Clean Industrial Deal

Energy Research Strategy

Thursday 27 February 2025

Implement or implode

On Wednesday, Feb. 26, the European Commission released its long-awaited Clean Industrial Deal (CID). This policy package responds to the EU's challenges of geopolitical tensions, slow economic growth, and technological competition. Within the CID, policies around affordable energy are identified as a cornerstone. This is shaped in the Action Plan for Affordable Energy (AEA). Specifically, these packages aim to restore European industrial competitiveness.

The CID presents an impressive number of measures that appear substantial on paper, but the real challenge lies in the nuances of implementation. While some packages will be implemented as early as 2025, in reality many measures are merely announcements of initiatives that will not take full effect until 2026 or later. This delay contrasts sharply with the speed at which U.S. subsidies through the Inflation Reduction Act and Chinese support measures are being rolled out.

The fundamental challenge lies in the asymmetric structure of the EU itself: while Brussels provides strategic vision and policy frameworks, financial implementation falls largely to the member states. While EU cohesion mechanisms somewhat level out existing differences, the core problem remains that many member states are already struggling with tight national budgets. As a result, new EU policy ambitions for which member states must largely pay themselves come up against an unruly financial reality - a problem exacerbated in the current political climate where nationalist sentiment often prevails over European solidarity.

All in all, the CID is a step in the right direction. It is the impetus from the European Commission that must now be followed up by national member states. Speed and decisive action in a global context where Europe has to compete with superpowers such as the U.S. and China, remains a major challenge. As long as Europe is unable to improve this, plans such as the CID and the AEA will turn out to be fine ambitions, but will not be able to turn the tide for industrial competitiveness in time.

In order to cash in on the European push, member states must do more than just cherry-pick the financially attractive options from the EU-supplied "directives porridge. Restoring European, and therefore national, industrial competitiveness costs money. The alternative, however, is that it will cost us even more money when the same industry leaves for good. They are on the brink. Let us now invest quickly and decisively to preserve our industry.

Table of contents

Reason for the Clean Industrial Deal

The CID is in fact an economic stopgap by the European Commission to close the rapidly growing gap between intentions and reality. Europe's industry has its back against the wall due to a three-part crisis:

1. A deteriorating competitive position against assertive superpowers China and the US;
2. Explosively increased energy prices since Russia's invasion of Ukraine eroding European industry;
3. An industrial policy that so far has proven to be more façade than foundation.

The hard evidence comes from the Jacques Delors Centre[1] : despite all the rhetoric about strategic sectors, of the EUR 353 billion in industrial state aid since 2019, only a paltry 12% has ended up in sectors that the EU itself describes as *strategically important*. This shows the huge discrepancy between what Europe says it wants to protect and what it actually invests in.

The CID marks a rebalancing in European policy. Whereas the Green Deal took climate ambitions as a starting point and treated economic aspects as an implementation condition, the CID rebalances between economic competitiveness and climate goals. This readjustment recognizes that the initial Green Deal approach presented Europe's industry with challenges in international competitiveness, without questioning the climate goals themselves. Instead, the CID seeks to find a synthesis: a competitive industry that is simultaneously at the forefront of the green transition. After all, without economic clout, Europe will not be able to achieve or finance its climate ambitions either.

The earlier *Green Deal Industrial Plan* (GDIP) was in practice an empty shell, or collection of separate initiatives without a coherent strategy or substantial funding. The CID is an attempt to correct these mistakes, although the question remains whether it is too little, too late.

Trajectory of the Clean Industrial Deal

The path to CID can be read as a story of increasing economic urgency. It began with the Draghi Report that functioned as a business reality check that forced the Commission to fundamentally rethink its industrial policy. Next, Von der Leyen's choice to make CID a priority was not so much driven by vision as by a response to alarm signals from the industrial community. Subsequent consultations with stakeholders revealed a disturbing picture of accelerating de-industrialization. The Commission is thus adopting a reactive policy that is inconsistent with its desire to take a leading role in making industry more sustainable. Ultimately, the Feb. 26, 2025 release came too late for many industries - several companies have already shifted their investments outside Europe, such as Volkswagen that shifted EV production capacity to North America and Northvolt that decided to pause battery factory expansions in Sweden in favor of U.S. locations.

The Draghi report stirred the pot. Draghi, unhampered by diplomatic restraint, confronted the EU with an uncomfortable truth: Europe cannot excel at everything and must make hard, strategic choices. His proposal for categorization was radical in its pragmatism:

1. *"Let go"* - sectors where we simply have to give up the fight (a breakthrough of a political taboo in Brussels);
2. *"Resilience"* - sectors where we maintain minimum capacity as strategic insurance, not ambition;
3. *"Transform in Europe"* - sectors where we still have a real chance, provided we act quickly and drastically;

[1] Jacques Delors Centre (February 2025), https://www.delorscentre.eu/fileadmin/2_Research/1_About_our_research/2_Research_centres/6_Jacques_Delors_Centre/Publications/20250220_Delivering_on_Draghi_CIS_Policy_Brief_Philipp_Jaeger_Nils_Redeker.pdf

4. *"Infant or emerging industry"* - sectors where we can still gain an edge if we invest massively now.

This pragmatic approach contrasted with the usual European consensus-oriented policy culture. This traditionally tends toward broad, and thus more superficial, support measures to reconcile all the different interests. This European polder model was long defensible in a quietly rumbling global context. But today's geopolitical competition between superpowers requires a bolder European policy to defend its own interests.

Dependencies make the EU a 'rule-taker'

The CID thus operates in a geopolitical landscape that has fundamentally shifted. Europe's position is not only weakened but made structurally more vulnerable by deep dependencies:

- Military: The European defense industry is so eroded that even basic ammunition production is problematic, let alone high-tech weapon systems;
- Energy: Europe's energy transition is a paradox - we talk green but import fossil, especially LNG from the US at premium prices;
- Raw materials: For almost all critical materials needed for the green and digital transition, Europe is in a stranglehold of external suppliers;
- Digital infrastructure: Europe has become a digital colony, caught between American and Chinese ecosystems with no viable alternative of its own.

These dependencies make Europe no longer a rule-maker but a rule-taker in the global economy. The CID is therefore not just an economic plan, but a last chance to maintain Europe's relevance in the new world order. The question is not whether it is a good plan, but whether it is sufficient for the monumental challenge facing Europe and whether it can be implemented quickly enough in a world that is not waiting.

The economic position of the EU compared to the US and China

In recent years, the EU has faced a weakened competitive position vis-à-vis China and the United States. On top of this, the Netherlands has made a number of policy choices that have unnecessarily put the competitive position of Dutch companies further behind its European competitors.

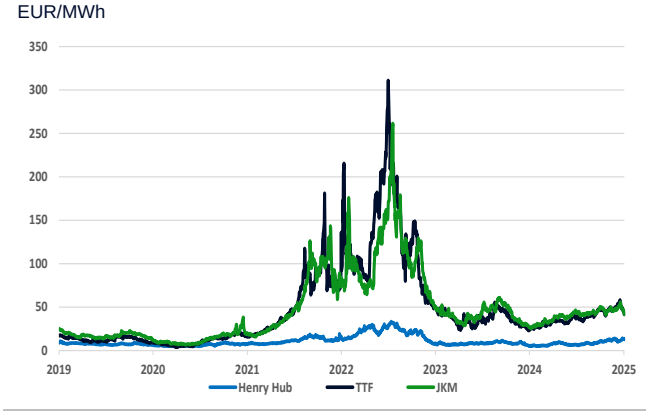
Energy costs sharply higher in EU than in US and China

European and Dutch manufacturing companies face higher costs than their competitors in the United States and China. There are a number of reasons for this weakened European competitive position. Europe as a whole has faced high energy prices since the run-up to the war in Ukraine. With the loss of large portions of (cheap) pipeline gas from Russia, Europe must compete in the global LNG market with China, among others. A market that has also become much tighter due to this additional European demand and therefore has high prices.

In contrast, the United States is a net exporter of LNG. Gas they can produce cheaply, mostly as a byproduct of oil extraction. Thus, they pay relatively low gas prices themselves and earn from its export. The chart below shows that European (and Asian) gas prices are a multiple of the U.S. equivalent.

In addition to high gas prices, the EU also faces high electricity prices. Electricity prices are determined on the basis of the so-called *merit order*. This means that the electricity price is determined by the marginal cost of the most expensive option needed to meet demand. On a sunny day in summer, this can cause electricity prices in the Netherlands to be temporarily low or even negative when solar generation is sufficient to meet electricity demand. Yet the reverse is also a regular reality.

U.S. gas prices are structurally lower than European and Asian



Source: LSEG Eikon

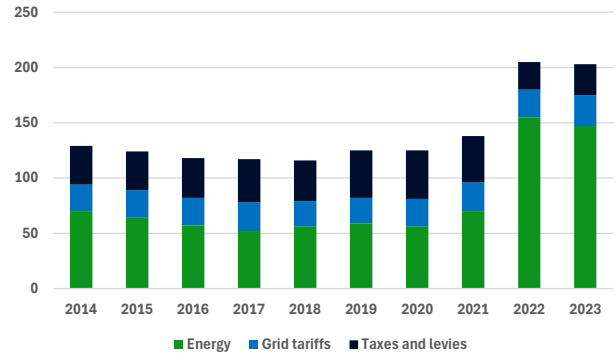
From time to time, the generation of renewable energy sources is not sufficient to meet the entire electricity demand. As a result, conventional power plants are needed to generate enough electricity. In many European countries, these are often natural gas plants, and sometimes still coal plants. The high European natural gas price thus has a large effect on the various national electricity prices, especially in contracts where delivery of electricity is further into the future than the next day. Chinese and U.S. electricity prices tend to be lower because China uses hydropower and relatively cheap coal, while the U.S. uses its own cheap gas.

Furthermore, industry in the EU is part of the European Emissions Trading System (EU ETS). Total emissions within this system are limited. Companies must cover their own emissions with emission rights. These rights are tradable and therefore have a price. Emissions are thus priced. Although the vast majority of industrial companies are currently still allocated free allowances, this share will gradually decrease in the coming years. As a result, the ETS price will become a relatively larger cost in the coming years. In theory, a higher CO2 price makes sustainability more rewarding. However, it is often practical obstacles that prevent actual sustainability. China does have an emissions trading system, but it is not as strict as the EU ETS and thus has a smaller effect on industrial competitiveness. In the U.S., some states have an ETS, but the same story applies to this as to China.

This combination of factors exposes European industry to high market prices for energy. Prices that the U.S. and China face to a lesser extent, if at all. In addition to increased market prices for energy, the prospect is also that grid tariffs will become an increasingly significant cost item on energy bills. This contributes to a weakened international competitive position.

Energy prices non-household consumers

EUR/MWh



Source: Eurostat

Dutch policy adds to this

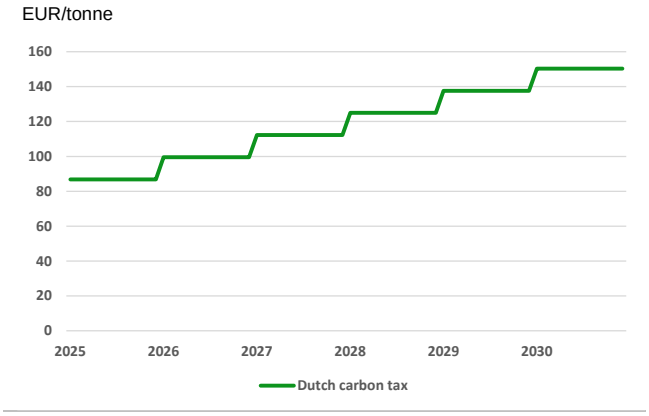
While high energy prices are putting pressure on margins for industry across Europe, specific pain points apply only to Dutch large consumers and producers of energy. The government has no clear vision of where it wants to go with energy-intensive industry, leading to fickleness in Dutch policy. This creates uncertainty for companies, which in turn is disastrous for investment decisions. Investment decisions that are precisely what are needed to achieve climate ambitions and a future-proof (competitive) economy. Three policy developments that undermine the competitive position of Dutch industry are highlighted below.

The abolition of indirect cost compensation (IKC) is one of the policy developments that has had a negative impact on the competitiveness of industry. This scheme compensated some 75% of the CO2 costs associated with electricity production by large energy users. The European Commission authorized its member states to use this form of support for industry. However, the Rutte IV government chose to abolish this measure by 2023. This is in contrast to other countries in Europe, which - until the introduction of CBAM - still grant this support. Although the scheme was reintroduced in 2024, this reintroduction is only valid for one year for now. Its introduction in 2025 is still uncertain, further undermining investment security and competitiveness for the industry.

In addition to the abolition of and uncertainty surrounding the IKC scheme, the Netherlands has been one of the few EU countries to introduce a national CO2 levy. The national CO2 levy is a tax that Dutch industry must pay on a portion of its emission rights in addition to the EU ETS price. This levy is calculated on the basis of the prevailing market price for emission rights and a national CO2 price that increases each year. Because the national CO2 price for 2025 was higher than the prevailing market price, Dutch industrial companies have substantially higher ETS costs per ton of emissions than non-Dutch companies. The tax will apply to a larger share of allowances each year, potentially making Dutch companies face increasingly higher ETS costs each year compared to other EU countries.

Although not a regulation, the Dutch industry does face relatively large cost increases due to electricity grid expansions. In the Netherlands, the network and transmission costs of electricity doubled by 2024, with more cost increases in the coming years. This is due to the additional costs incurred by grid operators to make investments in strengthening the electricity grid. The costs incurred by TenneT, for example to connect offshore wind farms, are also driving up these tariffs.

National carbon tax



Source: Dutch Emissions Authority

The Clean Industrial Deal's response

The package of measures from the CID and the *Affordable Energy Act (AEA)* is comprehensive. The scope of this report does not allow us to go into all the individual components. The package contains a number of promising measures that, if properly implemented, can contribute to strengthening European competitiveness. At the same time, the package also contains measures that are low impact, or even potentially counterproductive. Below, we first highlight a generic measure: Relaxation of state aid rules. This is an overarching measure that facilitates many of the other measures. Then a selection of measures, divided into four themes, is highlighted. These themes are (1) trade measures, (2) gas markets, (3) electricity prices, and (4) demand creation.

Relaxation of state aid rules

One of the fundamental pillars of the CID is the relaxation of European state aid rules. This measure is the overarching and enabling factor for many of the other measures in the package. Without more flexible state aid rules, member states simply would not have the policy space to adequately support their industries.

The Draghi Report has acted as a catalyst in this regard by emphasizing that traditional, strict state aid rules put Europe at a disadvantage in global competition. While the US with the *Inflation Reduction Act* and China with direct state subsidies massively support their industries, European competition law hinders member states from responding adequately.

Although the details of the new state aid rules will not be published simultaneously with the CID, the direction is clear: a shift from the current rigid *Temporary Crisis and Transition Framework* (TCTF) to a more structural, flexible framework. This new framework is expected to:

- Offer more room for investment support to sectors that fall under the "transform in Europe" and "infant industry" categories;
- Introduce a simplified procedure for supporting projects that contribute to European strategic objectives;
- Allow higher aid ceilings, especially for energy-intensive industries and cleantech sectors.

The true effectiveness of these relaxed frameworks will depend on a delicate balance between several crucial factors. First, fiscal realities play a decisive role: at a time when fiscal frameworks are creaking and political priorities are competing, large-scale industrial support requires a political willingness to invest that goes beyond rhetoric. Many member states find themselves torn between European budget

rules, on the one hand, and the economic need for intervention, on the other. In addition, more support for industry means that coverage must be found in the budget in other areas.

This tension is deepened by the second dilemma: the wide disparities between EU member states. Relaxed state aid rules without robust coordination mechanisms risk industrial fragmentation that weakens rather than strengthens the single market. Where countries like Germany or France can more easily mobilize substantial financial resources, other member states are left empty-handed. This is potentially a recipe for a multi-speed industrial Europe that weakens joint strength.

The third and perhaps most pressing aspect concerns the speed of implementation. In the global force field where the US and China achieve decision-making and implementation in short cycles, Europe's traditional diligence and democratic input risks becoming a handicap. While European projects are still navigating through layered approval processes at the European and then national level, new production facilities are already springing up elsewhere in the world. Global industrial policy moves at the pace of quarterly figures and investment cycles, while Europe's institutional processes often take a longer view, with all the implications for competitiveness that this entails.

Trade measures

Part of the CID is a set of measures that oversee trade regulation. The document first mentions the importance of signing and implementing free trade agreements. One of the measures to flesh this out is *Clean Trade and Investment Partnerships* (CTIPs). These partnerships with third countries consist of regulatory and financial support. The European Commission expects to conclude its first CTIP in March.

At the same time, the CID announced a number of changes to the *Carbon Border Adjustment Mechanism* (CBAM). This measure, which will become part of the EU ETS from 2026, imposes a levy on the import of some CO2-intensive products[2] from outside the EU. CBAM seeks to create a level playing field between European companies that are part of the EU ETS and non-EU companies (which typically face lower CO2 costs). The main proposal within the CID regarding CBAM is a simplification of regulations in order to reduce the administrative burden on European businesses. However, the extension of CBAM is not yet in the plan, something that is in demand by many industrial parties (see also our CBAM update of April 4, 2024).

Finally, the European Commission sees economic market risks for its industry regarding dumping of goods from third countries. Due to possible trade tariffs between third countries and, as a result, overcapacity in those countries, goods may be offered subsidized on the European market. Through the use of so-called *Trade Defense Instruments* (TDIs), the EC aims to mitigate these risks. Anti-dumping and anti-subsidy duties are mentioned as part of these TDIs.

While these measures will not create a difference of night and day, in theory they will be able to make a positive contribution to European industrial competitiveness. Nevertheless, this trio of measures has a somewhat uneasy coherence, reflecting a reluctant European stance on the geopolitical trade arena. On the one hand, the European Commission wants to work on free trade agreements; on the other, it is itself working on CBAM, which is de facto an import tax on third countries. However, if third countries themselves apply import tariffs against each other, the European Commission wants to avoid potential negative effects.

To a greater extent, the geopolitical playing field is characterized by a substitution of negotiating positions where mutual trade interests are exchanged for unilaterally formulated trade interests. Trump's trade strategy is a good but not the only example of this. For example, we saw Qatar threaten to stop supplies of LNG to Europe in December 2024. The trigger was the new *Corporate*

[2] These include iron and steel, fertilizers, cement, aluminum, electricity and hydrogen.

Sustainability and Due Diligence Directive (CSDDD). With this legislation, the EU (once again) imposes standards on the production process of products exported to the EU.

With this hardened tone in international trade negotiations, the trade measures from the CID look little heroic. But the real question on trade is whether the EU can also be quick-witted. The process of creating the CID and all the attached legislative packages takes time. With abrupt trade actions by Trump (or other world leaders) such as the announced 25% import tariff on EU products, the test of the clout of European trade measures is really put to the test. The key then is to act quickly, and as a bloc. National policies or visions can be disruptive and delaying.

Gas Markets

The AEA contains two main measures that the EC believes should provide relief in gas markets. First, a *Gas Market Task Force* will be set up. This task force will thoroughly examine EU gas markets and take measures to ensure optimal market functioning and prevent commercial practices from distorting price formation. Part of this will be a joint database of all relevant commercial transactions with access for all regulators.

Gas markets have become more lucrative since the energy crisis. With that, the measure of tighter supervision of these markets may look sympathetic. Yet it is nothing but a band-aid solution. Supervision of financial markets in general and commodity markets in particular has never been part of the problem of high energy prices. Improvements to that same supervision can't hurt in principle, but it also doesn't improve the supply-demand balance: one of the few fundamental changes that can actually ensure lower energy prices.

The other main measure in the AEA consists of two parts, namely flexible filling obligations for gas stocks and a tendency to conclude long-term contracts for the supply of natural gas. Unlike the first main measure, it does attempt to bring about an improved supply-demand balance in European gas markets, but the risk is in the implementation. Namely, the danger is the market-distorting nature that policies can have. Market distortion that should be countered by the Gas Market Task Force if triggered by commercial parties, but is apparently acceptable from Brussels. Our recent update goes into detail about the uneasy interplay between politics and gas markets.

Policy that stems from good political intentions to guarantee security of supply of natural gas, for example, can have negative side effects such as (substantially) higher prices. The targeted filling obligations of European gas stocks are an example of this. Linking a date to a particular filling obligation is an encouragement to speculators. After all, there is certainty that at some point natural gas must be purchased to meet the obligation. Prices are thereby driven up unnecessarily. An argument that to some extent also applies to long-term contracts. These too will potentially lead to a higher price than might have been necessary in spot markets, were it not for the fact that it removes the incentive for investors to speculate on price increases in the event of shortages.

The AEA is anticipating an extension of the *gas storage regulation* (EU 2022/1032). Part of this is the filling obligation of gas stocks that member states have. This filling obligation should be given a more flexible character. What that will look like in concrete terms will be known later. In any case, it means a move from rigidity to flexibility. In theory, that should leave less room for speculators to push prices up (unnecessarily). Flexible filling measures are thus an advance over rigid filling measures. However, the approach as a whole remains market-distorting. Energy suppliers want to choose what they see as the most convenient time to purchase gas. A free market is thereby the most efficient method for the lowest prices. Moreover, energy suppliers have an obligation to supply, which serves as a deterrent for security of supply.

One measure that does have the potential to make a difference to European industrial competitiveness is called the Japanese model. This involves joint European investments in export infrastructure from LNG exporting countries. Through these investments, rights to gas exports should

be obtained and long-term contracts for potential supply of LNG to the EU can be concluded. This ensures a secure import flow of natural gas towards the EU, thus making our continent less dependent on the relatively expensive spot market. Moreover, it increases investment security for companies. In short, both security of supply and more stable prices are promoted by this measure.

Long-term natural gas contracts are still being waved off by some politicians. According to these politicians, it makes us unnecessarily long dependent on fossil fuels. Moreover, they say, natural gas will become less expensive when new supply enters the market starting in 2026. The latter is up for debate anyway. Yes, more LNG exports are coming on stream starting next year, especially from the U.S. and Qatar. At the same time, global demand for LNG is also rising sharply in the coming years. So the increase in supply does not necessarily mean that there will be a lot of room on the market and that prices will fall. After all, it remains a combination of (expected) supply and demand. Not without reason there are warnings from the market that Europe should fear a shortage of LNG from 2030 onwards.

Electricity prices

The number of different measures overseeing electricity prices that the CID and AEA put forward is extensive. However, many measures will have only a marginal effect on energy affordability or industrial competitiveness. Examples include making it easier to switch energy suppliers, adopting new rules around demand-side management of electricity, or making it easier to take advantage of flexibility in consumer contracts. Measures such as shorter permitting processes for renewable energy projects may be effective in the long run, but are not going to bring much-needed relief now.

In addition, not for the first time, the idea of decoupling electricity prices from gas prices has been suggested. While the idea is noble, implementation in practice will be difficult, to say the least. After all, natural gas is a key "ingredient" for electricity. The sustainability of the electricity mix shows that day-ahead and imbalance markets have become highly dependent on weather. The degree of solar and wind are daily determinants of electricity pricing. The role of gas prices in those markets is limited to those times when sun and wind are out. In contrast, in the longer-term markets , the average expected electricity mix is important in determining prices. In this, gas still plays an important role and thus will often - given the merit order - be price determinant. This can only be reduced further by accelerating the sustainability of the electricity mix. Complete decoupling of gas and electricity prices can only be achieved by never again using gas as a source for electricity generation. This process will take many years.

Specifically, the EC proposes that industry make greater use of *Contracts for Difference* (CfDs) and *Power Purchase Agreements* (PPAs). Both involve mutual agreements (over-the-counter contracts) between producer and buyer of (renewable) energy, outside the market. Their advantages are that both buyer and producer of the energy gain price stability, which enhances investment security. In return, project returns are maximized. However, security of supply is a major risk with these arrangements. Electricity from solar and wind is not always available, while industrial plants are largely dependent on a continuous flow of electricity (baseload). The scope and impact of this measure is therefore also marginal.

The EC has also included a measure that does have a direct and relatively large positive effect on industrial competitiveness. The CID prescribes that member states should reduce taxes on electricity to the minimum legal thresholds. These include a minimum excise tax rate of EUR 0.5/MWh for companies and a minimum VAT rate of 5%. For energy-intensive industry, energy taxes are even proposed to be eliminated. The relatively large portion of companies' energy bills made up of taxes and charges makes this measure both effective and controversial. Effective, because a significant portion of companies' energy bills can go down "at the push of a button". Controversial, because it will leave a gap in a member state's budget that will have to be plugged through other means.

The EC will also come up with recommendations and guidelines for a harmonized design of network tariffs. These guidelines will be designed to reward flexible use of electricity. According to the Commission, this development should reduce peak electricity demand, saving grid expansions. The question is to what extent this will prove effective, because the fact that electricity demand peaks at any given time is not purely the result of choices that can be influenced with a fee.

Another interesting recommendation made by the EC is that member states should use their state budgets to pay for grid extensions. This measure could effectively shift costs from the current user of the power grid to society, including future users. Since expansion of the power grid is an investment for the future user of that grid, this measure would not necessarily be unfair. Again, however, the measure will cost a member state money in the short term, while the benefits will be long in coming.

Demand Creation

The demand side has been underexposed in climate policy to date. Most of the emission reductions achieved so far have been the result of supply-side climate policies. In particular, this involves making the electricity sector more sustainable. Renewable energy sources such as solar and wind represent an increasing share of total electricity use. These have been logical and important first steps in the energy transition.

With this forward momentum, we have now reached a new point. In addition to making the supply side more sustainable, the demand side must also be encouraged to embrace sustainable alternatives. Industrial products made through the use of fossil fuels are still cheaper than products produced through sustainable methods. With that, it is often not possible for these companies to unilaterally opt for sustainability because it hurts their competitive position, and puts pressure on their survival in Europe. Imposing sustainability requirements on the demand side would collectively encourage these companies to supply more sustainable products.

The CID is overseeing some measures regarding demand creation. For example, policies are being formulated that will allow tenders and public purchases to be tested for clean alternatives to a greater extent. In addition, a voluntary label is being developed for the CO2 intensity of industrial products. Since this label will be based on ETS data, it will not require additional reporting from industry. The EC mentions that this allows member states to use these labels for tax incentives. This makes it largely an enabling measure. The EC will begin labels for steel as early as this year.

Since procurement and public purchases have limited market reach, measures regarding private purchases are potentially more effective. In this area, the Commission will continue to assess how requirements and non-price related criteria can be included in relevant product legislation. Examples cited by the EC include low-carbon steel or sustainable battery cells for cars and company fleets. The plans are not yet set in stone with the publication of this CID. Implementation of this plan will be crucial.

Finally, the CID indicates that the EC will adopt the Low Carbon Hydrogen *Delegated Act* as soon as possible to further set out the rules for hydrogen production and provide certainty to investors. While this will give investors more clarity, there are still obstacles that impede rapid development toward a hydrogen economy. In the Netherlands, for example, there is the policy debate surrounding the refinery route, with its current proposed interpretation raising significant concerns about the financial viability of investing in electrolysis capacity. Until these concerns are addressed, a further exposition of rules mainly provides clarity that scaling up investments in electrolysers will not soon end up in the Netherlands.

National implementation

The CID consists of numerous measures to promote European industrial competitiveness. Not all the measures are uncontroversial, but the package offers plenty of opportunities for progress. It is now up

to individual member states to flesh out the package. In doing so, member states must overcome one's reservations of budget space and national interests. Given the geopolitical scene, clout and urgency are needed for effective implementation of the CID. A task that, given the European structure of policy making, is a challenge in itself.

From European framework to national reality

CID implementation follows a phased process that runs from 2025 deep into 2026. Some measures can be implemented relatively quickly. Other elements still require additional legislation at the EU level before member states can implement them. Most structural measures have an implementation horizon of at least 12 to 18 months.

While the CID sets clear goals on paper, it lacks firm safeguards for clear and swift implementation. Unlike many other EU directives, the package contains few binding obligations for member states. This makes implementation highly dependent on national political priorities and fiscal space. It is precisely on the latter point that many member states are struggling, where budget deficits significantly limit policy freedom.

These circumstances create a real risk of asymmetric implementation within the EU. Member States with a firmer financial position, such as Germany and France, can invest more quickly and substantially in their industries - an "advantage" that can further exacerbate existing economic disparities within the EU.

The Dutch puzzle

In the Netherlands, the CID implementation clashes with a particularly complex budgetary situation. Not without reason is the upcoming Spring Memorandum seen in The Hague as the coalition's first, hard confrontation with financial reality. On the same budget from which implementation of CID measures is supposed to be financed, numerous other priorities are pressing: from achieving climate goals to expanding the defense budget.

Finance Minister Heinen faces an almost impossible balancing act. It has been agreed in the outline agreement that if the estimated budget deficit exceeds three percent, measures must be taken, preferably by making cuts. At the same time, the coalition parties each have their own wish list.

The scope for releasing substantial resources for industrial strengthening - a policy area that usually does not immediately capture the imagination of voters - within this context seems limited. The amounts necessary for serious CID implementation are therefore likely to compete with directly tangible measures that affect citizens' wallets.

European ambitions, national constraints

The effectiveness of the CID hinges on the extent to which Europe can truly unite behind a common industrial strategy. While some member states are acting proactively, successive Dutch cabinets have been focusing on climate leadership for several years, where a level playing field with the rest of Europe seems to be of secondary importance.

This is problematic because it is precisely now, with a changing geopolitical landscape, that Europe needs member states that act together with the rest of Europe and thus look beyond national borders. Implementing CID does not require both resources and political will and vision. It is uncertain whether the Dutch cabinet, distracted by the nitrogen issue, has sufficient bandwidth to actively participate in a European future-proof industrial policy.

The Netherlands also faces a particular challenge in the context of new state aid regulations. With relatively limited fiscal space and a political culture that leaves little room for long-term vision, our country risks missing the boat in this new industrial reality. The relaxed state aid rules may offer a

toolbox, but without substantial investment readiness and a coherent industrial strategy, they remain paper possibilities without practical implementation. There is a real risk that the Netherlands will maneuver itself into a position where it bears the costs of the European transition, but leaves the strategic benefits to neighboring countries.

The price of inaction

While the Hague debate is dominated by short-term issues, the real consideration should be the long-term cost of inaction. Prime Minister Schoof implicitly acknowledged this when talking about the expected increase in the NATO norm: "every tenth of a percent, is about 1 billion euros." Similar arithmetic applies to industrial policy: every tenth of a percent of market share lost by European industry costs many billions in economic activity and earning power with which we ultimately finance our economic prosperity.

The question is not so much whether the Netherlands can afford to invest in CID implementation, but whether it can afford not to. A wait-and-see attitude now could lead to a permanent weakening of the Dutch industrial base. As Europe searches for a new balance between economic competitiveness and climate ambitions, the Netherlands cannot sit back - it will have to actively shape its industrial future or leave it to neighboring countries.

The upcoming Spring Memorandum will therefore be a crucial benchmark - not just for the budget exercise, but as an indicator of this administration's strategic vision. Will it have the courage to look beyond the horizon of the annual budget rounds and the next election, and thus dare to make structural investments? While budget negotiations continue to trudge along in The Hague, other countries are building their industrial future with unerring precision. The paradox of the CID is that, precisely because of its noncommittal nature, it forces us to make a fundamental choice: to help shape a shared European industrial future, or to watch it being determined elsewhere.

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