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NOTE

From: General Secretariat of the Council

To: Permanent Representatives Committee/Council

Subject: *Preparation of the Competitiveness Council (Internal Market, Industry, Research and Space) on 26 February 2026*

Regulation on establishing the European Competitiveness Fund: a strategic resilience tool for SMEs and European value chains

- Policy debate

Delegations will find attached a Presidency background note on “Regulation on establishing the European Competitiveness Fund: A strategic resilience tool for SMEs and European value chains” with a view to the policy debate at the Competitiveness Council on 26 February 2026.

The European Competitiveness Fund: a strategic resilience tool for SMEs and European value chains

European value chains in critical sectors such as Clean Tech, Biotech and Advanced Materials remain fragmented and subject to dependencies, limiting the EU's ability to increase its resilience and compete at a global scale. The EU's dependency on third-country suppliers for specific components is increasing, particularly regarding the raw materials and intermediate inputs required for the twin transition¹. Most critically, European innovation faces the "Valley of Death" - while the EU excels at generating startups, these companies face a financing cliff when attempting to move from prototype to production and to grow. This scale-up gap remains unfilled by European private venture capital, forcing high-potential innovators to either sell to foreign competitors, relocate or stagnate, thereby transferring EU industrial capacity to third countries². This is not only estimated to be a significant burden on EU productivity compared to the US, but crucially also limits the ability of strategic sectors to rely on a diversified European supplier base and to build resilient value chains and competitive ecosystems.

¹ European Commission. (2024). The 2024 Annual Single Market and Competitiveness Report (COM(2024) 77 final), pp. 14-16 (Confirming persistent strategic dependencies in sensitive ecosystems); European Commission. (2024). The future of European competitiveness – Part A (Report by Mario Draghi), pp. 42-45 (On the deepening dependency on non-EU suppliers for critical technologies).

² European Commission. (2024). The future of European competitiveness – Part B (Report by Mario Draghi), Section 2 "Closing the Innovation Gap", pp. 58-60.

The European Competitiveness Fund (ECF) is not only a new budgetary allocation, but a strategic policy lever. The ECF is designed to counter the fragmentation of the Single Market's financial landscape. As a direct response to the "investment cliff" identified in the Draghi and Letta reports, the ECF intends to consolidate financial instruments into a single, coherent implementation platform³. Its primary industrial objective is to establish a "seamless investment journey" for European companies including through a mix of grant-based support and de-risking instruments tailored to different stages of company growth. By harmonizing rules and centralizing resources, the ECF aims at enabling high-potential or critical SMEs to transition directly from pre-commercial research to the industrial scale-up phase without the friction of reapplying under conflicting regulatory regimes⁴. Therefore, each ECF policy window will support dedicated SME actions to increase broad SME participation in the programme. Moreover, the ECF will have at its disposal the entire toolbox of the EU budget to unlock additional public and private investments throughout the whole investment journey.

While the EU has successfully mapped its strategic dependencies, a critical element remains unsolved for our value chains. Resilience is not achieved solely by securing raw materials or supporting final assembly (i.e. gigafactories); it also requires addressing the “missing middle” of the supply chain by fostering a robust ecosystem of component manufacturers, suppliers, innovators and technology providers, roles predominantly filled by SMEs⁵. The ECF will promote the creation, collaboration and expansion of innovation, private finance and industrial ecosystems. Some of the ECF actions, such as sector-specific SME actions, the EU Tech Frontrunners and the Value Chains builder, aim to address this aspect.

³ European Commission. (2024). Political Guidelines for the Next European Commission 2024-2029, pp. 10-11 (Proposing the ECF as part of the Clean Industrial Deal to ensure investment capacity in strategic technologies); European Parliament Research Service. (2025). European competitiveness fund: Overview, p. 2 (On the consolidation of existing instruments).

⁴ European Commission. (2024). The future of European competitiveness – Part B (Report by Mario Draghi), Section 5, pp. 280-285 (On the need to streamline funding from lab to factory and avoid regulatory bottlenecks).

⁵ European Commission. (2021). Staff Working Document: Strategic dependencies and capacities (SWD(2021) 352 final), pp. 14-16 (Highlighting that dependencies often stem from specific supply chain segments dominated by foreign SMEs).

Resilience relies on the entire industrial ecosystem, not just on isolated champions. Therefore, small and medium-sized innovators can and must be a core part of the value chain. They provide niche solutions at key nodes of the value chain, are flexible in crises, are key innovators, and can contribute to diversification by providing alternative solutions to imports⁶. Furthermore, in sectors defined by rapid technological turnover, speed is a critical factor of competitiveness. The ECF must play a decisive role in accommodating the agility and speed required by high-growth companies, ensuring that the EU will not continue losing its most innovative assets to third-country competitors that offer faster, simpler access to capital.

Delegations are invited to comment on the following guiding questions:

- How can we ensure that large-scale investment projects effectively integrate European SMEs into their supply chains, ensuring that our industrial ecosystem remains robust?
 - How can the ECF ensure that de-risking instruments effectively crowd-in private capital, with the same agility as third country competitors and without long-term dependence on public subsidies, thus providing the "seamless investment journey" required for SMEs to survive the "Valley of Death"?
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⁶ JRC, 2023. Semiconductor in the EU, Summary paper on the activities of the European Semiconductor Expert Group (On how targeted policy measures can strengthen EU competitiveness in the semiconductors sector, notably through support to SMEs, niche players and pilot lines, improved access to manufacturing infrastructure, and stronger integration across value chains)