Cleantech *for* Europe

Cleantech Group

The IAA: Last Call for an Ambitious EU Industrial Policy

Policy Paper

With the support of

Breakthrough Energy

European Climate Foundation

Founders Pledge

Executive Summary

The Industrial Accelerator Act (IAA), published on March 4th by the European Commission, was meant to mark a turning point in European industrial policy. For the first time, the European Union proposed to systematically link access to public support mechanisms – public procurement, auctions, State aid and consumer incentives – to Made in Europe (Union-origin) requirements.

On paper, this is the paradigm shift Europe has been waiting for: a stronger industrial policy framework at EU level, seeking to combine demand side measures (lead markets for low carbon products) with supply side measures (access to public funding contingent on Union origin requirements). It also signals a broader evolution: access to the European Single Market is increasingly being treated as a strategic asset, rather than a purely open economic space, in a time of geopolitical turmoils and the weaponisation of supply chains and chokepoints. The FDI regime also reflects a desire to ensure companies from China seeking to make significant investments in the EU in technologies where the EU may be lagging behind, are required to share access to critical technologies, train workforce and ensure meaningful value added on European soil.

However, the IAA as drafted, will not deliver on this promise. The proposal is riddled with loopholes that risk neutralising its industrial impact before it even enters into force. By extending Union-origin equivalence to all FTA partners, the IAA sends the message that there is no need to locate production or manufacturing capacity within Europe – indirectly incentivising investment outside the EU, where energy costs, labour costs and regulatory burdens are structurally lower. At the same time, **the combination of this broad geographic scope with a stringent FDI screening regime gives Chinese companies little reason to invest in the EU when they can serve the Single Market from an equivalent jurisdiction instead.** The result is a proposal that risks combining the external political costs of a "Made in Europe" approach – allegations of protectionism – with the internal political costs of an FDI screening regime, while delivering none of the strategic upside.

The legislative window is narrow and, as the Draghi report made clear, Europe can no longer afford policies that fall short of their objectives. But the prize is worth the effort as a credible IAA can anchor cleantech manufacturing in Europe, reduce strategic dependencies and restore confidence in the EU's capacity to deliver industrial policy at the level the moment demands. Co-legislators now hold the pen and the opportunity to turn a flawed proposal into a defining instrument of European competitiveness. The legislative process now underway is the last opportunity to turn a weak proposal into the credible industrial policy instrument Europe urgently needs.

Key Recommendations :

1. **Tighten the geographic scope of Union-origin requirements,** to equipment originating in the Union and the EEA, with the possibility of conferring the status of Union Origin equivalent requirements to trusted partner countries, providing them with more favourable conditions to access the EU Single Market. This would create a genuine opportunity for an alliance of the Middle Powers on the EU's terms.

2. **Fully internalise security and resilience policy rationale, closing value chain gaps in NZIA strategic technologies,** notably in batteries, by making key components (including anodes and upstream materials) mandatory and extending the scope to missing technologies such as grids and electrolysers in public procurement.

3. **Strengthen and clarify 'disproportionate costs' waiver provisions in procurement, auctions and support schemes** by adjusting cost thresholds to market realities of different technologies and defining a harmonised methodology for their application.

4. **Ensure Union-origin requirements do not undermine FDI conditionality,** by tightening their geographic scope so as to prevent circumvention through production in FTA countries. Also, expand the FDI framework to cover missing strategic sectors including electrolysers, wind and grid technologies.

5. **Refocus automotive local content rules on strategic components,** ensuring that battery localisation is mandatory and cannot be substituted with non-strategic components.

6. **Build credible lead markets for low-carbon materials** by increasing quotas, tightening origin definitions across value chains and expanding the scope of application.

Introduction

The IAA proposal could have been a turning point. It introduces two genuinely transformative elements, but stops short of the design choices needed to make them work.

First, the introduction of **binding Union-origin requirements** across multiple forms of public intervention constitutes a genuine paradigm shift. Previous EU industrial policy instruments, including the Net-Zero Industry Act (NZIA), relied primarily on resilience criteria and diversification objectives. The IAA moves beyond this approach by directly linking public spending to the location of value creation. This is a necessary

step to create predictable demand for European manufacturing and reduce strategic dependencies that, as recent events around critical raw materials export restrictions or microchips have made plain, can be weaponised at any moment.

Second, the proposal introduces **non-waivable cybersecurity requirements** applicable to all types of public interventions and for 100% of public procurement, auction volumes and other types of support schemes. By embedding security considerations directly into market design, it creates a structural advantage for trusted suppliers and reinforces the EU's economic security objectives. In a geopolitical environment where technological dependencies are systematically at risk of being weaponised, it is important the EU takes this risk seriously by excluding high-risk vendors by default. Very significant concerns around energy security are pushing the EU towards an accelerated electrification of the economy which will inevitably mean relying to a greater extent on Chinese technologies.

More importantly, the adoption of the Act will provide **a clear legal basis for Member States to implement Union Origin requirements in their national measures.** Hitherto, Member States may have been reluctant to opt for an explicit Made in Europe approach in auctions, national support schemes or consumer support measures, held back by legal uncertainty around EU and WTO compatibility. The IAA would lift that constraint and unlock action at national level – provided the EU framework itself is credible enough.

And this is precisely where the proposal falls short. The IAA suffers from several structural weaknesses that risk undermining the effectiveness of the framework. If these weaknesses are not remedied, it is quite likely that the IAA will lack the tools and effectiveness to achieve one of the main desired political outcome – a stronger Cleantech manufacturing sector in Europe as a driver of competitiveness, economic resilience and increasingly energy security. A weak IAA risks being counterproductive, removing leverage the EU currently holds without delivering tangible industrial gains.

1. Geographic scope: a "Made in Europe" definition that lacks focus to create impact

The effectiveness of the IAA hinges on how "Union-origin" is defined. In its current form, the proposal adopts an extremely broad definition, extending eligibility to countries with free trade agreements, customs unions or participation in the WTO Government Procurement Agreement, such as India, Morocco or Korea.

This approach significantly weakens any potential demand signal for European cleantech manufacturing. It allows products assembled in third countries to qualify as "Union-equivalent" even when the underlying value chains remain outside Europe (Article 28e, 28f and 28g NZIA[1]). In practice, this creates clear incentives for production to be routed through intermediary countries with preferential trade access, who might benefit from lower energy, labor or regulatory costs, without generating meaningful industrial activity within the EU. For example, a Chinese battery manufacturer could open a factory

1. Article 34 of the proposed IAA amends the NZIA. For clarity, we quote directly from the sections of the NZIA that are to be amended.

in countries that are geographically close and have an FTA with the EU, such as Morocco or Serbia, thereby qualifying for European public support as 'Made in Europe equivalent', without creating manufacturing capacity within the Union.

The proposal does include a mechanism allowing the Commission to exclude specific countries through delegated acts, notably on the basis of lack of reciprocity in access for European companies. However, this mechanism is both politically uncertain and temporally delayed. It introduces regulatory ambiguity at precisely the moment when investment decisions require clarity.

By contrast, previous versions of the proposal followed a fundamentally different logic. Rather than granting automatic equivalence to a wide group of countries, they established a controlled mechanism based on delegated acts, whereby the Commission would identify a limited set of third countries who would be considered trusted partner and whose content would be treated as Union-Origin equivalent. There would be a clear case for economic diplomacy for the European Commission to reassure some obvious trusted partners that they would quite rapidly after the entry into force of the IAA be granted the status of trusted partner to assuage their concerns.

Recommendations :

Delete Articles 28e, 28f and 28g and instead insert an article titled 'Equivalent to Union Origin requirements' with the following drafting:
"For the purposes of Articles 25a, 26, 28a and 28c, Union Origin content refers to content originating from the Union and the European Economic Area.
2. For the purposes of Article 25b, the Commission shall adopt delegated acts in accordance with Article 44 within [xx] months from entry into force of this Regulation, to supplement this Regulation by specifying, for products and services covered by Annex II, the third countries from which content shall be treated as equivalent to content of Union origin. In identifying such trusted partners, the Commission shall take into account, in particular:
(a) reciprocal international commitments such as the Government Procurement Agreement and;
(b) contribution to the Union's competitiveness, resilience and economic security objectives.

The Commission may adopt delegated acts in accordance with Article 43 to exclude a third country from a list specified in paragraph 2 of this Article in case of a serious breach of their commitments towards the Union or public order or economic security concerns."

2. Union-origin requirements: incomplete coverage of technology scope and value chain gaps

We are supportive of the proposal to insert Union origin requirements in public procurement (new Article 25a NZIA), auctions (amended Article 26 NZIA), other forms of public intervention supporting the demand (new Article 28b NZIA) and support programs by Member States for the construction and manufacturing of NZIA technologies (New Article 28c NZIA). But important gaps remain in both technology coverage and value chain definition. These gaps risk enabling formal compliance without achieving strategic industrial objectives.

In the **battery value chain**, the current design illustrates these shortcomings. While the proposal introduces local content requirements for electric vehicles, it does not sufficiently prioritise the most strategic components. **Anode Active Materials (AAM),** which are overwhelmingly sourced from China (China controls 95% of the synthetic graphite market), are not treated as mandatory components. Instead, they compete with other, easier-to-localise components. This design inherently favours short-term compliance over long-term supply chain resilience. It also fails to deliver a demand signal to potential alternatives to synthetic graphite that could easily be made in Europe (i.e. silicon-based anodes).

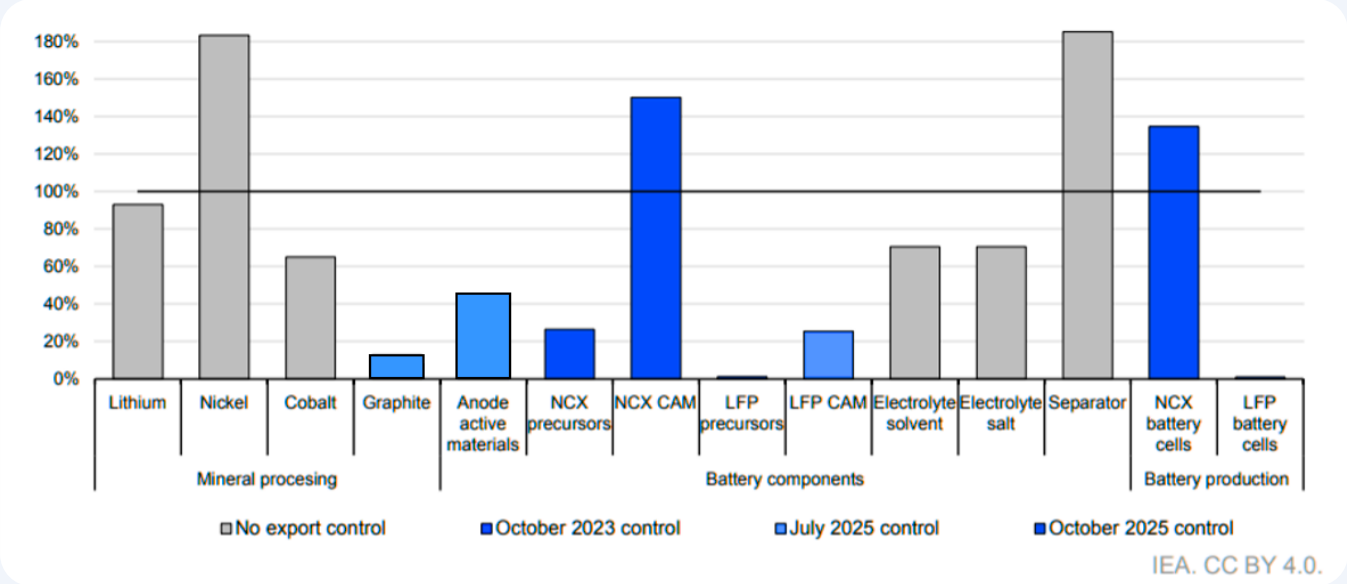

CHART 1: Share of battery demand outside China that could be met without supply from China (2024)
Source: IEA, Energy Technology Perspectives, 2026

This graph shows Chinese dominance for battery components. Just over 40% of the demand for AAM outside China can be met without supply from China. Similarly, non-Chinese graphite producers are able to meet only around 15% of demand outside China.

Similarly, key upstream elements such as **cathode active materials (CAM) and their precursors (pCAM)** are not adequately integrated into the requirements, despite

accounting for a majority share of battery cell value. Without dedicated Union-origin requirements for these components, there is a structural risk that upstream segments of the value chain remain located outside Europe.
This also has direct implications for circularity: without pCAM production in Europe, there is no reliable offtake for European recyclers, undermining the business case for domestic recycling capacity. Union-origin criteria should therefore explicitly include CAM and pCAM, as well as materials derived from EU end-of-life batteries, production scrap from EU-based manufacturing, and outputs from EU-based recycling facilities, to create a coherent demand signal across the value chain.

This gap is particularly critical in light of the forthcoming Circular Economy Act, which is expected to address downstream aspects such as recycling, recovery and potential restrictions on exports of secondary raw materials (including "black mass"). However, there is a significant risk that, in the absence of strong upstream demand signals in the IAA, circularity provisions alone will not be sufficient to anchor the full value chain in Europe. Exports of battery waste streams may still be possible to certain third countries (e.g. South Korea), and risks of rerouting through intermediary jurisdictions remain high. **The two instruments must therefore be conceived as complementary: the IAA should drive localisation of strategic upstream and manufacturing segments, while the Circular Economy Act should reinforce downstream recovery and recycling,** together creating an integrated value chain approach from extraction and processing to end-of-life recovery.

Beyond batteries, the scope of the IAA is inconsistent across technologies. **Electrolysers** are subject to Union-origin requirements in auctions and State aid, but not in public procurement (Part I of Annex II) even though a large source of demand for electrolysers in the coming years is likely to be from energy companies commissioning hydrogen production projects. **Grid technologies,** which are central to electrification and system integration, have been removed from the scope altogether. Conversely, cybersecurity requirements are absolutely paramount to ensure a stable and reliable grid. Emerging storage technologies risk being excluded due to narrow definitions.

These omissions create fragmentation and reduce the effectiveness of the instrument as a system-wide industrial policy tool.

Recommendations :

The IAA should adopt a more coherent and strategic approach to value chains. Union-origin requirements must explicitly cover critical components, including anode materials, cathode precursors and battery manufacturing equipment. Requirements should also integrate recycled materials to support circularity and reduce external dependencies. Concretely, this means changing point (d) in Part I and II in Annex III.

The scope of the regulation should be extended to ensure consistency across instruments, notably by including electrolysers in procurement rules and integrating grid technologies. The framework should remain technology-neutral but must be designed around strategic value chain considerations rather than formal component accounting.

3. Union-origin requirements: incomplete coverage of technology scope and value chain gaps

The IAA allows Member States to waive Union-origin requirements when they result in "disproportionate costs," with thresholds ranging between 20% for auctions (Article 26(5) NZIA) and 25% for public procurement (Article 25a(3)(c) NZIA).

While such safeguards are understandable in principle with public authorities wanting to avoid cost overruns, their presence undermines the policy intent of creating clear demand signals. In several cleantech sectors, cost differentials with Chinese suppliers already exceed these thresholds. As a result, cleantech innovators and investors might rightly assume that public authorities might systematically seek to waive the requirements, making potential demand signals unbankable.

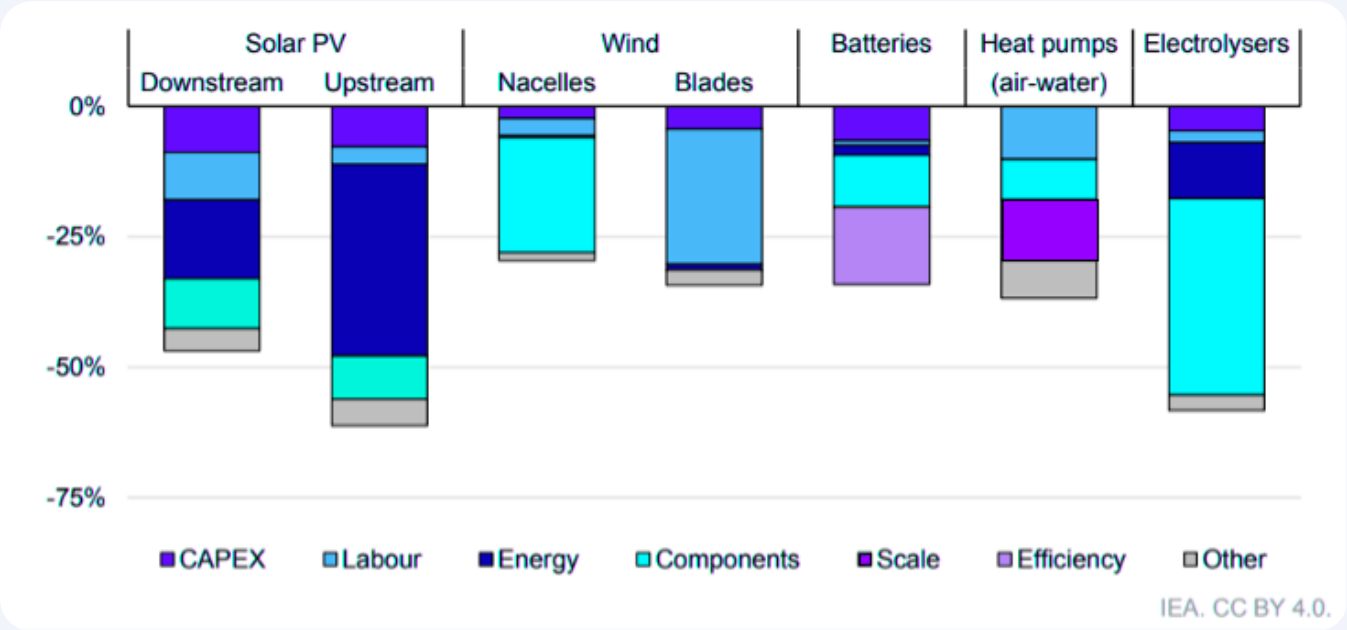

CHART 2: Difference in manufacturing costs in China compared with the EU for selected clean energy technologies by cost factor (2024)
Source: IEA, Energy Technology Perspectives, 2026

In addition, the proposal does not clearly define how cost differentials should be calculated. Whether the comparison is made at component level or at the level of entire projects can significantly alter outcomes. In large infrastructure projects, the cost of a specific component may be diluted within overall project costs, making it easier to maintain Union-origin requirements. In other cases, the opposite may apply.

Further limitations arise from the partial coverage of auctions and the cap on incentives under certain instruments. While the proposal increases coverage compared to the NZIA by requiring Union-origin criteria to apply to at least 40% of auctioned volumes or 8 GW per year per Member State (article 26(7) NZIA), this still leaves a majority of volumes outside the scope of the requirements, thereby limiting the strength and predictability of the demand signal. Taken together, these elements risk reproducing the main weakness of the NZIA: criteria that exist in legislation but are frequently neutralised in practice.

Recommendations :

Waiver provisions should be significantly tightened and clarified. Thresholds should be adjusted to reflect actual market conditions and could be differentiated by sector. A clear and harmonised methodology for calculating cost differentials is essential to ensure consistent application across Member States.

In parallel, the share of volumes subject to Union-origin requirements in auctions should be increased, and the use of waivers should be strictly limited to exceptional cases. Without such adjustments, the IAA will not provide the predictable demand signals required to unlock investment.

4. FDI conditionality: strong concept, contingent on Union-origin design

The IAA introduces a new framework linking large foreign direct investments (FDI) to industrial policy objectives. This is a significant innovation, with the potential to encourage technology transfer, local value creation and stronger European supply chains.

However, **the effectiveness of this framework is contingent on the credibility of Union-origin requirements**. The two instruments are structurally linked: FDI conditionality can only shape investment behaviour if access to the EU market is itself meaningfully conditioned.

In its current form, the broad definition of Union-origin creates a clear risk of circumvention from FDI mechanism. Companies may choose to locate production in countries benefiting from free trade agreements with the EU, thereby qualifying for Union-origin equivalence while avoiding the constraints associated with the FDI framework. In such a scenario, the incentive to invest directly in the EU, and to comply with FDI conditions such as joint ventures or technology transfer, is significantly weakened.

In addition, **the FDI framework itself remains incomplete** (Article 17(2) IAA). Its sectoral scope is limited and excludes key strategic technologies such as **electrolysers, wind and grid technologies**. This creates further inconsistencies with the broader objectives of the IAA and leaves critical parts of the cleantech value chain outside the scope of economic security considerations.

Finally, the high degree of discretion granted to Member States raises concerns about fragmentation in implementation, which could further weaken the effectiveness of the instrument and create uneven conditions across the Single Market.

Recommendations :

The effectiveness of FDI conditionality should be reinforced by addressing its structural dependency on Union-origin rules. This requires tightening the geographic scope of Union-origin requirements to prevent circumvention through third countries with preferential access to the EU market.

In parallel, the FDI framework should be expanded to cover additional strategic sectors, including electrolysers, wind and grid technologies. Stronger EU-level governance is also needed to ensure consistent application across Member States and preserve the integrity of the Single Market.

5. Automotive provisions: safeguarding strategic battery value chains and preventing FTA-based circumvention

The introduction of local content requirements for electric vehicles is a major step forward. However, the current design risks allowing compliance without securing the most strategic parts of the value chain.

In particular, localisation thresholds can be met through non-strategic components, while key elements such as batteries may still be sourced from outside Europe. This creates a scenario in which vehicles assembled in Europe qualify for support without contributing to the development of a domestic battery industry.

At the same time, the inclusion of vehicles produced in free trade agreement countries in eligibility criteria further weakens the incentive to localise production within the EU.

This reflects a broader tension between protecting incumbent industrial structures and supporting emerging value chains. Without a stronger focus on strategic components, the IAA risks prioritising short-term industrial considerations over long-term competitiveness.

Recommendations :

Automotive provisions should be refocused on strategic value chains. Battery localisation should be a mandatory condition for eligibility, rather than one option among several components. Non-strategic components should not be allowed to drive compliance. In addition, eligibility criteria should be aligned with a more restrictive definition of Union-origin to ensure coherence with the broader framework.

6. Lead markets for low-carbon materials: insufficient demand creation

The IAA introduces quotas for low-carbon materials in public procurement, including steel, aluminium and concrete. While this represents an important recognition of the role of demand-side measures in industrial decarbonisation, the current levels are insufficient to create meaningful market transformation.

In particular, the very low threshold for concrete limits its impact.
The methodology used to define origin, such as “melted and poured” for steel, allows significant upstream emissions and dependencies to remain outside the scope of the requirements. Moreover, the application of these rules only to contracts above EU procurement thresholds further reduces their reach.

As a result, the IAA risks creating symbolic demand signals rather than the large, predictable markets required to support investment in low-carbon industrial production.

Recommendations :

> Lead market provisions should be strengthened both in ambition and in scope. Quotas should be increased, particularly for sectors where current levels are negligible. Definitions of origin should be tightened to reflect full value chains rather than final transformation stages. Finally, the scope of application should be broadened beyond large procurement contracts to maximise market impact

Conclusion

The Industrial Accelerator Act has the potential to become a cornerstone of European industrial policy. It introduces, for the first time, a framework capable of linking public spending, market access and industrial development in a coherent way.

As drafted, however, the proposal will not yet deliver on its promise. Structural loopholes and insufficiently targeted design risk neutralising the instrument’s industrial logic.

Addressing these weaknesses requires a shift in approach. The EU must move from a broad and permissive framework to a more targeted and strategic one, capable of generating clear, credible and predictable demand signals.

This implies tightening the geographic scope, focusing on strategic value chains, strengthening implementation mechanisms and developing robust governance for market access.