU's Chips Act, which – much to the frustration of its promoters – ended up with a highly complex structure reliant on a variety of different funding sources.[8]

The ECF proposal aims to tackle this problem through the full or partial integration of 12 programmes, combined with enhanced coordination with two others (see table 1). Most of the fully integrated programmes are relatively small, with budgets of under €10 billion. Horizon Europe (HEU) stands out as the largest programme involved. It is set to continue under its own regulation, while the ECF regulation is positioned as its "big brother", directing parts of its resources.

[7] Nunez, Begg, Benedetto, Belicka & Corti (2022). The next revision of the financial regulation and the EU Budget Galaxy - How to safeguard and strengthen budgetary principles and parliamentary oversight.

[8] Naujokaitytė (2023). Act three: Chips Act heads into negotiation phase | Science|Business

Table 1. **Partial consolidation of 14 funding programmes**

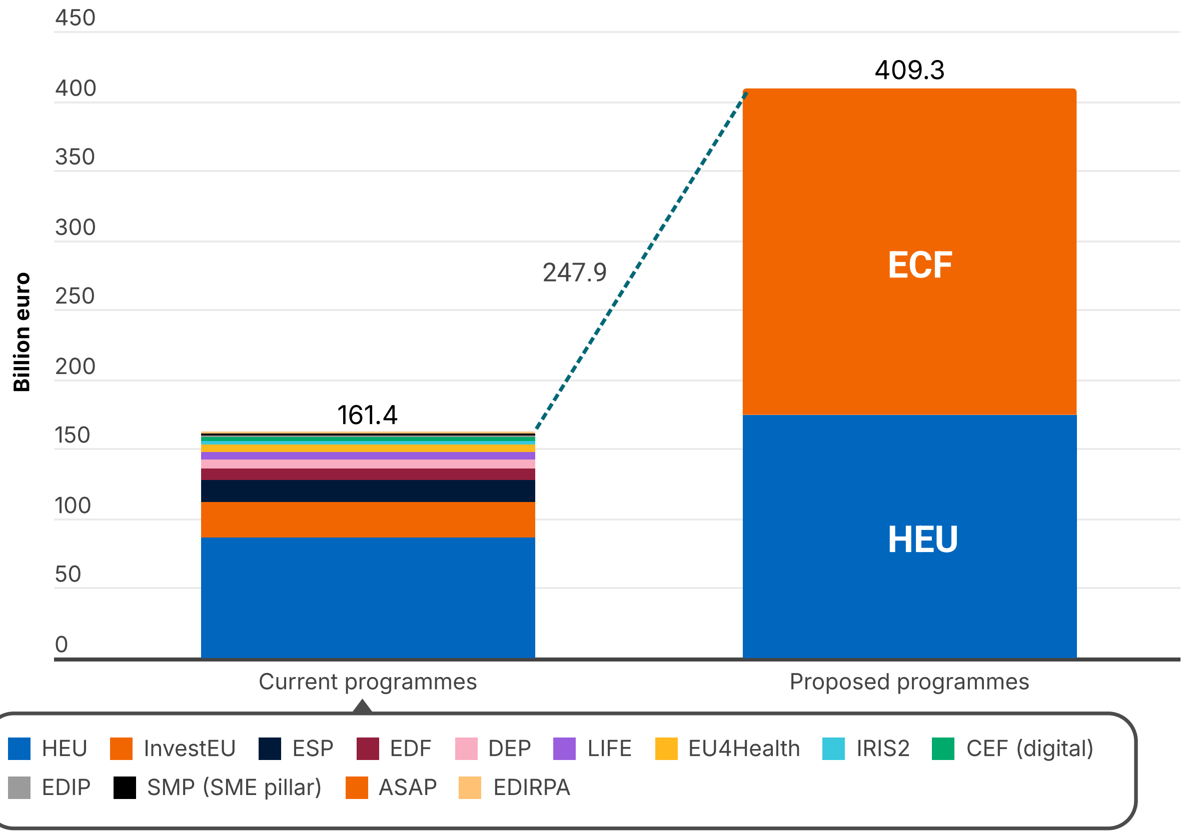
Programme	Legal act	Budget (€bn) 2021–2027	Relationship with ECF
Horizon Europe (HEU)	Reg. (EU) 2021/695	86.1	Remains separate but partial coordination by ECF + joint rule book
InvestEU	Reg. (EU) No 2021/523	26.2	Integrated into ECF
European Space Programme (ESP)	Reg. (EU) 2021/696	14.9	Integrated into ECF
Innovation Fund	COM Delegated Reg. (EU) 2019/856	8.3	Remains separate but "ECF shall ensure coherence with Innovation Fund" (recital 10–11, ECF)
European Defence Fund (EDF)	Reg. (EU) 2021/697	8	Integrated into ECF
Digital Europe Programme (DEP)	Reg. (EU) 2021/694	7.6	Integrated into ECF
LIFE programme	Reg. (EU) 2021/783	5.4	Integrated into ECF
EU4Health	Reg. (EU) 2021/522	5.3	Integrated into ECF
Union Secure Connectivity (IRIS2)	Reg. (EU) 2023/588	2.5 (2023–2027)	Integrated into ECF
Connecting Europe Facility (CEF)	Reg. (EU) No 2021/1153	2.1 (digital)	Digital component moved to ECF. The rest remains separate
European Defence Industry Programme (EDIP)	Proposal for regulation, COM(2024) 150 final	1.5 (2025–2027)	Integrated into ECF
Single Market Programme	Reg. (EU) 2021/690	1 (SME strand)	SME strand moved to ECF. The rest remains separate
Act in Support of Ammunition Production (ASAP)	Reg. (EU) 2023/1525	0.5	Integrated into ECF (probably)
European Defence Industry Reinforcement through Common Procurement Act (EDIRPA)	Reg. (EU) 2023/2418	0.3	Integrated into ECF (probably)

Notes: The budget figures in the table are those indicated in the respective legal act and do not take account of various minor revisions that may have taken place since the acts were adopted. In the ECF regulation, arts 85–88 and recital 89 indicate which programmes will be repealed and amended. It should be noted, however, that ASAP or EDIRPA are not explicitly mentioned.

In addition to consolidation, the ECF proposal would bring in significant new funding. As illustrated in figure 1, the ECF and the new HEU would be about 2.5 times the size of the resources being merged.[9] The European Commission does not specify the sources of this new money, but seems to assume that it will be drawn from a reallocation of funding from agricultural policy as well as revenue from new sources of income, as outlined in the Commission's own resource proposal (see section 4).

[9] In addition, as pointed out below, the InvestEU guarantee will be increased to up to €70 billion, which is about 3 times its current size.

Figure 1. **A huge increase in funding (besides consolidation)**



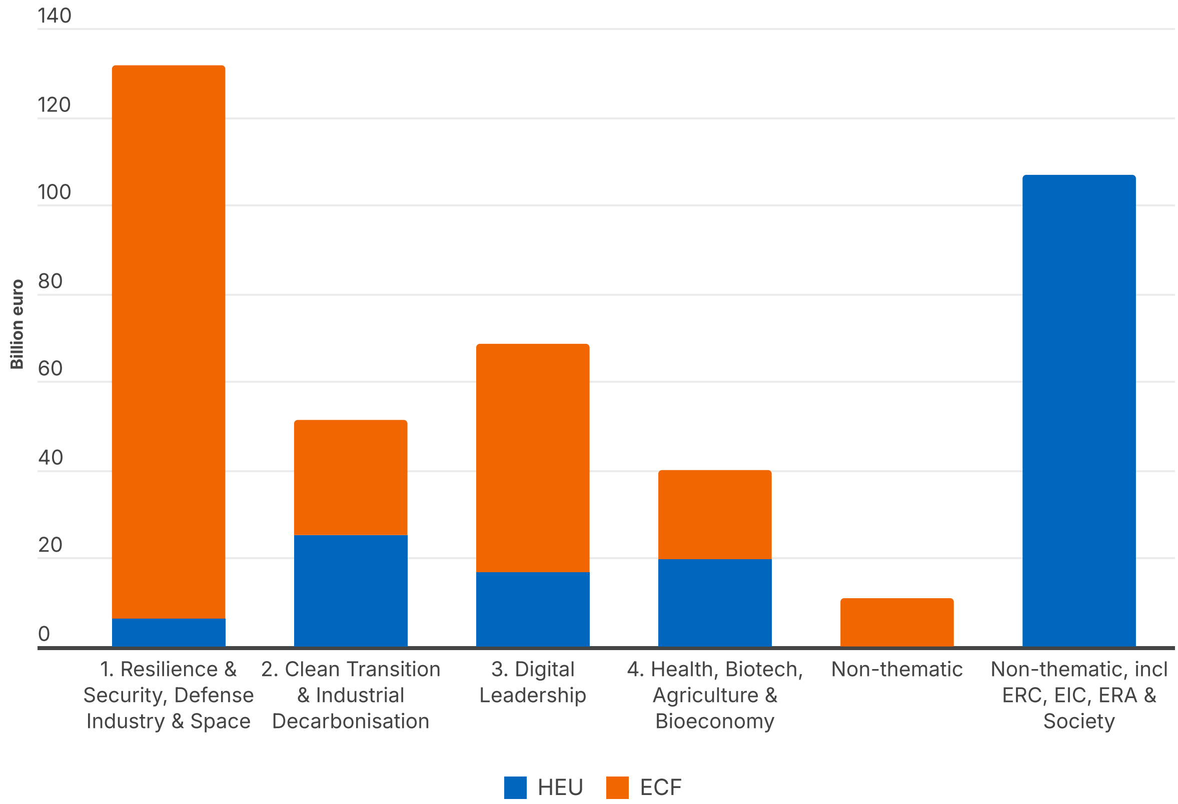
Note: The bar "current programmes" is based on table 1 and shows total allocations for the period 2021–2027. The bar "proposed programmes" is based on ECF art. 4 and HEU art. 6 and shows proposed total allocations for the period 2028–2034.

On a more specific note, figure 1 does not include the Innovation Fund, which would for now remain in a separate regulation intended to function "in coherence" with the ECF (recital 10–11, ECF). However, this may change in the future. The Innovation Fund has a particular status, as it is funded by revenue drawn from carbon emission rights in the EU Emission Trading System. The Communication on a Clean Industrial Deal (COM(2025) 85 final) suggests a radical increase in the emission rights allocation, to enable the fund to support a new €100 billion "Industrial Decarbonisation Bank". The ECF proposal suggests that this new bank will be placed under the governance of the ECF (p. 4, ECF).

Most of the 14 existing programmes listed in table 1 currently earmark funds for relatively narrowly defined purposes. Taken together, they create over 40 small "pots". For example, Horizon Europe is split into 15 separate pots, which include the ERC and the European Innovation Council (EIC), and only 10% is allowed to be shifted between them. EU4Health sets aside at least €1.1 billion for health promotion and disease prevention, while capping procurement of crisis-related products at €0.7 billion. InvestEU splits expenditures into four parts, allowing limited reallocation (a maximum of 15%). The European Space Programme has three pots and allows only 7.5% reallocation.

The ECF fund would represent a break with this tradition of quite detailed earmarking. The proposal integrates funding into a flexible structure while consolidating and streamlining the EU's financial toolbox. Four elements stand out:

Figure 2. **Broad policy windows with flexible budgets**



Note: The figure is based on allocations indicated in ECF art. 4 and HEU art. 6. It illustrates how funding from HEU and ECF would be combined to support the four policy windows, while a large part of HEU would remain as a stand-alone programme with more subtle links to the ECF, such as a "singe rule book".

1. **Four broad policy windows**: The ECF regulation defines four windows with "indicative" envelopes. These can be adjusted in the annual budget process, within a 20% margin agreed by the European Parliament, the Council and the Commission.[10] The largest window is *Resilience and Security, Defence Industry and Space* (€125.2 billion), which would represent a major boost for these sectors. The smallest, *Health, Biotech, Agriculture & Bioeconomy* (€20.4 billion), could expand significantly if the proposed Industrial Decarbonisation Bank is established and placed under the governance of the ECF.

2. **Interlinkages with Horizon Europe**: The ECF's decision-making processes would directly programme HEU funding for each policy window, drawing an indicative €68 billion from HEU, dedicated to R&I activities. The combined funding in each policy window is illustrated in figure 2. ECF policy priorities would also steer parts of the European Innovation Council (recital 53 and article 14.8 ECF). Notably, EIC investments in defence and dual-use start-ups would be made "in close synergy and coordination with the [ECF]" (recital 15, HEU). Moreover, the ECF would be able to invest in European partnership programmes funded under the HEU (recital 53, ECF). Such partnerships currently absorb the bulk of the HEU's funding for collaborative R&I.

[10] Put in more technical terms: "[t]he European Parliament and the Council, and the Commission when it draws up the draft budget, undertake not to depart by more than 20 % from that amount for the entire duration of the programme or instrument concerned [...]." COM(2025) 572, Proposal for an Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management.

3. **InvestEU as a horizontal instrument:** Integrated into the ECF, the InvestEU instrument would be deployed flexibly across all four windows. InvestEU's distinctive feature is that it is implemented through budget guarantees granted to investment partners (such as the EIB). Such guarantees aim to crowd in private investments and may therefore have considerable impact while potentially spending very little money (see fact box 1). The ECF regulation sets a flexible allocation for guarantees between €17 billion and €70 billion, with a provisioning rate of 50% (art. 21, ECF). This maximum of €70 billion is about 3 times the size of the current InvestEU instrument.

4. **Additional contributions from member states**: According to the ECF proposal, member states will be able to channel additional resources into the ECF, including EU cohesion funds (arts 5–8, ECF). To facilitate this, the ECF introduces a *Competitiveness Seal* awarded to high-quality projects vetted under its procedures (art. 8, ECF). This seal makes such projects eligible for national or cohesion funding and is also intended to serve as a quality guarantee for institutional investors (recital 47, ECF).

   Taken together, these instruments have the potential to generate catalytic effects worth several hundred billion euros in additional public and private sector investment (see fact box 1). However, these effects will not materialise automatically: they depend on the ECF's ability to allocate funding to strategic objectives that can trigger effective coordination across a vast array of actors. The next section discusses how this could be enabled by a new centralised, dynamic and annual steering mechanism.

Fact box 1. **Potential catalytic effects**

- InvestEU offers budget guarantees to its investment partners (such as the EIB) in order to incentivize them to take risk in prioritized areas. The effect is to "crowd in" additional investments. While the exact extent of crowding in effects is difficult to assess, a 2024 interim evaluation of InvestEU estimates that that the programme has generated 5.6 euros of additional investment for each euro provided as a guarantee.[11] In theory, this means that, if the ECF InvestEU instrument were used to its maximum (70 billion), assuming a constant leverage factor (5.6), 35 billion euros provisioned from the ECF (70*0.5), this could crowd in an additional €400 billion of investments.

- The EIC supports investment into SMEs and start-ups, in the form of bonds (loans) and equity. This generates effects similar to those of the InvestEU instrument, effectively incentivising risk taking in prioritized areas. The interim evaluation of HEU estimates that each euro invested in the EIC has unlocked 3 euros of non-EU funding.[12]

- European partnership programmes are large-scale collaborative projects co-funded by many actors, both private and public. The interim evaluation of HEU estimates that the leverage factor for partnerships is 0.62, while some partnerships (co-funded ones, which include funding from member states) reach a leverage factor of 2:1.[13]

- The ECF Competitiveness Seal is inspired by the "sovereignty seal" applied by the Strategic Technologies for Europe Platform (STEP) and the "excellence seal" applied by the HEU, both of which it is set to replace. As an indication of possible effects, as of March 2025, the STEP programme had generated €6.3 billion in redirected funding from EU cohesion funds.[14]

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[11] European Commission, Interim evaluation of the InvestEU Programme, Final Report, July 2024.
[12] European Commission. Horizon Europe: Research and Innovation at the heart of competitiveness COM(2025) 189 final.
[13] Ibid.
[14] European Commission, Interim evaluation of the Strategic Technologies for Europe Platform (STEP). SWD/2025/194 final.

2. A centralised, dynamic annual steering mechanism

The flexible nature of the ECF's long-term funding would open the door to more dynamic steering in the short term. Although the proposed ECF regulation only offers a fragmented description of the mechanism intended to provide this steering, it seems clear that the Commission envisages a new planning process anchored in the EU's annual budget procedure. This could make the budget procedure, which is currently largely an administrative exercise involving only limited reallocations, more dynamic and agenda-setting. A more dynamic planning process could, in turn, entail a shift in power among specific actors within the EU's institutional machinery. In fact, the governance logic of the ECF seems to require that decision making be more centralised in the hands of key political figures – above all, those most closely involved in shaping the EU's annual budget and overarching industrial strategies.

"… it seems clear that the Commission envisages a new planning process anchored in the EU's annual budget procedure."

2.1 A new planning process

The Commission's communication on the new Multiannual Financial Framework offers an initial conceptual sketch of the new planning process:

> With greater flexibility in the budget, there is a need for the EU institutions to identify the key priorities to be financed, which will then inform the annual budgetary procedure. The steering mechanism will keep the EU budget more closely aligned with the Union's priorities and allow it to respond more flexibly to a fast-changing reality. It will be supported by an integrated strategy report, which builds on existing sectoral processes and reports such as the European Semester, the new Competitiveness Coordination Tool, the State of the Energy Union, the National Energy and Climate Plans, the Environmental Implementation review, and the Single Market and Competitiveness Report. Structured by major policy areas, the report will identify EU level priorities to be discussed and agreed by the European Parliament, Council and Commission.[15]

Exactly how this new planning process, which covers a vast share of the broader EU budget, would apply to the ECF is not yet clear. However, the ECF regulation provides some important indications.

First, the *Competitiveness Coordination Tool (CCT)*, announced in January 2025, is expected to play a central role. The communication "A Competitiveness Compass for the EU Compass" describes how the CCT will be designed to align industrial and research policies and investments at both EU and national levels: "In an initial phase, the Commission will propose to coordinate EU and Member States' policies in a few selected areas with clear added value to EU competitiveness, as pilot cases".[16] The ECF regulation stresses "a strong connection with the [CCT]", noting that the ECF's work programme should ensure coherence with the competitiveness priorities identified under it (recital 12, ECF).

Second, the regulation suggests a new stakeholder-based system for identifying investment priorities. Most notably, a *Strategic Stakeholder Board* would be established to:

[15] European Commission, A dynamic EU Budget for the priorities of the future: The Multiannual Financial Framework 2028–2034, COM(2025) 570 final/2.

[16] European Commission. Communication on the European Competitiveness compass. 2025. p. 24.

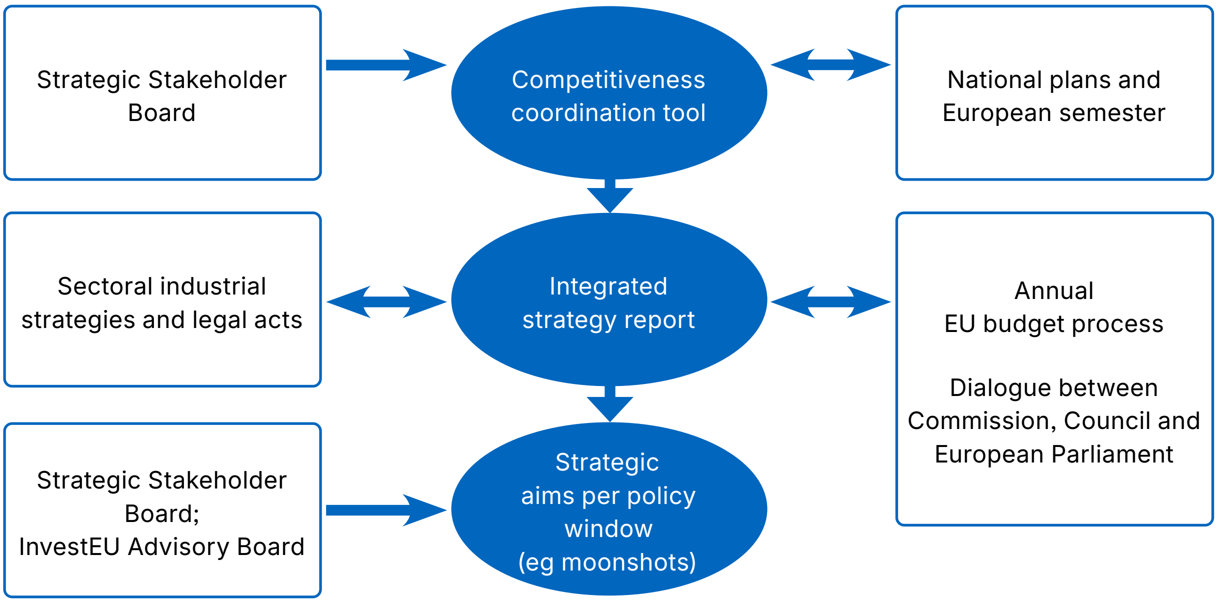
- advise on the overall direction of the ECF;
- identify long-term competitiveness trends;
- highlight market failures or suboptimal investment situations; and
- recommend strategic project portfolios within and across ECF activities (art. 14.4, ECF).

The proposal indicates that board members will be appointed by the Commission, which will also set rules on its composition and procedures, ensuring balance across sectors, organisation types (including private sector investors), expertise, gender, age and geography. The board will be supported by an observatory on emerging technologies (art. 14.4, ECF).

Third, the *InvestEU Instrument* would continue to operate with a dedicated Advisory Board, with one representative from each implementing partner (e.g., the European Investment Bank) and one from each Member State. It would advise on the design of financial products, the strategic direction of InvestEU and coordination with the EIC to ensure complementarity with other EU and private sector investments (art. 14.8, ECF). The board would be chaired by a Commission representative.

Figure 3 brings together these different elements to sketch how the ECF's strategic planning process might look. It should be noted that the figure is somewhat speculative and represents the author's attempt to assemble the pieces of an incomplete puzzle into a coherent conceptual sketch.

Figure 3. **Tentative illustration of the new strategic planning process**



Note: The figure pieces together several fragmented indications of the planning process described in this section.

Exactly what might constitute "strategic aims" is unclear at this stage. However, to give an idea of possible strategic aims in the R&I space, fact box 2 indicates some of the "moonshots" mentioned in the HEU proposal that could be implemented through large-scale European Partnerships. Agreement on these types of large-scale project could potentially be greatly facilitated by the new planning process, as it involves both member states and private sector actors in an early strategic identification of critical areas.[17]

Fact box 2. **Moonshots**

- "Developing Smart and Clean Aviation and European leadership in the next generation CO_2-free aircraft and automated air traffic management [...] would require a partnership with industry, together with a strong scientific and engineering capacity, supported by Horizon Europe, but also a robust industrial deployment component from the Competitiveness Fund.

- Building the quantum computer for the future [would] make Europe the first continent with quantum computing fully integrated into daily life, with applications from personalised medicine to climate modelling, and solving previously impossible problems for 450 million citizens.

- Developing and applying the world's next generation AI [...] developed by, with, and for European scientists and industry, drawing to (and keeping in) Europe the world's best minds. The next generation AI would open scientific and economic opportunities well beyond the current AI wave, positioning Europe at the forefront".[18]

2.2 The emergence of a political centre?

A key question is which EU actors would lead this new planning process. Broadly speaking, this concerns the relative weight of the European Commission, the legislators and stakeholders. More specifically, this comes down to which parts of the Commission, the Council and the European Parliament, and which stakeholder groups will have the strongest influence. To set clear priorities, decision making would need to be anchored in a strong political centre.

"Within the Commission, a shift in power is already visible."

Within the Commission, a shift in power is already visible. The new College is structured to concentrate power more heavily in the hands of the President and her vice-presidents. This centralisation was evident in the preparation of the ECF proposal, which was strongly steered by DG Budget and officials close to President Ursula von der Leyen. Other DGs were involved only on a limited, need-to-know basis. Even DG research, which runs the current HEU programme, had only limited access to the process.[19] It was only after strong and joint demands from EU science ministers and key figures in the European Parliament that Ursula von der Leyen finally conceded that HEU would not be fully integrated into the ECF but remain a stand-alone regulation.[20] (As illustrated in figure 2, the bulk of HEU funding will remain separate from the ECF.)

[17] The EU's state aid rules could also play a coordinating role. Only the European Commission can grant exceptions to the general ban on state aid, for instance, by proposing so-called Important Projects of Common European Interests (IPCEIs). The ECF would be able to provide top-ups for IPCEIs (art. 19, ECF).

[18] Horizon Europe proposal. COM(2025) 543, pp. 3–4.

[19] At one stage in the preparation of the ECR, there were two competing proposals, one developed by DG BUDG and one developed by DG RTD.

[20] See the Warsaw declaration of 11 March 2025, adopted by EU science ministers and the European Parliament's own initiative report P10_TA(2025)0028.

Commission sources have confirmed that DG GROW is set to have a main responsibility for coordinating the new fund, along with DG RTD.[21] This would put the fund under the primary responsibility of Vice-president Stéphane Séjourné, responsible for Prosperity and Industrial Strategy. Other DGs would be likely to be involved but with reduced influence, effectively losing direct control over the programmes they previously managed (see table 2).

Table 2. **Current ownership of funding programmes (main owners)**

DG RTD	Horizon Europe
DG HEALTH	EU4Health
DG CNECT	Digital Europe; Connecting Europe Facility (digital sector)
DG CLIMA	Innovation Fund
DG GROW (+EIB)	InvestEU; Single Market Programme (SME pillar)
DG ENVI	LIFE programme
DG DEFIS	Space programme; IRIS2; European Defence Fund; ASAP; EDIRPA; European Defence Investment Programme (EDIP)

Note: the table is based on the Commission's own description of ownership in staff working document SWD(2025) 555 final, annex 8.

"How the power shift would play out in the Council and European Parliament is less clear."

How the power shift would play out in the Council and European Parliament is less clear. Unlike the European Commission, these institutions do not have presidents with strong powers to organise internal decision making. However, the centralisation within the Commission, combined with the functional need to provide centralised guidance for the new ECF, is likely to influence power distribution within these institutions.

Generally, it seems likely that the centre of gravity when it comes to strategic investment decisions would shift towards actors responsible for horizontal industrial policy and the annual budget process. This means that some Council constellations and parliamentary committees would gain power at the expense of other constellations and committees. In the Council structure, power might shift to the European Council and budget ministers, which could in turn affect national governments by generating a need for stronger central coordination of industrial policy.[22] In the European Parliament, the requirement for cross-sectoral strategic decision making would place heavy strain on coordinating functions, such as committee chairs, political group coordinators and rapporteurs.

In the longer term, more dynamic and centralised annual planning would be likely to introduce a stronger political element in decision making on investments. One reason is that it would allow greater responsiveness to political pressures, such as those triggered by unexpected events and crises. Another is that investment decisions could be more tightly linked to the European Commission's and the European Parliament's political agendas. Such links are currently constrained by the practice of earmarking funds for seven years, which puts priority-setting out of sync with the EU's five-year election cycle. A more political and dynamic annual budget process would bring the EU more in line with the traditional budgetary procedures of western parliamentary democracies.

[21] Naujokaitytė (2025). https://sciencebusiness.net/news/r-d-funding/industry/european-competitiveness-fund-be-jointly-run-commission-research-and-industry

[22] Beyond such active steering, the ECF would also generate a form of indirect or more passive influence, by constituting a new incentive structure for a wide range of national actors. For example, the InvestEU instrument would significantly affect national investment banks that benefit from EU budget guarantees.

As discussed in section 4, the shift described above might be contested, not least by those that are set to lose power, and the change could still be more limited than is implied in the ECF proposal. Nonetheless, the broader trend towards more centralised political authority over industrial policy investments is unlikely to be reversed, as it is embedded in the broad and flexible structure of the ECF proposal, which generates a functional need for a political centre.

3. Enhanced executive discretion at the implementation stage

A more dynamic and political mechanism for setting strategic aims would seem to require a more rapid and stringent implementation process to translate aims into practical action, unhindered by downstream veto points. Moreover, stakeholders would need to be tightly involved in the programming process to ensure alignment between EU actions and those of the actors that are meant to do the actual job. The challenge is considerable: under most existing EU programmes, it typically takes around a year from proposal submission to the signing of grant agreements.[23]

"Nonetheless, the broader trend towards more centralised political authority over industrial policy investments is unlikely to be reversed ..."

In line with this logic, the ECF regulation introduces two key novelties. First, it would significantly reduce member state control over the adoption of ECF work programmes, while giving stakeholders a more systematic consultative role. Second, it reduces reliance on independent experts to evaluate project proposals. Together, these changes are set to considerably enhance the European Commission's executive discretion at the implementation stage.

3.1 Reduction in member state control over work programmes and systematic consultation of stakeholders

At present, most of the 14 funding programmes directly affected by the ECF (see table 1) are implemented through work programmes (WP) adopted by the European Commission. These set out, for instance, thematic topics, instruments and forms of funding, as well as specific award criteria. As a rule, WPs can be adopted only after review by a committee of member state representatives (so-called comitology). However, the exact degree of member state control varies. In most programmes, the Commission can adopt the WP unless the committee actively delivers a negative opinion ("examination procedure"). In some cases, a positive vote by the committee is required ("enhanced examination procedure"). In some rare cases, the Commission can adopt the WP even if the committee objects ("advisory procedure").[24]

The ECF proposal suggests reversing this order by making the advisory committee the general rule (art. 15.3, ECF). The examination procedure would be used only in exceptional cases, notably for WPs related to space systems, the defence industry and civil industrial security. The justification, offered sweepingly in recital 87, is that WPs "concern tasks which do not require a conferral of implementing powers and which should not normally fall within the scope of [the comitology regulation]". Table 3 summarises the proposed change in comitology procedures.[25]

[23] European Commission. Impact assessment report on the European Competitiveness Fund, SWD(2025) 555 final. Annex 9.

[24] Among the 14 programmes, there are only three exceptions to the use of examination committees. Two funding programmes – InvestEU and the Innovation fund – currently have no WP but employ other means of implementation. The third example is the European Research Council (ERC), whose WPs are screened by an "advisory committee", meaning that the ERC can adopt the WP even if the committee adopts a negative opinion. This is because the ERC is run by an independent scientific board.

[25] Surprisingly, the new HEU regulation does not mimic this general change: WPs would still be adopted after screening by examination committees, except for the ERC, which keeps its advisory committee (art. 4, HEU Specific Programme). The difference in procedure compared to the ECF is not explained in the proposals.

Table 3. **Comparison of comitology in current fund regulations and the ECF regulation**

Procedure	Description	Application in current programmes	Application in proposed ECF regulation
Advisory procedure	COM can adopt work programmes regardless of committee opinion	Horizon Europe (ERC)	**APPLIED AS A GENERAL RULE**
Examination procedure	COM can adopt work programmes if committee does not give negative opinion (by decision with qualified majority)	Horizon Europe (except ERC) Digital Europe Connecting Europe Facility Single Market Programme (SMEs)	Applied in three areas: Space systems; Defence industry; Civil industrial security
Enhanced examination procedure	COM can adopt work programmes only if committee gives positive opinion (by decision with qualified majority)	EU4Health European Defence Fund European Space programme ASAP EDIRPA EDIP Union Secure Connectivity	

Note: The data in the table is drawn from the comitology regulation (182/2011), the fund regulations referred to in table 1 as well as the proposed ECF regulation. The comitology regulation describes the advisory committee in art. 4, the examination committee in art. 5 and the enhanced examination committee in art. 5.4, para. 2.

In parallel with reducing member states' control over WPs, the ECF regulation suggests a stronger and more systematic direct consultation with stakeholders. The current 14 funding programmes foresee systematic consultation of stakeholders only in a few cases.[26] By contrast, the ECF stipulates that "[t]he Commission shall ensure that stakeholders are consulted in the development of the work programmes, with the creation of one or several thematic platforms per window" (art. 14.11). Recital 57 further specifies that consultations should involve researchers, industry, social partners, investors, end-users and civil society – from SMEs to large organisations – structured in advisory boards, such as the ECF Stakeholder Board. The stated aims are to provide insights on policy trends, investment needs and implementation, and to ensure that stakeholder feedback is reflected in the design of work programmes.

One interpretation is that the Commission intends to politically balance reduced member state oversight with greater stakeholder input. Another is that it is seeking to prepare stakeholders to co-invest and implement actions set out in ECF work programmes. Either way, it is clear that stakeholders would line up to secure a place on the new boards. Overall, the new consultation process would allow the Commission to build greater independence from member states by enhancing its claim to bottom-up legitimacy and its direct access to expertise.

3.2 Reduced reliance on independent experts for evaluating proposals

Most of the 14 existing funding programmes (see table 1) rely on evaluation committees to identify which projects should receive EU support. In many cases, these committees are made up of independent experts. For instance, the current HEU regulation requires that "proposals shall be evaluated by the evaluation committee which shall be composed of independent external experts" (art. 29.1).[27] Only in the case of the EIC can experts come

[26] EU4Health is one of few current programmes that explicitly requires consultation with "relevant stakeholders including representatives of civil society" on priorities of its working programme (art. 16).

[27] The European Defence fund uses a similar system, based on independent experts applying specific criteria, such as "excellence" (arts 12 & 26 EDF regulation).

from EU institutions. Evaluation is based on three criteria: excellence, impact and quality of implementation (art. 28.1, HEU). Similarly, the current InvestEU programme provides that, after the initial project assessment by the implementing partners (such as the EIB), a "fully independent investment committee shall examine the proposals for financing and investment operations" to assess whether to grant EU support. The investment committee is forbidden to "seek or take instructions from the implementing partners, the institutions of the Union, the Member States, or any other public or private body" (art. 24, reg. 2021/523). Digital Europe, meanwhile, stipulates that evaluation committees "may" be partially or fully composed of independent experts (art. 21, reg. 2021/694).

Other current programmes do not rely on evaluation committees of independent experts. In some cases, such as EU4Healh and the Union Space programme, this is because funding is not generally based on open calls but allocated directly to national authorities and similar actors. The Innovation Fund, meanwhile, applies a unique procedure whereby eligible projects are evaluated and ranked by an "implementing body" (art. 12, Reg. 2019/856), in practice the European Climate, Infrastructure and Environment Executive Agency (CINEA), operating under DG CLIMA. Award criteria include the project's effectiveness and greenhouse avoidance potential (art. 11). The Commission then consults member states on the list of pre-selected projects (art. 21).

The proposed ECF regulation introduces a different model, which relies much less on independent experts in the assessment processes. This model can be pieced together by cross-referencing the ECF regulation with the Financial Regulation (2024/2509), which applies horizontally to EU funds.

- *First*, regulation 2024/2509 (art. 155) allows external experts only if the basic act explicitly provides for it. Since the ECF regulation does not do so, external experts in evaluation committees are, by default, excluded. In line with this logic of increased executive discretion, the ECF regulation indicates no general award criteria, but leaves this to be defined in WPs (recital 50 & art. 15, ECF).

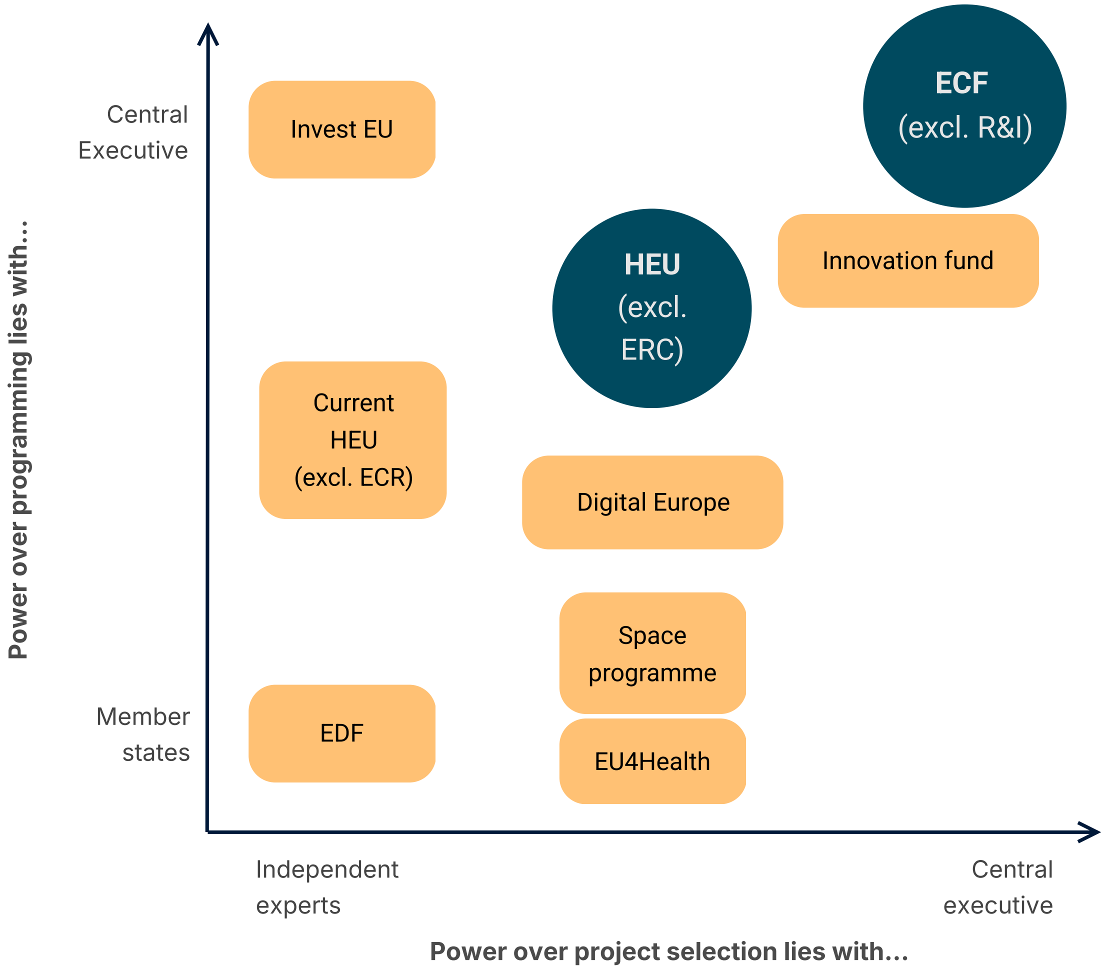
- *Second*, an exception exists for research and innovation activities. Here, evaluation committees *may* include external experts (art. 12.9 ECF). The decision on whether to use independent experts rests with the "authorising officer responsible", probably a Commission official (art. 155, 2024/2509). Award criteria for R&I actions remain unchanged, with excellence as the primary standard (art. 25, proposed HEU).

- *Third*, the InvestEU Investment Committee continues to exist with its current tasks (art. 14 ECF) and the initial project assessment by the implementing partners, such as the EIB is maintained. However, the requirement that that the committee be "fully independent" is dropped. Instead, the draft ECF regulation gives the Commission the task of defining detailed rules on the committee's composition, procedures, remuneration, conflicts of interest and confidentiality.

"Put simply, the Commission gains much greater freedom to 'pick winners' ..."

Figure 4 illustrates how these changes would enhance executive discretion – both on adopting work programmes and on evaluating projects. Put simply, the Commission gains much greater freedom to "pick winners", with limited member state control or requirements to have proposals evaluated by independent experts. The implications are significant, not only for the power balance in relation to member states, but also for businesses and investors in the internal market.

Figure 4. **Approximative illustration of executive discretion in existing and proposed funding programmes**



Note: The vertical scale describes variation in comitology procedures (see table 3), which shapes executive discretion when it comes to adoption of work programmes. For instance, the advisory committee allows stronger executive discretion than the examination committee. The horizontal arrow describes variation in the use of independent external experts on evaluation committees, which shaped executive discretion when it comes to project selection. For instance, if evaluation committees cannot include independent external experts, this strengthens executive discretion.

In effect, the Commission would be relatively free to implement a variety of interventionist measures. As shown in the examples in fact box 3, it could use the ECF to directly support strategic value chains, back EU tech leaders "to strengthen their global competitive position" or fund projects of "imperative public interest of the Union", potentially targeting specific beneficiaries without an open call. Such interventions could be combined with a new "EU preferences" policy involving measures such as transfer, supply or content restrictions.

Fact box 3. **The new interventionist toolbox**

- *"Single Market value chains calls":* shall both support project preparation and promote crowding in of additional public and private capital to integrate suppliers, manufacturers, and innovators from different Member States and diversify sources of supply (art. 16, ECF).

- *"EU Tech frontrunners":* Aim to identify and support tech leaders through industry-driven consortia leveraging on their role as innovation and export drivers to strengthen their global competitive position along with their European SME suppliers through investments in new solutions and identification of relevant partners (art. 17, ECF).

- *"Accelerated and Targeted"* actions means that they benefit from various kinds of exceptions and derogations from applicable law. For instance, grants may target an action of imperative public interest of the Union and the beneficiaries or categories of beneficiaries that may be invited to submit a proposal without a call (art. 18, ECF).

- *"EU preferences";* "The work programmes [...] may set out eligibility conditions to ensure the competitiveness of the Union [...] including through preferential conditions such as restrictions or incentives for Union entities [...]. Restrictions may include "transfer restrictions", "supply and content restrictions" or "control restrictions" of various kinds (art. 10, ECF).

As discussed in section 4, the exact extent of executive discretion implied by the new governance system will only be clear once the overall system has been adopted and implementation has started. The legislator could for instance reintroduce the use of examination committees and compulsory independent evaluation. Alternatively, it could amend the available toolbox, associating different instruments with narrow requirements. A third option would be to limit executive discretion by ensuring that decisions taken at the strategic, political level (see section 2) become relatively detailed. The exact degree of executive discretion would then be a matter of negotiation linked to the annual budget process (and the sequence described in figure 3).

4. What to expect from the upcoming negotiations in the Council and the European Parliament

So far, this report has described how the ECF proposal would transform the governance of EU funding. To recap, the proposal would create a large and flexible long-term funding pot, introduce a new system for dynamic, strategic steering in the shorter term and significantly expand the European Commission's executive discretion over implementation. However, these remain proposals that now face consideration and negotiation by the EU legislators: the Council and the European Parliament. Over the coming two years, EU legislators will debate every detail of the ECF proposal, fine-tuning paragraphs and wording in search of agreement.

"Over the coming two years, EU legislators will debate every detail of the ECF proposal ..."

In practice, two parallel negotiations will unfold. First, negotiations on the EU's overall income and expenditure, which will determine the resources available for the ECF. Second, negotiations on the ECF regulation itself, closely coordinated with negotiations on the new HEU regulation. The two processes will differ in character: budget talks will be largely intergovernmental, dominated by finance ministries and, ultimately, the European Council, while the ECF negotiations will be multifaceted and involve a wider array of actors. Both sets of agreements must be concluded by December 2027, when the current financial framework expires.

4.1 Negotiations on the EU's long-term budget

Talks on the EU's overall revenue and expenditure are mainly shaped by national vetoes. The long-term budget (the Multiannual Financial Framework, MFF) is adopted unanimously in the Council, with the consent of the European Parliament (TFEU, art. 312). Similarly, decisions on the EU's revenues ("own resources") also require unanimity in the Council, following consultation with the Parliament (TFEU, art. 311).

During the last MFF negotiations, a group of member states – often called the "frugal four" (Austria, Denmark, the Netherlands and Sweden) – resisted budget expansion. This stance reflects both their net contributor status and their dissatisfaction with spending priorities, particularly the large share devoted to agriculture and cohesion policy. They have also historically opposed the introduction of new own resources, citing mainly fiscal responsibility. Among the larger member states, Germany has taken the most fiscally conservative position since the UK's departure.

"… negotiations will be tough and the Commission's proposed €409 billion ECF allocation is likely to be reduced. The question is: by how much?"

At present, Austria, the Netherlands and Sweden seem intent on holding their line, while Denmark has signalled some openness to budget increases.[28] Germany is also maintaining a cautious stance. In a June 2025 position paper, it "opposes any increase in the national contributions", arguing that there is no basis for expanding the MFF relative to Gross National Income, although it commits to "constructively" examine the introduction of new own resources. For the ECF, this means that negotiations will be tough and the Commission's proposed €409 billion ECF allocation is likely to be reduced. The question is: by how much? There are at least three reasons why cuts may be relatively modest.

First, there is broad political support for enhancing EU investment capacity to bolster European competitiveness in technologies and strategic sectors – the ECF's main focus. In November 2024, EU leaders strongly endorsed the Draghi report (which the ECF seeks to implement) in their Budapest declaration. Not least, ECF investments appear to have strong supporters in Germany and France. Germany's June 2025 position paper calls for a "modernised MFF" that prioritises defence, competitiveness and investments in transformative technologies. Meanwhile, in a position paper from March 2025, France advocates a "public and private investment shock" aligned with the Versailles sovereignty agenda that spans defence, research, energy, digital, raw materials and food, as well as disruptive technologies such as space, AI, quantum, biotech and fusion.

Second, new sources of EU revenue could help to unlock the budgetary deadlock. The Commission has proposed new EU-level taxes on e-waste, tobacco and large corporations, alongside increased revenues from the Carbon Border Adjustment Mechanism and the Emissions Trading System. While politically sensitive, adopting some of these measures could boost the budget without heavily raising national contributions. Germany has already indicated an openness to considering new own resources, while France has called them a *sine qua non* for agreement, citing the fiscal pressures facing member states. The frugal four also have incentives to agree on a new own resources regulation: their current rebates on contributions are set to expire in 2027, significantly increasing their payments unless a new own resources system is adopted.

Third, the European Parliament – which effectively has a veto over the MFF, based on the need for its consent – has already signalled support for both greater investment and new own resources. It is likely to use its veto threat not only in negotiations on the budget, but also to influence the own resources decision. Agreement by the Parliament will require

[28] Griera & Faggionato (2025). Denmark to drop 'frugal' stance on EU budget to counter threat from Russia – POLITICO

broad cross-party support from Christian Democrats, Socialists and Liberals, as the far-right will probably oppose budget increases. All these groups are likely to press for substantial concessions from the Council in exchange for approval.

4.2 Negotiations on the ECF

Negotiations on the ECF regulation will be more complex, involving a wider range of actors. The regulation will be adopted through the so-called ordinary legislative procedure, which gives the Council and Parliament equal weight – both can amend the text and both must approve the final version (art. 294, TFEU). Many thousands of amendments are likely to be proposed, and at least many hundreds adopted. Unlike the budget, the Council will decide by qualified majority, meaning that no single country has a veto. The talks will also be more multi-faceted, with several national ministries involved – particularly those responsible for budgets, industry, growth and R&I – and a wide range of industry actors and stakeholders lobbying both EU institutions and national governments.

How will legislators respond to the proposed governance system? There seems to be considerable support for increasing the flexibility of long-term funding (section 1) and strengthening short-term steering (section 2). For instance, both France and Germany appear ready to back these changes. Germany's June 2025 paper advocates "fewer programmes, leaner administration, and greater flexibility for the Commission to reallocate funds across policy areas". France similarly calls for "a more efficient, responsive and agile budget" with mechanisms to redeploy funds rapidly to new priorities, under tighter political steering by the member states.

Nonetheless, resistance is likely, leading to at least moderate amendments of these elements of the ECF regulation. Smaller states may worry about losing influence to the Commission and/or larger states in a more dynamic, politicised planning process. They might push for earmarking to guarantee predictability and prevent dominance by the Franco-German tandem. Proposals could include earmarking funds geographically (to close Europe's innovation gap) or thematically (to protect specific policy areas). Actors that risk losing control over their dedicated programmes, as discussed in section 2, are also likely to resist.[29]

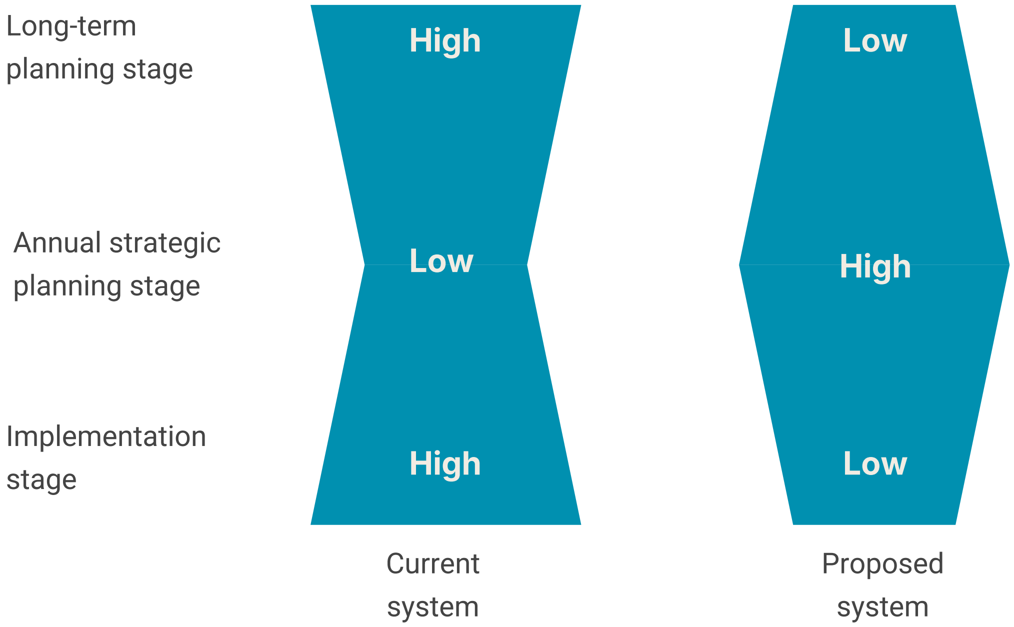
The most contentious element is likely to be the proposed expansion of the Commission's executive discretion (section 3). Normally, the Council would firmly oppose such a shift, reflecting the longstanding pattern of the Commission seeking more implementation powers and member states pushing back to defend institutional balance.

"The most contentious element is likely to be the proposed expansion of the Commission's executive discretion."

This time, however, the dynamics could be different. Provided that agreement is reached on the overall size and design of the ECF, the Council could prove more open to strengthening the Commission's role in implementation. As the above analysis has indicated (see section 2), the new governance model potentially allows legislators to retain strong control upstream, in the annual strategic planning (see figure 6). Potentially, the Parliament and the Council might prioritise ensuring their control over this stage in the programming process, rather than attempting to strongly constrain the Commission at the implementation stage. For the Parliament especially, which currently has little say in implementation but a very strong role in adoption of the annual budget, this could be an attractive option.

[29] For instance, research ministers from both Spain and Germany have vowed to defend a stand-alone HEU. Naujokaitytė (2023). [Spain and Germany lead defence of an independent Pillar 2 in reformed Horizon Europe | Science|Business]

Figure 6. **The proposed shift in the legislators' steering of fund allocation**



A second factor is the functionalist argument for faster and more expedient implementation. Large (potential) beneficiaries of ECF investments are likely to emphasise this point, exerting pressure on legislators to accept increased discretion for the European Commission.[30] For instance, the case could be made that current systems for national control over implementation (through comitology) and requirements to have independent external experts assess project proposals can no longer be afforded, given the new geopolitical context. Specifically, critics of comitology might argue that strict national controls introduce a logic of "bringing home the bacon" to the detriment of speed, strategic clarity and effectiveness. Meanwhile, the process of selecting projects based on independent evaluation might be criticised for being complex and slow, and for limiting the executive's freedom to piece together portfolios of projects that complement each other.

In the end, the legislators need to define processes that balance speed and expediency against the needs for accountability, transparency and expertise-based objectivity. This discussion will be interwoven with a highly complex debate on what kind of industrial policy is effective in the first place. Key questions include: What are the risks and benefits of having politicians and bureaucrats choosing winners? Is it reasonable to give up some national control to achieve a stronger, common industrial policy? If so, how much national control should be given up, and under what conditions? In a world where major powers actively support their industries, can the EU afford a hands-off stance? If not, is the EU equipped to manage large-scale industrial policy or investments that involve high degrees of risk? What alternatives are there? How can Europe best respond to challenges such as China's currency manipulation and weaker environmental and labour standards, or

[30] Stakeholders that aim to take part in the Strategic Stakeholder Board are likely to be particularly supportive. Much as Jacques Delors once "played the market" to mobilise support for the Single Market in the 1980s, the Commission may again succeed in rallying stakeholders behind its proposals. See Jabko, N. (2006). Playing the Market: A Political Strategy for Uniting Europe, 1985–2005. Cornell University Press.

the USA's large-scale direct support for its industries, for instance based on the Inflation Reduction Act? Should the EU prioritise ensuring a level playing field for its internal market or generating the means to ensure a level playing field internationally?

These questions have broad long-term ramifications and need to be settled in a context of great strategic uncertainty.

5. Broader long-term ramifications: The choice for Europe

This report describes how the ECF proposal has the potential to significantly strengthen the EU as an industrial policy actor. This ties into a broader EU competitiveness agenda that includes efforts to simplify EU regulations, strengthen the internal market through scale-ups and the capital markets union, and enhance the EU's role as a foreign policy actor. Within this agenda, the ECF can be considered the centrepiece, to the extent that it can mobilise strong agency-based power. However, as the above analysis highlights, this ambition faces significant challenges. The EU is a not a state, but a union of 27 member states that consistently seek to tightly constrain executive power at the EU level by limiting the transfer of resources and by embedding deals in detailed legislation and comitology procedures. Typically, this structure struggles to implement clear strategies and often ends up distributing investments both geographically and thematically to enable agreement among the member states.

"... decisions on the ECF will be taken against a backdrop of profound strategic uncertainty."

This challenge is compounded by the fact that decisions on the ECF will be taken against a backdrop of profound strategic uncertainty. Kathleen McNamara, professor at Georgetown University and specialist in International Political Economy and the EU, has argued that EU industrial policy could have far-reaching long-term implications, heightening the politicisation of EU institutions and reshaping the Union's role in a geopolitical world order.[31] Since many of these dynamics lie beyond the control of legislators, decisions on the ECF ultimately mean making a bet on an uncertain future. For simplicity, one can imagine that the EU faces three alternative strategic choices. Each of these can lead to both positive and negative long-term scenarios, depending on change in contextual factors. Figure 7 illustrates how the choice between the three alternatives can be analytically associated with uncertain assumptions regarding the future of the international order and the EU's ability to manage a heightened degree of internal politicisation.

5.1 Betting on the status quo

One option would be to dismantle much of the Commission's proposal. The Council and Parliament could cut the ECF's budget, disregard calls for centralised steering and reintroduce mechanisms for tight control over implementation. This outcome could emerge, for example, if multiple actors insist on their veto powers, pushing the decision down to the lowest common denominator.

If so, one interpretation would be that the EU is "a-strategic", or unable to decide on or implement a coherent strategic direction.[32] Another reading, however, would be that the EU is making an optimistic bet on continuity: preserving its identity as a strong internal market focused on a mix of market regulations and free trade. In this positive scenario, the EU would continue to project influence externally through the "Brussels effect" and similar

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[31] McNamara, K. R. (2024). Transforming Europe? The EU's industrial policy and geopolitical turn. Journal of European Public Policy, 31(9), 2371–2396.

[32] Cottey, A. (2020). A strategic Europe. *JCMS: Journal of Common Market Studies*, 58(2), 276–291. For instance, a bet on the status quo would seem to contradict the Budapest declaration of November 2024, in which the EU's heads of state and government endorsed the Draghi report and ruled out a business-as-usual approach.

mechanisms, where power is exercised mainly through structures rather than guided by a strong executive. Just as today, the EU's "market power" would at times be impactful but often inconsistent.[33]

However, a negative scenario would unfold if the EU's internal market does not deliver as anticipated and the international order continues to unravel. If the US–China power struggle persists or escalates, both sides will prioritise dominance in the global economy over international rules. In such a context, the EU's traditional soft-power tools could prove ineffective, leaving it unable to compete without directly countering the industrial policies of others.[34] In this scenario, the internal market itself could fragment, as large member states might choose to pursue national industrial policies in defiance of – or by forcing radical changes to – the EU's state aid rules.

5.2 Betting on Europe

A second option is to endorse the ECF proposal largely as presented. The driving dynamics of such a choice would most likely be in line with classic EU integration theory, which sees EU integration as resulting from a combination of functionalist need and stakeholder pressures.[35] However, the mental map guiding this development would rather be classic federalism, as the Commission would increasingly take on the role of European executive, accountable to a bicameral legislature – the Council and the European Parliament.

In a positive long-term scenario, this would make the EU a credible industrial policy actor, capable of holding its ground in a geopolitical world. Internationally, it would project itself as a "catalytic power" with greatly expanded capacity to mobilise partners through financial instruments.[36] Internally, the ECF could fuel the capital markets union, potentially unleashing large flows of private sector investment in joint EU initiatives. This, in turn, might encourage member states to reallocate national R&I and industrial policy to the European level. Over time, the Union would undergo a major shift from "negative integration" towards "positive integration", supported by new own resources.

In a negative scenario, however, large-scale EU-level interventions in the market could prove both inefficient and unstable. The Commission might be captured by entrenched industrial actors, channelling funding towards declining sectors rather than disruptive, growth-oriented ones. Investments might be fraught with bureaucratic turf wars or guided towards political prestige projects, generating huge bureaucracy with little effect. Worse still, in the longer run the federal legitimacy structures might prove insufficient to withstand the heightened internal political pressures implied by redistributive policies. This could fuel populist movements at the national level and, ultimately, trigger a strong backlash against the centralisation of power.

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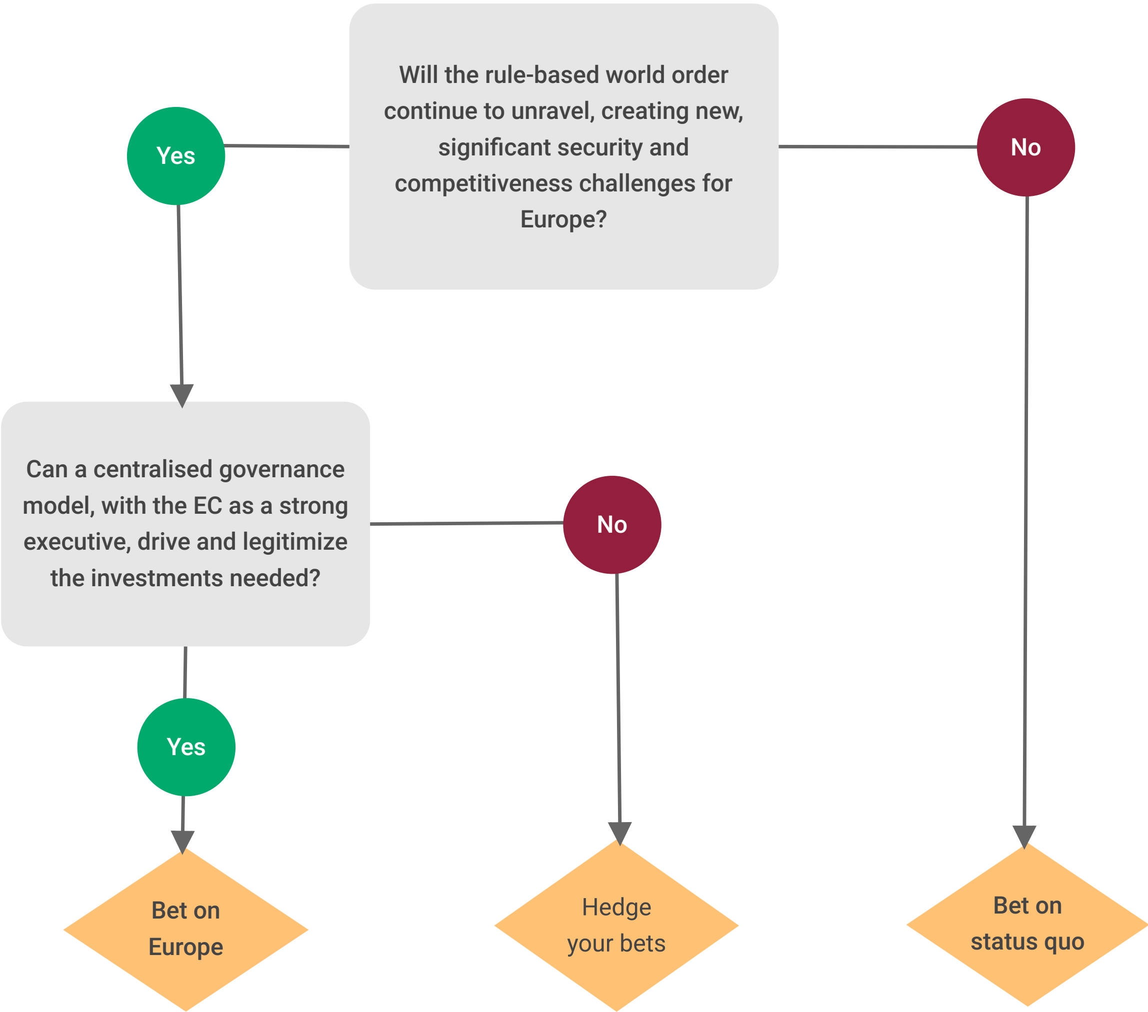
33 See Jarlebring, J. (2024). [The European Union's market power: Techniques, constraints and implications for external action.]

34 As President of France Emmanuel Macron dramatically warned, "the EU cannot be a herbivore in a world of carnivores". Vinocur, Caulcutt & Moens (2024). [Macron to Europe: We need to become 'omnivores' after Trump's victory – POLITICO]

35 For instance, scholars have argued that the concept of Open Strategic Autonomy has already generated considerable reorganisation of stakeholder pressure in support of the Commission's agenda. Schmitz & Seidl (2023). As open as possible, as autonomous as necessary: Understanding the rise of open strategic autonomy in EU trade policy. *JCMS: Journal of Common Market Studies*, 61(3), 834–852.

36 Prontera & Quitzow (2023). Catalytic power Europe: blended finance in European external action. *JCMS: Journal of Common Market Studies*, 61(4), 988–1006.

Figure 7. **Decision tree on Europe's choices**



Note: The decision-tree is intended to analytically illustrate that strategic decisions may be guided by (fundamentally uncertain and often implicit) assumptions regarding the future of the world order and the EU's ability to manage politicisation. The tree is not intended as a prediction or scenario analysis.

5.3 Hedging the bets

A third option would be to accept the ECF's ambitious expenditure while retaining significant national control. This outcome might arise if the Council imposes strong oversight of programming and other implementing decisions, limiting the Commission's executive discretion. In effect, this might allow member states to hedge their bets: combining greater ambition at the EU level with continued sovereignty over key decisions. This would also echo a historic pattern: in the past, EU integration in areas of core state competences has often generated decision-making processes that are under relatively strong national control.[37]

[37] Genschel & Jachtenfuchs (2016). More integration, less federation: The European integration of core state powers. *Journal of European public policy*, 23(1), 42–59.

In a positive scenario, this hybrid model could enable the Commission and, above all, large member states to coordinate more strategic decision making. Such an outcome would be especially likely if geopolitical pressures intensify, aligning interests around strategic European aims. This could give rise to advanced "coalitions of the willing" led by large member states (potentially including the UK), joined by the Commission to represent common European interests. Internal political tensions on sensitive issues such as defence would effectively be managed through the Council and decisions legitimised through national political structures.

In a negative scenario, however, national interests might diverge too sharply for effective coordination. This could be the case for instance if external geopolitical pressures disappear, reducing strategic alignment among member states. Decision making could then devolve into intergovernmental struggles, with disagreement between large member states and with smaller states resisting what they perceive as a power grab by larger ones. The result could be fragmented, uncoordinated implementation of Europe's industrial policy, undermining both its effectiveness and its legitimacy, while also damaging the internal market.