Bündnis Zukunft der Industrie

# European Policy for Innovation, Transformation and Employment

*Position paper of the German Alliance Future of Industry*

Europe must work together to dismantle barriers to innovation. We need more coherent, innovation-friendly framework conditions and a more strategically aligned EU budget to create the foundation for a stronger and more effective European innovation ecosystem. The reports of Draghi and Letta emphasize that fragmentation and differing national regulations hinder the transfer, scaling, and commercialization of new technologies. Closer European coordination with less bureaucracy, clearer priorities, and pooled investments is essential to strengthen Europe's position in international competition with the United States and China and to better leverage Europe's technological potential.
This also presents major opportunities for the EU. Joint programmes, harmonized funding instruments, innovation openness and a more integrated single market can accelerate the impact of innovation, facilitate business growth, and keep value creation within Europe.

## 1. MFF 2028-2034 and the importance of FP10 for the promotion of innovation in the EU

The next EU Multiannual Financial Framework should place a much stronger emphasis on competitiveness and ensure reliable funding for research and innovation. This requires consolidating resources within the new European Competitiveness Fund, setting clear priorities, and simplifying the funding architecture so that programmes can deliver impact more quickly and companies gain easier access. A strong 10th EU Framework Programme for Research and Innovation (FP10), starting in 2028, should be administratively streamlined, with shorter time-to-grant periods, less bureaucracy, and clearer calls. Its industrial orientation must be reinforced; to avoid that despite higher overall funding levels the industrial pillar loses its relative weight

A future - oriented FP10 is a key step toward closing Europe's innovation gap with global competitors, ensuring adequate funding for top-rated Horizon projects, and strengthening capital-intensive deep tech companies in global markets. To achieve this, established structures such as the European Research Council (ERC), the European Innovation Council (EIC) and industry-driven projects under Pillar 2 must be further expanded. Work programmes should become more flexible, faster, and developed with stronger involvement of experts and stakeholders; for key technologies, a mission-oriented, ARPA-style approach should be considered. The latter especially includes greater freedoms for the EIC programme managers, which constitute an important component of DARPA's successful, person-centered approach. Furthermore. the collaborative research/ R&I- part of Horizon Europe must

be aligned with the strategic focus and targeted prioritization on key industrial areas defined in the ECF but must – together with the ECF – also ensure that horizontal key and future technologies with cross-sectoral and cross-policy significance are sufficiently addressed. Central to FP10 is a major push for simplification: faster procedures, shorter time-to-grant, easier disbursement, a one-stop-shop, and a "funding readiness check." Companies should also be able to clarify or pitch applications rather than receive purely formal rejections. The opening for dual-use projects is explicitly supported to ensure FP10 remains technology-neutral and leverages synergies between civil and defense applications. Excellent projects that are not funded due to limited budget availability, but awarded a quality seal, need alternative funding opportunities. A joint approach by the federal and state governments could be used to fund Seal of Excellence projects.

## 2. Design of the Competitiveness Fund for the promotion of industrial policy in priority areas

The proposed European Competitiveness Fund (ECF) is designed to become a strategic cornerstone of European industrial policy. By merging 14 existing programmes and structuring funding across four thematic windows – clean industrial transformation, biotech and the bioeconomy, digital leadership, and resilience including security, defense, and space – it aims to focus resources on key industrial areas with high strategic relevance. The goal is targeted, merit-based and impact-oriented funding without geographical quotas, reducing fragmentation and strengthening industrial transformation and technological leadership. To fully support competitiveness, the fund must ensure a balanced allocation across all pillars and should structurally anchor skills development and workforce training as part of specific projects, which are essential for innovation capacity and resilience across Europe's industrial landscape.

Effective implementation of the ECF requires clear governance structures with effective involvement of the member states, a unified regulatory framework, and smooth transitions between research (Horizon Europe) and industrial scale-up. Grants and financial instruments should be combined efficiently without adding unnecessary complexity, while funding procedures must be simplified to ensure transparency, predictability, and rapid project support. Clear eligibility criteria can help ensure that public funds strengthen long-term industrial capacity and high-quality jobs. The fund should also address upskilling and reskilling. Finally, given the fund's scale, governance should involve all relevant stakeholders.

## 3. Regulation of innovation issues (e.g. exemptions from the AI Act)

The harmonization of rules is a core achievement and remains a central goal of the EU's Single Market, creating market size for scaling innovation. However, EU-regulation is increasingly hampering innovation because it creates bureaucratic burdens and compliance risks for innovators and business. Therefore, it is crucial that Europe aims to reduce regulatory barriers to innovation and make the internal market more conducive to technological progress. This means that regulation should be designed to include European innovation-friendly standards, single reporting obligations and one-stop-shop formats. Given the importance of Industrial AI it is

necessary to bear the aforementioned aspects in mind. For future law-making we reiterate the necessity to apply a comprehensive “innovation check” as part of the Commission ´s better regulation efforts.

The European Innovation Act (EIA), planned for 2026, is intended to legally anchor core elements of the EU Start-up and Scale-up Strategy and make the single market more innovation-friendly, particularly for high-tech industries.

To accelerate innovation in Europe, the EIA is expected to introduce targeted regulatory exemptions and simplifications to give companies greater legal certainty and reduce unnecessary administrative complexity. The EIA is expected to deliver concrete measures that streamline, harmonize and speed up regulatory processes within the single market, removing structural obstacles faced by technology-driven firms. The German “Innovation Freedom Act” complements this with national reforms – such as VAT exemptions for research activities, simplified procurement rules and reduced reporting requirements – to support research and development more efficiently. Together, these instruments aim to strengthen Europe’s technological competitiveness, shorten innovation cycles, and facilitate the scaling of new technologies across the EU.

## 4. Boost the European Innovation Act

The European Innovation Act (EIA) should strengthen Europe’s capacity to translate research and innovation into economic value by creating a more innovation-friendly regulatory framework and improving conditions for innovative companies across the single market. A key objective is to facilitate the transfer of research results into commercial application through targeted legislative measures that support innovation, technology transfer, and business growth.

Regulatory sandboxes should form a central pillar of the EIA. They enable companies to test innovative technologies, products, services, and business models under real-world conditions while providing valuable insights for evidence-based policymaking and regulatory learning. To maximize their effectiveness, sandboxes should offer transparent procedures, equal access, sufficient legal flexibility for experimentation, and robust safeguards, while ensuring that the knowledge gained is systematically reflected in future legislation.

The EIA should also strengthen the framework conditions for innovation by modernizing state aid rules, facilitating the use of intellectual property rights as collateral for financing, and promoting effective technology transfer. Public procurement should be used more strategically to support innovative companies, particularly start-ups and SMEs, by making procurement procedures more innovation-friendly and strengthening the market uptake of innovative solutions. Overall, the EIA should establish a coherent framework that reduces unnecessary regulatory burdens and supports the commercialization and scaling of innovative technologies across Europe.

## 5. EU Start-up and Scale-up strategy and provision of scaling finance

We strongly support the efforts of the EU to support start-ups and scale-ups. The EU's Start-up and Scale-up Strategy, presented in May 2025, aims to strengthen Europe's innovation and growth potential by reducing administrative burdens, advancing standardization, improving access to finance, and supporting entrepreneurial skills. It focuses on five thematic pillars: innovation-friendly regulation, better financing, faster market entry and expansion, support for top talent, and improved access to infrastructure, networks and services. The strategy's ecosystem perspective, the planned network of European start-up and scale-up hubs, and the reinforced role of the European Innovation Council are positive steps toward a more integrated and dynamic European innovation landscape.

In addition, EU regulations and definitions in particular must be structured in a way that is conducive to innovation and supportive of SMEs. The definition of "innovative enterprises" presented by the European Commission has several shortcomings in that respect that need to be corrected when putting it in practice.

## 6. EIB innovation support, e.g. Tech-EU

TechEU is the European Investment Bank Group's programme dedicated to accelerating innovation across Europe. It empowers growth and helps bringing technologies to market by connecting innovators with funding and expertise, it is designed as a one-stop shop for financial support and expert guidance. TechEU intends to mobilize 250 bn. Euros by EIB-Group investment of 70 bn. Euros in equity, quasi-equity, loans and guarantees in 2025 – 2027. From a business perspective, it represents an important boost for risk capital and scaling in Europe, whose impact will largely depend on effective alignment with existing funding programs and regulatory frameworks.

## 7. Assessment and perspective of IPCEIs, e.g. IPCEI AI and IPCEI CIC

IPCEIs are an important instrument. However, they must become significantly less bureaucratic (especially for SMEs), more flexible, and above all much faster. In the past procedures have taken more than two years in some cases. This prevents the European economy from catching up and instead entrenches its subordinate position in the innovation race. The duration of state aid procedures must be reliably and substantially reduced.

## 8. Technology Proposals of the Commission on Artificial Intelligence, Quantum Technology, Biotechnology and Advanced Materials

The Quantum Europe Strategy prioritizes research and innovation, quantum infrastructure, ecosystem strengthening, space and dual-use quantum technologies, and skills development. The EU Quantum Act, expected in 2026, aims to address weaknesses in supply chains and governance, industrial capacity gaps, and fragmented research and innovation efforts, while creating a coherent framework for the full spectrum of quantum technologies.

The EU Quantum Act should follow a technology-open approach, given the uncertainty about which hardware solutions will ultimately dominate, and should focus on effective coordination, funding for hardware as well as algorithms, software and applications, and the development of European open-source frameworks, standardized APIs and interoperability tools. The Advanced Materials Act aims to simplify and accelerate approval, testing and certification procedures, expand the use of regulatory sandboxes, and ensure that funding instruments are accessible with minimal bureaucracy. It further seeks to integrate new recycling technologies early in the development cycle and establish reliable, technology-neutral conditions across the entire lifecycle – from research to production to reuse.

In parallel, the EU plans to adopt the Advanced Materials Act (Q4 2026) to remove innovation barriers in advanced materials and provide a practical, technology-neutral, cross-sector framework that accelerates research, transfer and market uptake, thereby strengthening competitiveness and circularity.

The EU Biotech Act II is expected to be presented by the European Commission in the third quarter of 2026. The initiative aims to strengthen the biotechnology and bioproduction sectors in the EU and should bring a considerable reduction of bureaucratic burden, faster approval processes, and a more dynamic, coordinated, science-based and fit-for-purpose regulatory system.

## 9. Facilitating investments in AI, quantum technologies and cloud infrastructure

Several factors currently hinder investment in quantum technologies, particularly uncertainties regarding intellectual property (IP) protection. While traditional IP instruments such as patents work well for hardware, adapted concepts are needed for software related innovation. Establishing common standards early on is crucial to prevent conflicts, and industry should actively consider strategic open-source models. Stronger alignment between national and European initiatives is needed to build a sovereign European value chain and reduce critical dependencies. At the same time, the broader deep tech landscape requires attention, especially given the pressing need to increase private financing.

Clear, coordinated and long-term funding structures as well as robust IP standards that also cover quantum software are essential. Industry and policymakers should promote open-source approaches and ensure close coordination between national programmes and EU-level initiatives. To support deep tech start-ups and scale-ups, Europe must significantly improve access to private capital, particularly for late-stage financing. Establishing an additional two or three largescale EU-wide VC-expert driven investment funds would enable funding rounds above 50 million Euros and meaningfully strengthen the growth prospects of technologically advanced European companies. Therefore, we welcome the Commission's success in establishing the Scaleup Fund Europe.

## 10. Strengthening the comprehensive digital ecosystem, i. e. software and hardware

Digital transformation requires a high-performance and resilient digital ecosystem that integrates hardware, software and industrial AI. These tightly connected elements form the foundation for innovation, competitiveness and technological sovereignty in Germany and Europe. Germany’s strengths lie in its combination of hardware, software and systems expertise, particularly visible in industrial production and key application fields such as mobility, energy, healthcare and smart buildings. The objective is to fully leverage this potential and position Germany and Europe as leading locations for connected industrial technologies and digital innovation.

Achieving this requires reliable framework conditions for investment in research, development and production, powerful digital infrastructures and data centers, as well as clear norms, standards and innovation-friendly framework conditions. At the same time, capabilities in key technologies – such as microelectronics, cloud and edge computing, cybersecurity and industrial AI – must be systematically strengthened. A robust digital ecosystem can only emerge through close cooperation between industry, software companies, startups, research institutions and the public sector, enabling faster innovation and long-term industrial competitiveness.

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Since 2015, 19 partners from trade unions and the German Trade Union Confederation, business and employers' associations, the German Chamber of Industry and Commerce and the Federal Ministry for Economic Affairs and Energy have been developing recommendations for action for the future of our industrial location in the "Future of Industry" alliance. The common goal is to make Germany fit for the future as an industrial location, to maintain and further develop employment in industry, to increase industrial acceptance and to strengthen Germany's industrial competitiveness.