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A New Climate: EU's strategic approaches under Trump 2.0

Climate, energy and industrial policy in an era of disruptive power politics

At a glance

The European Union finds itself in a delicate situation when it comes to balancing between two superpowers, the United States and China, which fight for global hegemony and employ strategies that are similarly coercive in nature while pursuing diverging objectives. This policy paper identifies the main elements of this double dependence by outlining the drifting and often inconsistent character of EU climate, energy and industrial policies over the past years in order to illustrate how difficult it is to maintain transatlantic cooperation under these conditions. The paper then concludes that given the dis-

ruptive role of the current US government, it is critical to strengthen the resilience of international climate protection and defend EU economic interests and development prospects. Adhering to the ambitious EU climate policy targets is not just a moral obligation, but vital for the EU's international credibility and competitiveness. Strategic coalitions should be developed with like-minded middle powers and the rest of the G20 countries. The EU needs to articulate a more credible approach of how to deal with the Global South and strengthen clean trade and just energy transition partnerships.

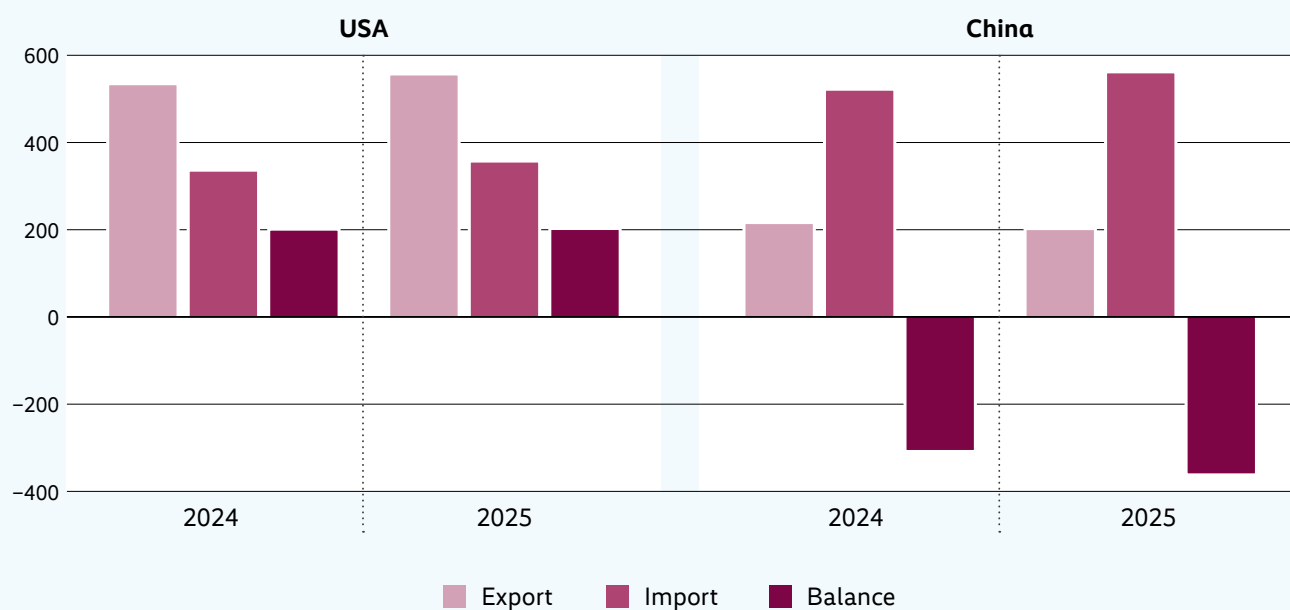
1. Introduction

Addressing the climate crisis is a textbook case for a collaborative global effort. This can only succeed through close multilateral co-operation. Since the second Trump administration took office in January 2025, the world's largest

economy and military superpower, responsible for the greatest share of historical greenhouse-gas emissions, has abandoned multilateralism and launched direct attacks on the international rules-based order. In January 2026, a memorandum issued by the White House announced the withdrawal of the United States from 66 multilateral agree-

EU trade with the US and China

2024 and 2025 in € bn



Source: Eurostat: ext_st_eu27_2020sitc

ments, including the UNFCCC (the exit from the Paris Agreement was already publicised in January 2025). In February 2026, the Trump administration removed a central pillar of US climate policies by scrapping the so-called “endangerment finding” issued by the Obama administration in 2009 that enabled the US Environmental Protection Agency (EPA) to classify six key planet-warming greenhouse gases as harmful to human health. The EU finds itself in an extremely difficult situation amid tectonic geopolitical shifts driven by aggressive global players fighting for hegemony, most vividly demonstrated by the 2025 US National Security Strategy. This strategy, which incorporates elements described as ‘resource imperialism’ (Pilling and Hook, 2026), regards the EU with contempt, with the United States even raising the prospect of Europe’s ‘civilizational erasure’. Given Europe’s dependence on US security guarantees, its internal fragmentation and limited fiscal capacity to mobilise large-scale investments, its options to develop a counterstrategy are rather limited (Eurasia Group 2026) and may amount to ‘squaring the circle’. The EU is increasingly realising that, rather than treating Europe as a long-term ally, the current US administration is treating Europe as an adversary.

This paper will address how resilient the EU’s current strategic approach is in light of the US government’s re-orientation in relevant policy fields as regards decarbonisation objectives, energy security and industrial competitiveness.

Section 2 will present data on EU-US and EU-China trade and on EU energy imports from the US in 2025, together with the key commitments of the EU-US Trade Deal.

Section 3 reviews key EU energy and industrial policy initiatives, with successive policy shifts driven by major geopolitical changes but also by an internal fragmentation of interests within the EU.

Section 4 considers strategic options for the European Union and its member states in response to the disruptions and uncertainties coming from the US. It considers how the EU should position itself in climate, energy, trade, and industrial policy in order to (1) make international climate protection more resilient and (2) safeguard its own energy security and economic development prospects with respect to key industries of the future and those most affected by decarbonisation.

Given the developments at the end of 2025 and in early 2026, the question now emerges as to whether and how it is possible to ‘survive’ Trump 2.0 without major confrontation while avoiding any jeopardisation of long-term strategic co-operation with the US post-Trump.

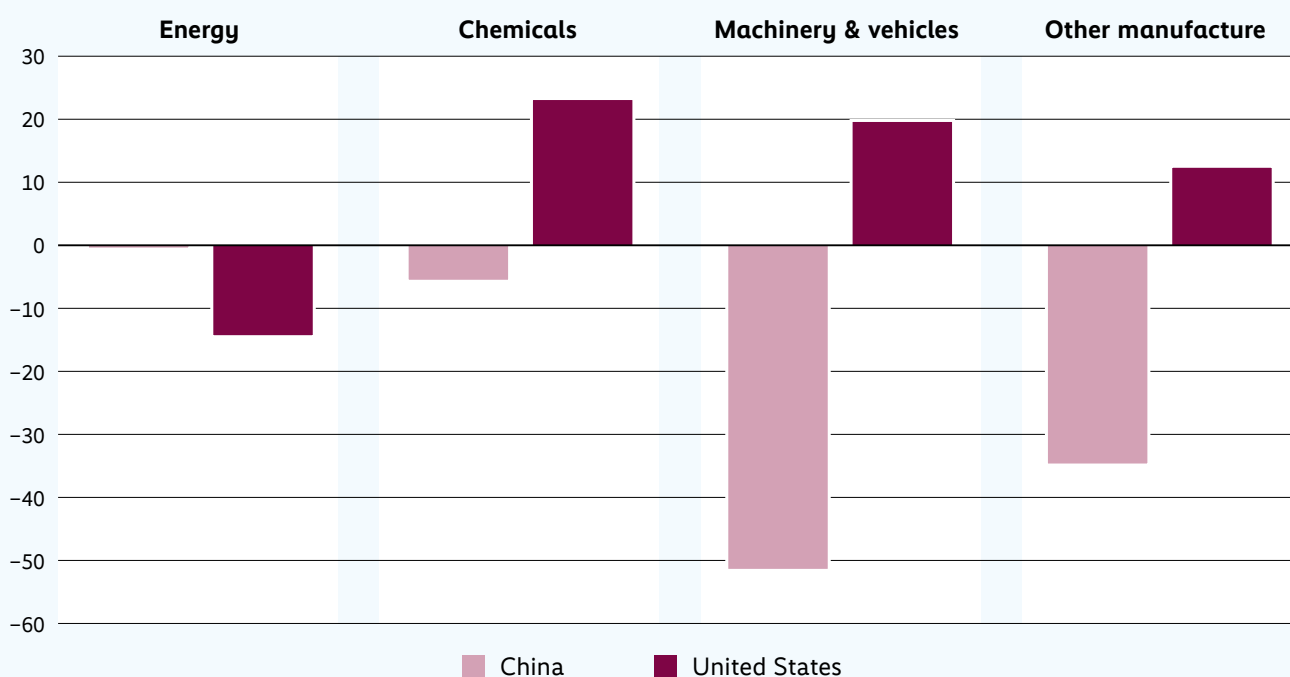
2. EU-US and EU-China trade

2.1. Diverging trade patterns

There is no question that the US is one of the EU’s most important trade partners. It accounts for around one fifth of good exports (€531.6 bn in 2024 and €554.0 bn in 2025) and is the most important export market for the EU by a considerable margin (figure 1). When it comes to imports, the picture is rather different. In 2024, the US accounted for 13.7% of EU goods imports, substantially behind China

EU trade balance with China and the US by main product group

Q3 2025 in € bn



Source: Eurostat: ext_st_eu27_2020sitc

at 21.3%. As a result of this imbalance and the EU's overall goods trade surplus, the EU posted a large and persistently widening goods-trade surplus with the US over the past decade (€198.2 bn in 2024 and €199.6 bn in 2025) that only started to narrow in the second half of 2025 when US tariffs were in force.

For comparison, EU-China trade shows a markedly different pattern. In 2025, EU imports from China grew by 7.5% compared to 2024 while exports declined by 6.4%, resulting in an EU trade deficit of €359bn, 17% higher than in 2024 (see figure 1). While the 2022 peaks in China's trade surplus and export levels were not reached, and initial fears that the high US tariffs on China would result in Chinese goods flooding the EU market did not fully materialise, the upward trend is still a cause for concern. The structure of EU trade balance with these two major trade partners also differs significantly: fossil energy is the main product category in which the US has a surplus, whereas in machinery, vehicles and chemicals, it runs a substantial deficit vis-à-vis the EU (see figure 2). At the same time, as figure 2 shows, for China it is machinery, vehicles and other manufactured goods where most of its surplus with the EU is concentrated. While lower US energy prices and environmental standards put EU exporters at a disadvantage, prospective export rebates under the Carbon Border Adjustment Mechanism (CBAM) could provide some relief. With regard to China, CBAM may offer protection for some exports, but this might not prove to be a long-term barrier, as Chinese industry is decarbonising at a rapid rate. While both super-

powers are exerting more pressure on the EU, China and the US are very different when it comes to energy trade. The EU imported approximately \$65 billion (2024) of fossil fuels from the US and a similar amount of clean technology products from China (in 2024, the EU had €54 bn deficit in that product category) with opposite effects on the climate (Cornago et al., 2025).

The diametrically opposing trade profiles of the EU's two main trade partners have distinct impacts on the EU economy and require different policy responses.

2.2 US tariffs, the trade deal and fossil energy purchase commitments

What the Trump administration launched on April 2, 2025 ('Liberation Day') is more than a trade war; it is a chaotic attempt to dismantle the entire global multilateral economic, financial and trade architecture established after the Second World War. A clear strategy is also not evident, making any response – whether short or long-term – by firms, investors or states extremely difficult. While asymmetries in world trade (with the US as consumer of last resort) lie at the core of perceived US grievances, this trade war is not solely about trade surpluses or deficits. From the perspective of the EU's putative allies, what stands out is that, alongside aggressive protectionism and economic coercion, US defence 'services' are being used as a transactional bargaining tool. The US threat to withdraw from its role as a security guarantor for Europe (and potentially

from NATO) at a time when Russia's aggression against Ukraine also poses an existential threat, has paralysed the EU in negotiations about a trade deal. In August 2025, a deal on tariffs and trade was signed, accompanied by a Joint Statement that included a general US import tariff of 15% on EU goods (a reduction from a previously threatened rate) alongside several commitments by the EU. These included commitments to purchase \$750 billion worth of American energy products and invest \$600 billion in the US by 2028. The term 'energy products' primarily refers to fossil energy products, mainly LNG and oil products (along with a small amount of nuclear fuel). This contradicts the EU's commitments to accelerate the decarbonisation of its energy system and also puts the achievement of its 2030 interim climate targets at risk. Moreover, this commitment is not even realistic, with the most recent data showing that, despite the deal, the EU imported less energy from the US in 2025 than in the previous three years. The last thing the world and the EU needs is a sustained war in the Middle East to 'help' fulfil such a commitment. Pressure from the US persists, accompanied by escalating uncertainty.

3. Industrial policy – rediscovery and redefinition with multiple shifts

More active state involvement gained momentum with the recognition that industrial and energy policies are necessary instruments to correct a historical market failure stemming from a production model that ignored planetary boundaries (Rodrik, 2014). Industrial policy was seen as a tool for translating climate policy objectives into business strategies for market actors.

3.1 Re-discovery of industrial policy as a lever in advancing the green transition

The European Green Deal, launched in 2019, followed a clear climate policy focus with several elements of its implementation package ('Fit for 55') having industrial policy relevance (EU Emission Trading System, Carbon Border Adjustment Mechanism, Emission Standards for Cars and Vans and the Energy Taxation Directive). It was only after Russia's invasion of Ukraine in 2022 that the European Commission seriously considered geopolitical risks, after which it recognised the urgency and announced the RE-PowerEU plan to speed up renewable energy deployment and rapidly reduce dependence on Russian fossil fuels by 2027. The renewable energy target of the 'Fit for 55' package for 2030 was raised from 40% to 45%, also mobilising resources from the Recovery and Resilience Facility (RRF).

The EU's industrial policy awakening was largely inspired by the Biden administration's Inflation Reduction Act (IRA) that – to the surprise of EU policymakers – proved effective and started to attract low-carbon investment from the EU into the US, thereby challenging the EU's status as an investment location.

The 2023 Green Deal Industrial Plan (GDIP) was the EU's response to the IRA aimed at enhancing the competitiveness of Europe's net-zero industry and supporting a rapid transition to climate neutrality, while also recognising the strategic importance of critical raw materials, as reflected in the Critical Raw Materials Act (CRMA). State aid rules were made more flexible and the Important Projects of Common European Interest (IPCEI) initiative was launched, but financial resources remained limited and implementation was slow due to a lack of coordination. The proposed European Sovereignty Fund, intended to support Member States with lower means to invest, has not been realised.

The EU needed the wake-up call provided by the IRA to realise how far China has advanced its clean industry capacities and capabilities (in renewables, electromobility and the control of critical raw materials).

This was the time to recognise that, while ambitious climate policies and the determination to decarbonise the economy are fundamental, decarbonisation also has a competitiveness dimension. In the period February 2022-January 2025, there was a race for global clean-tech hegemony, primarily between China and the US with the EU in between.

But the IRA is now being dismantled by the Trump administration, whose doctrine emphasises fossil energy dominance, low energy prices and the expansion of traditional industrial capacities in the US (steel, aluminium, internal combustion engine vehicles and chemicals). While low-carbon industrial projects are still ongoing as the IRA is gradually phased out and state-level engagement continues, this US pivot from renewables toward fossil fuel has global consequences, particularly for Europe. The US has become a disruptive force in the global economy.

China, on the other hand, is following a clear long-term strategy of establishing global clean-technology dominance (accounting for over 60% of global electric vehicle sales, over 50% of solar, wind and hydrogen capacities, rapid industry electrification and control of batteries and critical raw materials).

The contrasting strategies of the two global superpowers place the EU in a delicate situation, portrayed by a study prepared by the Robert Schuman Centre as being trapped in a pincer between an "extractive" and a "dependency" superpower and as being 'between a rock and a hard place' by CER (Cornago et al. 2025).

3.2 Recent EU industrial policy initiatives – energy security, affordability, competitiveness

→ It must be noted that, over the past decades, EU policymakers have failed to recognise key geopolitical moments and then scrambled to minimise damage after the event:

- When China started to focus industrial policy and subsidies on electric vehicles, batteries and renewables (from around 2010), well before the Made in China 2025 strategy was launched in 2015, EU policymakers largely failed to take notice.
- Even after Russia's annexation of Crimea in 2014, the EU and many Member States continued to rely on cheap Russian fossil fuels.
- The shift towards focusing industrial policy on future technologies (green and digital) was largely inspired by the US IRA.
- Despite the US policy reversal under the Trump 2.0 administration the EU's new policy framework, defined by the Clean Industrial Deal (CID, European Commission, 2025a), remains influenced by the IRA, while the new reality is addressed primarily through specific policy packages launched under the CID, thereby gradually marginalising its original clean-tech focus.

All this creates policy incoherence, whereby lofty long-term objectives are undermined by ad hoc short-term fixes and compromises.

The policy shift that involved moving away from the Green Deal's focus on climate to new priorities of industry, competitiveness and security still reflected the Biden era. The central idea of the CID has originally been 'clean technology competitiveness', a concept that forms the backbone of Mario Draghi's report (Draghi 2024). The CID Communication consists of six policy packages focusing on affordable energy; lead markets; financing; circularity; international partnerships and skills and quality jobs.

As regards support mechanisms, the overall funding remains extremely limited. Linked to a grid manufacturing package, the Commission has proposed European Investment Bank (EIB) guarantees totalling €1.5 billion. The Clean Industrial Deal State Aid Framework (CISAF), announced in June 2025, made state aid rules more flexible in order to accelerate renewable energy deployment and industrial decarbonisation, but did not provide additional resources. Under the financing pillar of the CID, an 'Industrial Decarbonisation Bank' is being established with resources of €100 billion that are to be collected from funds that already exist, rather than representing new funding. The proposal for the EU's 2028-2034 Multiannual Financial Framework (MFF) by the European Commission (2025b) does not foresee substantial additional funding either. Funds allocated for industrial decarbonisation, a policy window under the European Competitiveness Fund (ECF), are extremely low, as just 67 billion euros are allocated for the climate transition and industrial decarbonisation over a seven-year period, of which 40 billion is to come from the already existing Innovation Fund.

3.3 The silent turnaround and backtracking

This significant lack of financing is reflected in the well-documented annual investment gap ranging from €400–€600 bn (Draghi 2024; Calipel et al. 2025) which would need to be closed in order to meet the EU's own 2030 climate policy targets. As a result of this underinvestment, the initially ambitious clean industry strategy has gradually shifted to a focus on cost competitiveness, simplification and deregulation. This shift represents a re-interpretation of competitiveness, a largely silent turnaround. At the same time, a degree of backtracking from previously set climate policy objectives has become evident (contesting the EU 2040 decarbonisation target, reconsidering the 2035 ban on combustion engine vehicles, postponing the launch of ETS2, etc.). Some of these developments can be interpreted as short-term defensive reactions to the disruptive policies of the Trump administration (tariffs affecting the automotive, chemical and steel industries), but also to China's export push and the declining competitiveness and market share of EU industrial goods on the Chinese market.

In March 2025 the European Commission (2025c) launched its Industrial Action Plan for the European automotive sector, which included measures to boost demand for European battery electric vehicles (BEVs) along with legislation on greening corporate fleets. At the same time, the decision to give carmakers an additional two years to comply with the 2025 car CO₂ emission targets undermines the EU's main instrument for incentivising emissions reductions, and may also weaken their future competitiveness in electromobility, particularly vis-à-vis Chinese BEVs.

The EU Automotive package was launched in December 2025 and follows this latest trend of softening climate targets while focusing on short-term competitiveness gains. It opens possibilities for plug-in hybrids and ICE vehicles to remain part of the automotive landscape beyond 2035 and adjusts the climate target from full CO₂ neutrality to 90% by the same year. The remaining 10% is flexible, provided that it is offset through lowcarbon steel, efuels or biofuels. This weakening of the 2035 zero-emissions target sends a confusing signal both to industry and consumers and diverts investment away from electrification at a time when European manufacturers urgently need to catch up with Chinese EV makers. The industry is lagging behind in vertical integration, batteries, software and autonomous driving functions. Under the Industrial Accelerator Act launched in March 2026, 'Buy European' requirements have now been established in public procurement and public support schemes.

As shown above, the EU lacks a clear and coherent clean technology strategy and the necessary investment to realise its original ambitious climate policy targets. The past decade has seen a flurry of initiatives, communications and regulations with very detailed targets, which represented a move in the right direction. However, these measures have been predominantly reactive, delayed and insufficient to

reach a critical mass. Most importantly, there is still a huge gap between actual investment levels and the levels required to actually reach the targets (whether for 2030, 2035 or the net-zero objective by 2050). Across a wide range of clean technologies, the past decade has seen the EU fall further behind China rather than closing the gap.

The EU has correctly identified its shortcomings and has introduced some measures to tackle them, including support for the development of lead markets, continued carbon pricing, a faster and less bureaucratic regulatory framework, as well as financial support. However, these measures lack sufficient scale, implementation and coherence. While the targets are positive and ambitious, the instruments in place to achieve them are often lacking.

4. What alternative strategies for the EU?

Any meaningful attempt to control climate change and bring human activity back within the Earth's limits requires coordinated multilateral action - the very dimension currently being undermined by the current US administration. The retreat from climate policy commitments and the renewed prioritisation of fossil fuels in US economic policy poses a huge challenge to global climate efforts. The major threat is that other players will follow this same pattern - as illustrated by the failure of COP30 in Brazil to establish a roadmap for phasing out fossil fuels - and decarbonisation slides back in policy priorities. In this context, EU leadership in global climate policy is therefore more important than ever.

4.1. Dedicated strategies to deal with the US and China

The key question facing the EU is *how to position itself vis-à-vis the United States and China*: how to balance between the two superpowers striving for global hegemony employing strategies that are similarly coercive in nature while pursuing diverging objectives.

As regards China, the key issues relate to the extent to which reliance on Chinese clean technology is compatible with the safeguarding of European jobs and under what forms of partnership and conditionality such reliance could be managed. Initially, the EU considered decoupling - later framed as derisking - from China. In light of the recent developments, some degree of de-risking from the US also seems necessary. In any case, the EU needs to adopt a more assertive stance and mobilise its market power, while seeking cooperation with like-minded partners. However, internal fragmentation remains a significant obstacle to the EU becoming a recognised actor in today's turbulent geopolitical landscape. Other challenges include the divergent interests of small and large Member States, different interpretations of industrial policy and contrasting views about cooperation with the US, China and even Russia.

In relation to the US, the EU's room for manoeuvre is currently limited due to its dependence on US security guarantees, particularly at a time of being under military threat by Russia. Securing a fair settlement for Ukraine, with a focus on long-term security guarantees and its integration into the EU, is also a precondition for the EU achieving genuine strategic autonomy. The EU's dependence on fossil fuel imports from the US is a risk factor and should be reduced over the medium to long term.

US fossil energy dominance would not, in itself, be decisive if the rest of the world continued along the path of decarbonisation, as global demand for fossil fuels, including those from the US, would fall. While the Trump administration's strategy of relying on fossil fuels may ultimately create opportunities for the EU clean technology sector, current conditions and prevailing uncertainty make it difficult to bring this to fruition. Cooperation with individual US states and companies may therefore offer a pragmatic bridging option. At the same time, the rapid increase in electricity demand driven in part by the development of AI data centres, may create additional scope for renewable energy projects which EU firms may be able to exploit. For EU manufacturers, including those in the automotive sector, establishing a presence in the United States still remains an option. However, supply chain uncertainties, such as tariffs on intermediary products, may act as limiting factors here.

4.2 Re-boosting EU industrial policy

Addressing these risks requires a coherent trade and industrial policy framework. This should include safeguarding and trade defence measures against Chinese overcapacity and dumping practices, as well as vigilance for indicators of trade diversion. EU local content requirements - as stipulated by the Industrial Accelerator Act - will be necessary and should be implemented in a gradual manner where appropriate. At the same time, providing access - under carefully designed conditions - to affordable, cutting-edge green technologies from China can accelerate the EU's green transition and enhance its long-term competitiveness. Direct investment by Chinese companies can contribute to strengthening the EU's industrial base, but conditionalities such as joint venture partnerships and technology transfer provisions should prevent exploitative practices and increase European value-added content. Competitive pressure from Chinese EV makers could stimulate greater efficiency among European firms. FDI screening criteria could also be applied for both greenfield and brownfield investments, including environmental and labour conditionalities. A pragmatic strategy of sectoral protectionism can contribute to balancing the risks and benefits of the cooperation. Engagement with China is unavoidable, but this should be done in a strategic manner on the EU's own terms. This can be a catalyst for the EU's own competitiveness agenda and help ensure that the green transition strengthens Europe's economic future on the global stage.

4.3 Competitiveness through international climate protection

Given the disruptive role of the US government, it is critical to “strengthen the resilience of international climate protection and protect EU economic interests and development prospects.

Sticking to global (Paris Agreement) and EU climate policy targets (EU Climate Law) is not just a moral obligation but key for the EU’s international credibility. Strategic coalitions should be developed with China and the rest of G20 countries. China must commit itself to a more ambitious exit strategy from coal on top of its leadership in clean technologies. In exchange, the EU can offer a certain level of co-operation under clearly defined conditionalities.

The EU needs to articulate a more credible approach of how to deal with the Global South, presenting a credible alternative to extractive practices by economic coercion (China) and to economic and military coercion (US). Strategic partnerships and projects with the Global South through private investments and the Global Gateway Initiative could be seen as an opportunity to accelerate not only the green and digital transitions on a global scale but also to accelerate the transition to a more global circular economy for critical raw materials, while applying high labour and environmental standards. The framework to set the terms of cooperation on critical raw materials (CRM) with a third country requires concrete definitions or initiatives to foster value addition in the trade partner country and contribute to long-term benefits through green industrialisation. Clean Trade and Investment Partnerships (CTIPs) to enhance competitiveness, diversify supply chains, secure access to critical raw materials and support the global green transition would also boost the global standing of the EU.

Expanding Just Energy Transition Partnerships with the aim to help coal-dependent emerging economies transition to low-carbon energy in a socially inclusive and equitable manner remain a promising framework and should be reinforced.

Protecting EU economic interests while sticking to ambitious climate policy objectives requires clear prioritisation. The EU should focus on developing its renewable energy and clean technology sectors, low-carbon industry competitiveness first, with the protection of transitioning carbon-intensive sectors a secondary priority. Any production subsidies or state aid should be strictly conditional to decarbonisation targets and be temporary. At the same time, the social and employment effects of this transition (just transition policies) should be addressed by targeted supporting measures.

Given the EU’s low share (6%) of global GHG emissions and the resulting damage to multilateralism, an alternative strategy under which the EU retreats from its climate ambitions and delays its decarbonisation pathway (while keep-

ing the core targets) would be counterproductive. This would isolate the EU in the international arena and cede leadership to China. In absence of the US and backtracking by the EU, China would then become the leading force of global decarbonisation – at its own terms.

While some carbon-intensive sectors might feel a temporary relief, this would be a disaster for the EU as a whole in the longer term. The most adverse outcome for the EU is if the US continues its fossil energy dominance with ‘resource imperialism’ while China strengthens its role as global clean technology leader.

In the current policy environment, *maintaining transatlantic cooperation in the area of climate and energy policy* including trade and industrial policy is extremely difficult. After the announcement of the US National Security Strategy and the emerging trend of US resource imperialism (from the Ukraine resource deal and the one with DRC/Rwanda, then Venezuela and the threats to Greenland) the EU is in the unprecedented situation to consider whether transatlantic partnership is still possible. One thing is probably clear: the EU approach of ‘strategic supplication’ towards the US due mostly to its reliance on US defence capacities in the Ukraine crisis has reached its limits. At the same time bonds between Europe and the US are strong and rooted in a long history, therefore – while some derisking is unavoidable now – the EU should continue to leave open the possibility of renewed cooperation.

List of Acronyms

CBAM	Carbon Border Adjustment Mechanism (EU)
CID	Clean Industrial Deal
CISAF	Clean Industrial Deal State Aid Framework
CRMA	Critical Raw Materials Act
CSDDD	Corporate Sustainability Due Diligence Directive
CTIP	Clean Trade and Investment Partnerships
EIB	European Investment Bank
EPA	Environmental Protection Agency (US)
EU ETS	EU Emissions Trading System
GDIP	Green Deal Industrial Plan
IEA	International Energy Agency
IPCEI	Important Projects of Common European Interest
JETP	Just Energy Transition Partnership
NDC	Nationally Determined Contribution
UNFCCC	United Nations Framework Convention on Climate Change

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