EUROPEAN COMMISSION PUBLISHES DRAFT INDUSTRIAL ACCELERATOR ACT: WHAT TO EXPECT?

On 4 March 2026, the European Commission ("Commission") published its proposal for a regulation establishing a framework of measures for the acceleration of industrial capacity and decarbonisation in strategic sectors ("***Industrial Accelerator Act***", "***IAA***" or "***Act***"). The IAA aims to boost manufacturing, grow businesses, and create jobs in the EU, while supporting the European Union ("EU" or "Union") industry's adoption of cleaner, future-ready technologies. The Act seeks to implement the recommendations of the Draghi report by introducing targeted "Made in Europe" (i.e. Union origin) and low-carbon requirements. The IAA aims to stimulate demand for EU net-zero technologies and low-carbon industrial products through public procurement, public support schemes, and auction-based funding. It also introduces new limitations on foreign direct investments ("***FDI***"). The IAA's general objective is one of industrialisation, namely increasing the manufacturing's share of the EU's GDP to 20% by 2035.

KEY ELEMENTS OF THE PROPOSAL

The IAA is framed as a Single Market legislation, building on experience from and interfacing with existing legislation, including the Net-Zero Industry Act ("***NZIA***"), the Critical Raw Materials Act ("***CRMA***"), the Ecodesign for Sustainable Products Regulation ("***ESPR***"), and the Construction Products Regulation ("***CPR***").

Shift in strategic focus

The IAA concentrates on heavy industry and clean technology manufacturing, as these industries are considered essential for enabling construction, mobility, energy, defence and space. In particular, the IAA identifies the following strategic sectors:

- **Energy-intensive industries:** including the production of paper and paper products; coke and refined petroleum products; chemicals and chemical goods; rubber and plastics; non-metallic mineral products; and basic metals such as steel, pig iron, and non-ferrous metals.
- **Net-zero technology manufacturing:** for example, the production of batteries, solar panels, wind turbines and hydrogen-related equipment, reflecting the EU's objective of strengthening domestic capacity in clean technologies.
- **Automotive manufacturing:** included because of its major role in the EU economy and its importance in the transition to electric mobility.

Whereas earlier discussions indicated that the IAA might cover a broad range of high-tech and other "critical" industries, these were ultimately excluded from the IAA's scope. However, additional measures in the technology domain are still expected. In particular, the EU's "Chips Act 2.0," anticipated around mid-April as part of the broader Tech Sovereignty Package, may address some of these areas.

Union origin and low-carbon requirements in public procurement and public support schemes

The core of the IAA is a set of "Made in Europe" requirements aimed at creating a domestic market for greener industrial goods. From 1 January 2029, contracting authorities must require minimum percentage shares for all public procurement procedures falling within the scope of EU Public Procurement Directives 2014/23/EU, 2014/24/EU and 2014/25/EU that include the procurement of products from energy intensive industries:

- **For steel and steel-dependent products intended for use in buildings, infrastructure and motor vehicles for civil purpose:** at least 25% of the total volume of steel must be low-carbon;
- **For concrete and mortar and concrete/mortar-dependent products intended for use in buildings and infrastructure for civil purpose:** at least 5% of the total volume of concrete and mortar must be low-carbon and of Union origin;

- **For aluminium and aluminium-dependent products** intended for use in buildings, infrastructure and motor vehicles for civil purposes: at least 25% of the total volume of aluminium must be low-carbon and of Union origin.

Contracting authorities may decide not to apply Union origin or low-carbon requirements in limited circumstances, namely (i) where no reasonable alternatives or substitutes exist; (ii) no suitable participation requests were submitted, or (iii) where compliance would involve disproportionate costs or technical incompatibility.

The IAA also sets out Union origin requirements for vehicles applicable in public procurement procedures and public support schemes that benefit households or companies. Only manufacturers that meet the minimum Union origin may benefit, for example, by assembling vehicles in the EU and ensuring that at least 70% of the ex-works price of components (excluding the battery) is EU content. The IAA vehicle-related provisions must be seen in the context of the EU's Automotive Package, which creates a policy framework to ensure 2050 climate neutrality and strategic independence while providing more flexibility to manufacturers.

Union origin requirements

"Union origin" is defined as "content originating within the Union" and is determined according to the Union Customs Code. Content from third countries that have a free trade agreement ("***FTA***") or customs union with the EU or are parties to the WTO Agreement on Government Procurement ("GPA"), where the EU has relevant obligations under those agreements, will, in principle, also be considered of Union origin. It is estimated that products from approximately 40 "like-minded" countries, including European Economic Area ("***EEA***") countries, the UK, Canada, Korea, and Japan, will qualify for "Made in Europe" treatment.

However, even those third countries may be excluded, through a delegated act, if (i) they fail to provide national treatment for Union products or entities under these agreements, in relation to sectors covered by the IAA, (ii) such exclusion is justified to avoid dependencies or any other developments that may threaten the security of supply in the Union of the products in question; or (iii) such exclusion is justified under any other exception pursuant to the applicable agreement. This applies to both public procurement and public subsidies.

Additionally, contracting authorities must exclude from access to procurement procedures tenders submitted by economic operators owned or controlled by entities established in third countries which have not concluded an international agreement with the Union guaranteeing such access. This means that, if adopted, the IAA will significantly limit the access to the public procurement for economic operators established in a third country, but controlled by entities from another trading partner such as China. These exclusions may raise concerns as to their consistency with the EU's obligations under WTO agreements (including the WTO Agreement on Government Procurement) and the relevant FTAs with third countries.

Furthermore, the IAA proposal contains specific Union origin requirements for electric, hybrid electric and fuel cell vehicles, including a framework through which small zero-emission vehicles "made in the EU" can earn so-called "super credits" under EU vehicle CO2 emission performance standards, which are currently being renegotiated as part of the Automotive Package proposed in December last year.

Low-carbon requirements

"Low-carbon" refers to technical criteria established in other EU instruments, including the CPR and the ESPR. Operators must submit a self-declaration illustrating compliance, with the Commission being empowered to introduce voluntary classification systems for certain manufactured products based on their greenhouse gas intensity when placed on the EU market, provided those products are not already covered by a delegated act under the ESPR or included in its adopted working plans.

Other forms of public intervention

Union origin and/or low-carbon requirements are also relevant for other forms of public intervention (state aid). Member States must calibrate their public support schemes so as to reinforce the EU's strategic industrial value chains by applying Union origin and/or low-carbon requirements, ensuring beneficiaries meet minimum shares of steel, cement and mortar, and aluminium (see above). These requirements apply to public subsidies accounting for at least 45% of the total national budget for energy-intensive industries and 100% of the total national budget for electric, hybrid electric and fuel cell vehicles. These requirements can be waived where strict compliance would lead

to significant delays or disproportionate costs. The Commission's ability to exclude third countries under the Union origin rules also extends to these forms of public support.

Shifting FDI towards emerging strategic sectors
Foreign direct investments exceeding EUR 100 million in emerging strategic sectors will require approval from national Investment Authorities designated by each Member State. This only applies where more than 40% of the global manufacturing capacity is held by the third country of which the foreign investor is a national.

The Commission identified four emerging strategic sectors: (i) battery technologies and their value chain for battery energy storage systems; (ii) pure electric vehicles, off-vehicle charging hybrid electric vehicles and fuel-cell electric vehicles, including components related to electrification and digitalisation; (iii) solar PV technologies; and (iv) extraction, processing and recycling of critical raw materials. Crucially, the Commission would be empowered to broaden these requirements through a delegated act to cover additional sectors considered "critical" to the EU's economic security. This could include other net-zero technologies identified in the NZIA – such as wind, heat pumps, hydrogen electrolysers, and nuclear fuel cycle technologies – as well as electric propulsion systems. Under the IAA proposal, the "value added" conditions would not apply to i) investments covered by economic partnership and free trade agreements in force or provisionally applied; ii) investments targeting the provision of services; and iii) portfolio investments.

The requirements – which signal a significant departure from the EU's traditional FDI approach – are set out below, with the notified investments expected to meet at least four out of six requirements. The fifth requirement relating to EU workforce is mandatory in all cases.

i. **Ownership cap:** the IAA sets a 49% cap on foreign participation in entities undertaking manufacturing activities in the emerging strategic sectors. This effectively requires that EU investors retain a majority stake – and thus control – over any investment vehicle active in these sectors. The limitation applies to equity ownership and is therefore likely to restrict foreign investors' governance and decision-making rights.
ii. **Mandatory joint ventures:** foreign investors must establish joint ventures with European partners. This condition establishes a structural obligation for foreign investors to integrate with European counterparts, guaranteeing their direct involvement in the management, governance, and economic benefits of the investment.
iii. **Technology transfer and IP sharing:** in-scope investments are subject to technology transfer commitments, including licensing agreements and provisions for joint IP ownership.
iv. **Local R&D investment:** the proposal requires foreign investors to commit to local R&D investment equivalent to 1% of gross annual revenues generated by the target, as applied in proportion to the foreign investor's share of control.
v. **EU workforce obligations:** at least 50% of the workforce must be EU nationals. If the foreign investor, EU target or EU asset is granted public funding, it must ensure that the number of EU workers does not decline for a period of five years, with non-compliance triggering recovery of the funding by the competent national authorities. The 50% threshold applies to all workforce categories, including management.
vi. **EU input obligations:** foreign investors must develop and publish a strategy to strengthen Union value chains and aim at sourcing at least 30% of their inputs from within the EU.

These new requirements further increase the burden placed on third-country investors. Third-country investors in strategic sectors will need to structure their transactions and investments, taking into account i) the EU FDI Screening Regulation; ii) the EU Foreign Subsidies Regulation; iii) the EU Merger Regulation; and iv) the additional "added-value" FDI conditions pursuant to the IAA.

Simplified permitting and industrial manufacturing acceleration areas
In addition to imposing restrictions relating to public procurement and FDI, the IAA also provides for simplification of the EU permitting framework to shorten approval timelines. For example, Member States must create a single national access point where economic operators can submit one application covering all required project-specific permits (so-called "aggregated baseline permits"), with strict deadlines for authorities to respond. Moreover, decarbonisation projects benefit from fast-track procedures under the NZIA. The proposal also requires each Member State to designate at least one "industrial manufacturing acceleration area," where infrastructure, permitting, and support measures are streamlined to facilitate strategic industrial projects, including simplified environmental approvals.

OUTLOOK AND NEXT STEPS

The proposal will now go through the ordinary legislative procedure. The European Parliament and the Council of the EU ("***Council***") will first develop their own negotiating positions on the draft IAA, after which the Commission, the European Parliament and the Council will enter trilogue negotiations to reach an agreement on the final text. Generally, Member States support the IAA and acknowledge the importance of coordinating action at EU level to speed up industrial decarbonisation while developing lead markets for low-carbon products and technologies produced in Europe. Nevertheless, Member States remain divided on the scope of the IAA. Some support strict "Made in Europe" requirements to ensure that public funding directly benefits EU production and jobs, while others favour a more flexible "Made with Europe" approach that would allow participation by trusted partners to limit costs and supply risks. Other Member States have warned against expanding the IAA into a broader economic security tool, arguing that strict local-content rules could increase regulatory complexity and undermine EU competitiveness. Therefore, the IAA is likely to face a demanding and potentially lengthy legislative process, with negotiations focusing on striking a balance between EU industrial capacity and preserving openness, competitiveness, and compliance with the EU's international obligations.

The IAA will enter into force on the day following publication in the Official Journal of the EU and will be directly applicable in all Member States. Provisions related to permitting would start to apply one year after the regulation enters into force. Within twelve months, each Member State would be required to designate at least one industrial manufacturing acceleration area, while Investment Authorities responsible for screening FDI must be appointed within one month of the regulation taking effect. The provisions regarding EU content and low-carbon requirements would apply to procedures initiated from 1 January 2029 onwards, whereas electric vehicle "Made in Europe" requirements are expected to apply from approximately mid-2027 (with stricter criteria three years after the IAA's entry into force, including higher local content requirements in battery cells).

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