European Commission

The President

Brussels, 20 October 2025

Dear Colleagues,

Later this week, we will discuss Europe's competitiveness. As Mario Draghi has impressed upon us all, a competitive economy is the foundation on which both our prosperity and our independence rest. While the EU remains committed to a rules-based international order, we cannot be blind to the rising assertiveness of those for whom raw power is their sole guide. Europe must stand for itself and for its values, and without the economic means to lean on, we can only collectively fail. If we make the wrong choices, the slow agony Mario Draghi announced could become a reality earlier and faster.

If a robust, resilient, sustainable and innovative economy is our goal, then dogmatically clinging to our existing business models, whatever their past successes, is not the solution. For the EU's economy to take its rightful place in the global economy, we must be among those who are driving the response to the challenges of our time.

Among these challenges is the scientific reality that we are increasingly putting our prosperity and our social models at risk, while our communities risk becoming uninhabitable. At the same time, the cleantech race is accelerating. China has identified the business opportunities and is harnessing its tremendous human resources, with the goal of becoming the undisputed leader of all crucial elements in the economy of the future. The way our own policies have contributed to China's emergence in green tech (solar, batteries, electric cars…) should serve as a cautionary tale: to achieve leadership, relentless focus and effort is necessary. And these become even more integral to conserve it. Leadership also demands strong reactions to avoid falling into new and dangerous dependencies, such as our increased dependency on China for Critical Raw Materials. Here, there is no room for complacency.

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This is why we must stay the course on the transition of our economy toward climate neutrality and circularity, in full coherence with our competitiveness and independence agenda. Given its geography, the EU has more at stake than anywhere else in becoming the most energy- and resource-efficient region globally. Every megawatt-hour and ton of raw materials we save in producing goods and services for ourselves, and for the rest of the world, makes us more competitive and more independent of external suppliers. This is where competitiveness meets strategic resilience.

However, we must also acknowledge that transitioning an economy as big and well-established as the EU's requires a combination of ambition, speed, pragmatism and flexibility, as well as a degree of protection against unfair competition. No one should be able to submit our economic and social fabric to so much tension that it breaks down. This combination has been at the core of my second term and is clearly illustrated in our proposal on a 2040 greenhouse gas reduction target. It has ambition – 90% reduction. It has flexibility - our proposal included significant flexibilities for Member States and industries on "how" to achieve the target. For example, part of the target - 3% in the Commission's proposal, which Ministers will further discuss - can be reached with high-quality international credits. Our domestic target for emission reductions can be lower than 90%, as long as this is compensated by similar – and cost-efficient, high-integrity – reductions outside of the EU. This creates opportunities for new partnerships, building on the ones we already have through Global Gateway.

Each conversation I have with stakeholders confirms that this approach is the right one. First, the vast majority of our citizens and of our economic players see the need for this transformation: the increase in extreme weather events has shown them the severe damage it can cause for societies, communities and businesses. Second, the EU is attractive for investors – including international investors – if we collectively demonstrate the sense of urgency, the clarity of purpose and the will to mobilize to achieve our targets. And third, the Global South is also looking for solutions for their own transitions. This is a major business opportunity for Europe. Seizing it requires steadfastness and an unrelenting drive to face off our competitors, starting with China. We know that it is up to us to make sure that the future of clean tech is made in Europe. None of this will come easy, but we all have a role to play in securing Europe's leadership. I am eager to discuss all this with you at the next European Council.

- Delivering on the Clean Industrial Deal

A strong industrial base is at the heart of Europe's economic strength. With the Clean Industrial Deal and the Action Plans on the automotive, steel and chemical sectors, the Commission has proposed measures to boost demand for "made in Europe" clean products and to mobilize further investment to finance the clean transition, with a clear aim: to strengthen Europe's position in several strategic cleantech sectors, especially in those where we lead. The attached table gives an overview of the breadth and depth of these measures.

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By the end of the year we will present an Industrial Accelerator Act for key strategic sectors, with particular emphasis on energy-intensive industries and clean tech. This is the time to give a clear political signal to drive investment and innovation towards sectors where we are or can become world-leading, and make sure we keep other sectors firmly based on our continent.

Specifically for the automotive sector, and following the last Strategic Dialogue, I decided to accelerate the review of the regulation on CO2 emission standards for cars and vans. This is now foreseen by the end of this year. In that context, we remain committed to the principle of technology neutrality and cost efficiency. In preparing the review, we are also assessing the role of zero and low-carbon fuels in the transition to zero emission road transport beyond 2030, such as e-fuels – to which I already committed in the Political Guidelines - and advanced biofuels. The specific dialogue we launched with heavy-duty manufacturers will also result in concrete measures to assist them to reach their targets.

We have also taken action to keep battery production here in Europe. Last summer, the Innovation Fund Battery awarded six pioneering companies with EUR 852 million. Now we will launch a Battery Booster package, putting EUR 1.8 billion up for equity to bolster production in Europe.

- Protect, Promote, and Partner: Advancing Europe's Industrial Strength

Our industry is increasingly confronted with unfair competition. The proposal to protect the European steel industry – adopted by the Commission earlier this month – clearly demonstrates our determination to tackle the distortive impacts of global overcapacity. This marks an important step towards securing the long-term viability of this strategically vital industry. It also creates the conditions for confident investment in the acceleration of green production processes and strong markets for European green steel. It is important that in such cases, we react swiftly and appropriately to preserve a level playing field, also for other sectors if needed. Europe loves competition, but the competition should be fair.

Before the end of the year, the Commission will also make proposals to further strengthen the Carbon Border Adjustment Mechanism, with an extension to downstream products, strong anti-circumvention measures, including the use in certain cases of obligatory country values, and support industries that are at risk of export carbon leakage. This is a long-standing request from industry – and we are delivering on it.

- Increased funding through State aid and the European Investment Bank

Strategic sectors need an agile regulatory and financing framework. Our proposal for the next Multiannual Financial Framework includes continued strong financial support for decarbonization and a just transition. Before the end of this year, we will launch a new EUR 1 billion auction, as a first pilot of the future Decarbonization Bank. This Bank aims to provide EUR 100 billion in total funding for industrial decarbonization projects.

But we also know that the EU budget is not enough. The Clean Industrial Deal State Aid Framework (CISAF) allows Member States to support the clean transition in a pragmatic way. I welcome the EIB's work on its Climate Roadmap 2.0, which will support at least EUR 1 trillion in green investment this decade, with also a new target of EUR 30 billion for climate adaptation finance for 2026-2030, focusing on agriculture, water, cities and vulnerable regions and communities.

More generally, the transition will only be successful if we are successful in mobilizing private capital. It is therefore of crucial importance to speed up the work on the Savings and Investments Union, so that high potential companies in key technologies are not forced to turn to foreign investors.

- Smooth entry into force of ETS2

Several of you have shared concerns about the introduction of carbon pricing for the fuels used for heating and road transport (ETS2). I remain convinced that a market-based approach, in conjunction with other measures, is the right way to modernize these sectors. The revenues generated through carbon pricing, channeled via the Social Climate Fund, will help in four clear areas: overcoming energy and transport poverty, deploying EU-made cleantech, reducing our fossil dependency and achieving our climate goals.

The ETS2 should be introduced gradually and smoothly. Therefore, at the 21 October Environment Council, Commissioner Hoekstra will announce upcoming proposals to address concerns of too high or volatile prices, following up on the letter received from 19 Member States. It is in our common interest to ensure an orderly start of the market and a predictable price trajectory. We will therefore work on a more robust price stabilisation system, notably by further enhancing the role of the ETS2 Market Stability Reserve. We are also exploring the possibility for Member States to frontload ETS2 revenues, in cooperation with the EIB, in order to support low- and middle-income households in reducing their heating or mobility bills early on.

More generally, what we need is a transition that is just and fair, whereby especially vulnerable households, small companies and regions that are most exposed to structural changes are protected and supported.

- Forward guidance on the ETS after 2030 and the role of forestry

Once an agreement is reached on the 2040 target, preparations will start on the climate and energy legislation that is needed to implement the target. As a general principle, it should ensure consistency between our decarbonization efforts and other factors, such as technological developments, challenges to competitiveness, social cohesion, or the evolution of our carbon sinks.

Some of you have already expressed some specific concerns– and I share some of them. I believe, for example, that our future legislation should include sufficient flexibility to guarantee a cost-effective and technology-neutral implementation and accommodate Member States 'different national circumstances. I am also convinced that the ETS post-2030 must ensure a realistic and feasible decarbonization trajectory for energy-intensive industries. It should provide further space for hard-to-abate emissions by allowing the use of industrial carbon removals.

The next policy framework should also consider the uncertainties in our forestry sectors and set land targets that are realistic in the face of increasing climate impacts. Moreover, possible shortfalls in reaching such a removal contribution should not be at the expense of other industrial sectors, while removals that exceed the target could contribute to compensate for shortfalls in other sectors. The next framework should also recognize the need to invest in a healthy and resilient bioeconomy, which has a crucial role to play in the climate transition, notably by providing fossil-free substitution. As always, my services will prepare the upcoming legislation in close consultation with your Ministers.

But we also need short-term action. Already we can see the challenges that several of you are facing with a diminishing net sink in the LULUCF sector, for instance as a result of natural disturbances. We are working on pragmatic solutions to alleviate these challenges, within the existing LULUCF Regulation.

- More affordable energy for industry and households

Energy prices in Europe are significantly higher than in the US and China. While our gas prices today are 10+ times lower than at the peak of the energy crisis, they are still approximately twice as high as before the crisis. The EU pays yearly around EUR 400 billion for importing oil and gas.

We have taken action. We have moved away from being a mostly regional market player with 45% imports from Russia, to become a global liquefied natural gas (LNG) importer. Additional new LNG export capacity is expected to come live by 2027-28, which should bring downward pressure on prices.

But beyond gas, other parts of energy bills also remain too high: taxes, levies and charges increased last year for both industry and households. Electricity is disproportionally affected, with taxes for industry 15 times higher than those for gas, and for households, 5 times higher. This goes against our need to massively electrify. And as we all know: electrification should be at the core of our competitiveness, energy security, and climate objectives.

Within our Union, the reality differs significantly from country to country. Prices are lowest in Sweden, Finland, France and Spain, but considerably higher in Italy, Ireland and South-Eastern Europe. We need to study short term, effective EU measures to reduce energy prices in the Union, while safeguarding the internal level playing field. In this context, the European Commission will table relevant proposals as soon as possible.

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What we now need is not only bolder and faster action, making full use of all zero and low carbon energy solutions, in full respect of the principle of technology neutrality, but also more granular action. That is why in my State of the Union, I launched a new initiative called Energy Highways. One by one, we will remove eight critical bottlenecks in our energy infrastructure. The first pilots will be launched still this year. And we will propose a new Grids Package to strengthen our grid infrastructure – both national and cross-border - and speed up permitting.

While we speed up our work, much can be done at Member State level. I invite you to make full use of the enhanced State aid framework, to slash taxes and levies from the electricity bills, streamline permitting procedures and engage with promotional banks and the EIB to derisk long-term Power Purchase Agreements, which can be highly relevant for energy-intensive industries. The Commission stands ready to assist you in this work, including through our Energy Task Force, and to help preserving the level playing field.

- Simplification

Finally, we must keep up the current simplification momentum. So far, our simplification measures are delivering more than EUR 8 billion in annual savings for European businesses. More proposals are coming, for instance on energy grids and on automotive, by the end of this year. This will further unlock much-needed investments in innovation and decarbonization, a prerequisite to reach our climate objectives. And together with your authorities, we will also take further steps to accelerate permitting procedures.

I want to underline two things: the first is that while simplification is needed, it will not deliver competitiveness in and of itself. As the recent Nobel-prize laureate Philippe Aghion points out, only innovation can. The second is that simplification has to be a comprehensive and joint effort by every level of government: without a simultaneous drive at national, regional and, where relevant, local level, its benefits to citizens and businesses will prove elusive.

I look forward to the next European Council, to advance our common work on this enabling framework.

Ursula von der Leyen