New Frontier FOUNDATION

Discussion Paper

The Future of European Industrial Competitiveness

3rd Annual NFF Forum

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The New Frontier Foundation (NFF) is organizing its flagship event: **the Third Annual Forum**. It will take place in Zagreb, Croatia, on **21 October 2026**, focusing on European industrial competitiveness. As in previous years, the forum will also address issues that the NFF has explored throughout the year, including the importance of further building up transatlantic relations. This year, special emphasis will be placed on energy production, food security, defense, and digital infrastructure.

The Forum brings together government leaders, executives of Europe's industrial champions, entrepreneurs, investors, and international experts to foster a new dialogue on strengthening European industrial competitiveness. Rather than discussing competitiveness as an abstract policy objective, the Forum will focus on the practical realities of building globally competitive enterprises – such as expanding production, scaling innovation, attracting capital, securing affordable and reliable energy, strengthening industrial capacity and competing successfully in international markets.

Europe is entering a new era of industrial competition. European industrial champions are operating in an increasingly demanding global environment shaped by the war in Ukraine, geopolitical uncertainty, challenging transatlantic trade relations, the rapid expansion of Chinese manufacturing, and disruptive technological change. They must also navigate the race to secure industrial capacity, resilient supply chains, and critical technologies. To maintain its global standing, the EU must bridge its innovation gap with the U.S. and China by accelerating the development and usage of digital technologies like AI and streamlining heavy regulatory barriers. Simultaneously, it is crucial to boost manufacturing while lowering high energy costs.

The overarching question framing this year's Annual Forum is pivotal: What conditions do Europe's industrial champions need to innovate, manufacture, scale, and compete successfully in the next decade of global competition? This question will be examined and discussed from both the European (with an emphasis on the EU) and Croatian perspectives.

The NFF Annual Forum 2026 comprises five panels:

Enhancing industrial competitiveness: Europe's next growth engine

The industrial sector represents around 22% of the EU's GDP, and 18.5% of the total business workforce, generating approximately 80% of all EU exports. It remains crucial for Europe's economic sustainability and long-term growth. "Made in EU" should be much more than a label – it must become a centerpiece of long-term strategic policy. The current global situation in the industrial sector calls for a geopolitical response, especially to address non-market trading practices, overcapacity, and rising manufacturing dominance from third countries.

European industry is going through a historical structural divide: energy-intensive, lower-skilled sectors (like textiles) are shrinking due to high input costs, while high-knowledge, high-skill sectors (like electronics and mechanical engineering) are on the rise. Increasing energy costs are heavily impacting the EU's industrial sector – industrial gas and electricity costs remain two to four times higher than in competitor regions like the United States and India. The EU's industrial goods trade balance with the U.S. maintains a surplus (€29 billion as of Q2 2026), but its trade deficit with China is rapidly expanding, reaching €103 billion in the same quarter.

The European Commission's proposal for the Industrial Accelerator Act (IAA) represents a strategic pivot towards strengthening and improving domestic manufacturing. The aim is to raise manufacturing from the current 14% to 20% of total GDP by 2035. This cannot be achieved without streamlining and simplifying bureaucratic procedures for building industrial facilities. With this in mind the IAA is introducing "industrial acceleration areas", with a single access point for permitting, capping approval processes at a maximum of 18 months. The IAA also envisions a mandatory pre-clearance regime for Foreign Direct Investment (FDI), targeting investments exceeding €100 million that originate from countries holding at least a 40% share of global manufacturing capacity in that specific sector.

Energy security and domestic production: building Europe's strategic resilience

Since Russia's invasion of Ukraine Europe, it has become apparent to the EU that building a sovereign, self-sufficient energy architecture is an essential part of its strategic security framework. The weaponization of energy highlights the importance of sustainable domestic production and resources that are resistant to global supply chain shocks and volatile price spikes. For the EU, it is crucially important to sustain its global resilience, shield its industries from global price shocks and remain competitive regardless of the nature or depth of geopolitical frictions and challenges.

Given the EU's heavy reliance on external energy markets – importing over 96% of its crude oil and 89% of its natural gas – the rapid development of domestic renewables is a geopolitical necessity. Accelerating the green transition by deploying wind, solar, green hydrogen, and nuclear power as pivotal energy resources stands as the EU's only sustainable, long-term strategy. European industries should serve as the backbone of regional strategic resilience by manufacturing of net-zero hardware, advanced grid systems, and other critical technologies to replace external energy dependencies.

Launched by the European Commission in May 2022, the REPowerEU plan serves as the centerpiece of this strategy, focusing on raising the EU's energy efficiency target to 13% and boosting the renewable energy share to 45% by 2030. While parts of the plan have been effectively executed – most notably the sharp reduction in dependence on Russian fossil fuels – funding and infrastructure investments continue to lag.

Furthermore, several Member States have yet to properly transpose the new renewable and energy efficiency directives into national law. Addressing these gaps and unblocking cross-border grid bottlenecks is crucial, as existing transmission lines lack the capacity to handle or distribute the shifting load.

Food security and agricultural competitiveness in a changing world

An increasingly unpredictable and volatile global landscape profoundly affects food production and distribution, making food security an essential part of strategic autonomy and economic resilience. Rising climate shocks – being heatwaves, droughts or erratic rainfalls – significantly add to this pressure. Safeguarding the food supply also depends on reducing dependence on imported fossil-fuel-based fertilizers and other critical supplies, such as livestock feed. Food security is shifting from simple production volumes to supply chain resilience.

The EU's agri-food sector is €900 billion industry that supports 30 million jobs. The EU Vision for Agriculture and Food – adopted by the European Commission in February 2025 – relies on balancing high environmental standards with technological innovations and simplified regulation for food pro-

ducers. Strategic food autonomy depends as much on improved technology and climate-smart farming, as it does on cutting red tape and well-thought-out financial incentives for farmers.

While the EU Common Agricultural Policy (CAP) provides the agri sector with significant institutional funding (€386 billion for 2021–2027), it remains vulnerable to rising costs and market unpredictability. With over €200 billion annually in trade revenue the EU remains a global export power in agriculture; however, there is a significant fissure between the highly modernized farming in Northern and Western Europe and the fragmented, inefficient agricultural holdings in parts of Eastern Europe.

Post-2028 CAP reforms – designed to abolishing the standard two-pillar model and propose a new unified National and Regional Partnership Fund – are supposed to increase sustainability and demographic survival of smaller farms, but it remains uncertain how this new strategy can cope with strict environmental standards and EU's green policies.

Digital infrastructure, AI and the future of European competitiveness

The European Union's long-term economic autonomy and productivity are inseparable from the further development of digital infrastructure and the field of advanced and regulated Artificial Intelligence (AI). The EU's AI Continent Action Plan – adopted in April 2025 – serves as a strategic roadmap to safeguard the EU's tech sovereignty and transform Europe into a global leader in trustworthy and human-centric AI. For the EU to close the distance with global superpowers like the U.S. and China, it is crucial to focus on combining heavy public and private investments (totaling €200 billion) with rapid infrastructure and skills development.

With the aim to boost Europe's digital autonomy and infrastructure, and establish trusted, resilient networks, the EU published the Cloud and AI Development Act (CADA) in June 2026, focused on the computing foundation, data centers, and cloud resilience. This strategy envisions tripling the EU's data center capacity in the next five to seven years and establishing a 4-level Union assurance framework for cloud and AI sovereignty. All of this requires an unprecedented amount of power – EU's data center power demand could double, amounting up to 5% of the total EU electricity grid.

Therefore, Europe must secure enough energy, establish grid resilience and mitigate high domestic energy costs. For the EU the utmost challenge will be aligning its digital goals with green transition mandates.

The EU currently commands less than 5% of global AI computing capacity – a token in comparison to the 75% by the United States. Closing this gap is crucial for the EU's digital sovereignty and its place in the global geopolitical landscape. To achieve this paramount goal, the EU must ease administrative burdens on companies in the AI sector and lower costs – building and operating a data center in Europe is estimated to be up to twice as expensive as doing so in the U.S. due to surging energy prices and lengthy regulatory procedures.

Defense, space and security: building Europe's industrial capacity

Rapid changes in the geopolitical security architecture and the biggest war on the European soil since WW2 make building Europe's industrial capacity in defense, space, and security a strategic necessity. This approach is driven by the European Defence Industrial Strategy (EDIS), the EU Space Strategy for Security and Defence, and overarching Readiness 2030 blueprint.

It is particularly important for the EU security to put the emphasis on: developing integrated continental air and missile defense; mass-producing unmanned aerial systems (drones) and strengthening adequate defense capabilities; securing orbital infrastructure in space; and improving physical surveillance infrastructure along vulnerable borders, especially on the Eastern flank.

Considering that the EU's military procurement has historically seen 78% of its budget spent outside the bloc, it is essential to reduce dependency and rely on European Defence Technological and Industrial Base (EDTIB) strategy.

Thus, a strict 2030 benchmark has been set: devot-

ing at least half of defense procurement budgets within the EU and sourcing 40% of equipment collaboratively. This goal is framed by the ReArm Europe Plan and a massive financial mobilization of up to €800 billion. In parallel with the modernization and improvement of conventional weapons systems, the EU has to focus on hi-tech warfare, including the use of AI-powered weapons, quantum cryptography, electronic warfare and cyberspace.

Two geopolitical synergies are of utmost strategic importance for the EU: transatlantic relations embodied in NATO and Ukraine, whose highly operational defense industry and unmatched combat experience in drone war are invaluable for Europe's security. The EU's strategic defense autonomy and NATO concept are not mutually exclusive – a strong European pillar within NATO is complementary to its further development within the Alliance. At the same time, the EU should put into effect the "Military Schengen" by establishing a fully harmonized EU-wide military mobility area by 2027. In this regard, dual-use infrastructure upgrades funded through the Connecting Europe Facility (CEF) are critically important.