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Mid-term Review of the 2021-2027 Cohesion Policy:

An Opportunity to Accelerate Industrial Transformation in the CEE Region

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Context

The Cohesion Policy, often described as the European Union's (EU) main investment instrument within its Multiannual Financial Framework (MFF), seeks to promote balanced development across Member States by reducing economic, social, and territorial disparities between regions. It accounts for roughly one third of the 2021-2027 EU MFF, with €392 billion allocated to the design and implementation of targeted projects. The Central and Eastern Europe (CEE) countries are among the main beneficiaries, due to existing structural and historical deficiencies, including lower levels of economic development, weak infrastructure connectivity, and a high share of less developed regions.

There are four main funds that make up the Cohesion Policy:

- **The European Regional Development Fund (ERDF)** supports the social and economic development of regions.
- **The Cohesion Fund (CF)** finances environmental and transport investments in lower-income Member States.
- **The European Social Fund Plus (ESF+)** aims to support jobs and create a fair and inclusive society in EU countries.
- **The Just Transition Fund (JTF)** supports regions most affected by the transition to climate neutrality.

The latest mid-term review of the Cohesion Policy expands the policy's emphasis from its long-term goal of addressing regional inequality toward a more flexible approach aligned with immediate needs arising from recent crises (the COVID-19 pandemic and the war in Ukraine). While the increasing flexibility of Cohesion Policy spending may be seen as potentially diluting its core objective, it also offers CEE countries an opportunity to capitalise on available funding and redirect resources towards strategic priorities such as defence, competitiveness and decarbonisation, by channelling investments in industrial transformation, dual-use infrastructure and energy-related investments.

These amendments could therefore open up opportunities to support industrial transformation in CEE, where industry accounts for 21%-33% of national GDP. Two of the main challenges faced by heavy industry in CEE countries are rising energy costs and tight public budgets, leading to delayed investment in industrial modernisation and decarbonisation. In this context, the mid-term review may offer an opportunity to redirect funding to these pressing needs.

How can the mid-term review of the Cohesion Policy accelerate heavy industry transformation in CEE?

The European Commission launched the mid-term review of Cohesion Policy on 1 April 2025, and later, the European Parliament approved the changes on 10 September 2025. The two main goals of this process were to align investment priorities with evolving EU strategic objectives and to introduce increased flexibility and incentives to facilitate resource deployment and programme implementation.

To achieve the objectives of **Closing the innovation gap, strengthening competitiveness and decarbonisation**, the Commission proposed using the ERDF for investments in larger enterprises, not just SMEs. These investments aim to support decarbonisation of production processes and products, particularly in regions with energy-intensive sectors, such as the CEE region, while contributing to the objectives of the **Strategic Technologies for Europe Platform** (STEP). Examples of projects supported by STEP include the development of carbon capture and storage technologies and the world's first hydrogen-powered cargo ship. Furthermore, the review extends the use of ESF+ funds towards supporting skilling, job maintenance and job creation with the aim of facilitating "industrial adjustment linked to the decarbonisation of production processes and products".

Following this revision, industrial decarbonisation projects are eligible for funding from the ERDF, particularly those awarded a "Sovereignty Seal" under STEP. Funding is eligible for incentivising investments in clean, affordable energy sources, as well as in energy efficiency, which are expected to reduce the energy costs that weigh heavily on industrial production, with a dedicated objective for the modernisation of electricity grids, interconnectors, and energy storage facilities.

Furthermore, the **Defence and security** amendment, which allows national and local authorities to allocate funds within current programmes towards strengthening defence capabilities and dual-use infrastructure, can impact energy-intensive sectors such as steel, cement and chemicals, due to the strategic roles they play in defence supply chains.

In coming years, investments related to defence and industrial transformation may become more relevant for regional cohesion. This is especially true as Member States from North-

Western Europe increasingly fund their industrial policy and rearmament through government-funded programmes at a pace which CEE countries cannot match. In this context, the cohesion policy may be a way for ensuring that regional disparities are not widened as a result of the differentiated fiscal capacity for implementing state aid instruments, which may already be distortive to the functioning of the Single Market.

The mid-term review offers a chance to redirect investment toward CEE regions reliant on emissions-intensive industries to reduce the risk of economic decline during the green transition. Channelling investments towards strategic industries that can drive sector-wide change could not only support regional economic development, but also help absorb workers displaced from carbon-intensive sectors, including through reskilling programmes funded by ESF+.

Unlocking the potential of IPCEIs through EU funding

Further opportunities for industrial decarbonisation stem from the mid-term review's proposal to extend Cohesion Policy funding use to **Important Projects of Common European Interest** (IPCEI). IPCEI are cross-border initiatives involving at least four Member States that aim to deliver technological and infrastructure advances deemed essential for "the economic growth, innovation, and competitiveness of the Union". The ability to leverage EU funding may offer new opportunities for the region to expand participation in IPCEIs, but such instruments remain administratively burdensome and would benefit from reforms.

Several CEE countries already take part in IPCEI across multiple sectors, but as IPCEI are a form of state aid, the public funding is generally provided by governments. Given tight fiscal spaces in CEE, the ability to leverage EU funding would allow countries in the region to benefit from such instruments, which they may have otherwise been unable to afford. The region could invest in projects focused on electrification and the production, storage and transport of renewable and low-carbon hydrogen, as well as their integration in the steel, chemicals and transport sectors to enable the manufacture of clean industrial products and low-emission fuels.

No IPCEI currently addresses carbon capture and storage (CCS), despite the CEE region having significant potential for CCS deployment due to the ample geological storage capacity in some states. Romania alone is estimated to have 7.5 Gt–18 Gt of storage in saline formations and 490 Mt–4 Gt in depleted oil and gas reservoirs. This could represent an opportunity for CEE countries to mobilise funding for the development of cross-border CO_2 transport infrastructure, essential for decarbonising cement, lime, and chemicals production. This will be particularly important for Romania, as its oil and gas sector must be able to store more than 10 $MtCO_2$ yearly by 2030 as per the Net Zero Industry Act obligations. This is almost twice the emissions of the entire national cement sector, so it is unlikely that the target can be met without CO_2 imports. Furthermore, together with other countries, Romania could spearhead a CCS-focused IPCEI that would assert its leadership in the sector, generate new revenue streams, and secure long-term economic benefits.

Creating lead markets for low-carbon materials

Spending under the Cohesion Policy could be further leveraged for lead market creation for low-carbon materials. Member States can tie the disbursement of funds to Green Public Procurement schemes (GPP), especially for materials used in public constructions. This is promising because a big share of public procurement at the EU level consists of construction materials, such as cement and steel, used in public projects, including buildings and infrastructure. For example, public procurement accounted for approximately 36.4% of the cement and 17% of the steel consumed in Romania.

The potential impact is especially critical in countries like Romania, which is the second-largest recipient of Cohesion Policy funds in the CEE region after Poland, both in the current and previous MFFs. Given this massive funding base, conditioning Cohesion Policy-funded infrastructure investments on the use of low-carbon cement and concrete could make a substantial contribution to industrial decarbonisation by providing demand certainty for low-carbon products. So far, over 90% of public procurement procedures in Romania were based on lowest-price criteria in 2022, indicating considerable scope to integrate GPP, especially considering the country's plan to allocate 2% of its GDP to transport infrastructure over the next decade. The upcoming Industrial Accelerator Act will be essential in further driving this opportunity by creating standards and increasing transparency.

Conclusions and recommendations

The mid-term review of the Cohesion Policy introduces several measures that could advance industrial decarbonisation in CEE countries, including broader funding opportunities, workforce reskilling initiatives and the expansion of electrification infrastructure. Yet further refinements are needed to ensure the policy’s core mission of reducing regional disparities remains central while also supporting the transition. CEE countries should focus Cohesion Policy funds on regions identified as both highly vulnerable to the transition and having high potential for new strategic manufacturing. For example, the Visegrad region (Poland, Slovakia, Hungary, and Czechia) stands out as a high-potential area for heat pump manufacturing. Polish regions bordering Czechia and Slovakia, long dominated by coal, are already attracting such investments. As heat pumps can contribute to the electrification of heat generation in energy-intensive industries such as pulp and paper, food, minerals, refineries, and chemicals, this potential expansion can both support the decarbonisation of industry and create manufacturing jobs.

Further opportunities for industrial transformation stem from the ability to leverage EU funding for IPCEI projects. This could significantly enhance participation from CEE countries, allowing fiscally constrained Member States to leverage **cross-border projects** for industrial transformation, provided the administrative complexity of such instruments is reduced.

Linking Cohesion Policy funding to climate performance through **green public procurement** for steel and concrete could also accelerate the decarbonisation of heavy industry in CEE countries. Given the weight of construction in public procurement, this approach can help create lead markets for low-carbon materials, provided clear standards, transparency, and adequate capacity building for procuring authorities are in place.

The main goal of the Cohesion Policy should continue to remain that of reducing regional inequality. The economic pressures of the transition may disproportionately affect vulnerable CEE regions, especially as there is a risk that economic growth, and investment will concentrate in high-income regions with typically greater capacity to absorb and leverage investment programmes, thereby contributing to widening regional inequalities.

Maintaining public support for the climate transition will depend on the extent to which decarbonisation is accompanied by tangible gains in socio-economic cohesion at the local and regional levels. Durable partnerships between EU institutions and regional authorities are therefore critical to deliver well-targeted support and credible information to communities facing the greatest adjustment costs. The integration of new and evolving policy priorities should be done in a way that remains consistent with the original intent of existing policy frameworks, avoiding ad hoc, crisis-driven reallocations or the dilution of core objectives through competing demands, while upholding fiscal discipline and simplifying administrative procedures to enhance the impact of available funding.

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