DISCUSSION PAPER

No Competitiveness without Decarbonisation

Industrial Accelerator Act: Future-proof investments require a strong demand signal

Amid the events of recent weeks, one point has become clear: Europe, and Germany in particular (as its most important industrial nation), must ramp up investment in the resilience of its industrial value chains whilst simultaneously transitioning away from fossil fuels at a faster rate. The transformation of the basic materials industry towards low-carbon production is central to this objective.

The Industrial Accelerator Act (IAA) expressly aims to deliver decarbonisation and industrial competitiveness in tandem. However, the European Commission's proposal currently falls short of its potential. The proposal includes relevant measures to develop green lead markets for low-emission basic materials through public procurement quotas, conditions for foreign direct investments, and accelerated permitting procedures for decarbonisation projects. These instruments are certainly a step in the right direction, but not yet sufficiently effective.

The IAA and its effect must be understood as part of a broader package of measures. A robust and stringent European emissions trading system with a clear carbon price signal is essential for investment in climate-neutral production. At the same time, competitive electricity prices are essential to the electrification of heavy industries. These preconditions must be complemented by instruments that enable and safeguard investments at an early stage. When these instruments interact, there will be a robust business case for investment decisions worth billions, thereby securing jobs and achieving climate targets.

In the ongoing legislative process to establish the IAA, legislators should consider the following points:

1 Set binding and dynamic minimum quotas for low-emission raw materials

The proposed procurement quotas for low-emission raw materials produced in Europe **will not suffice to send a robust market signal**. The Commission has stated it may revise the quotas, but has not yet specified the criteria it would apply. Hence, a transparent methodology is required that sets binding and dynamically increasing quotas based on existing and planned production volumes of climate-neutral raw materials. This will create reliable demand and systematically take technological progress into account.

The expected costs of the quota schemes will be manageable for the public sector. According to the Commission's estimates, the cumulative additional procurement costs for public construction projects would amount to just 0.45% compared to business as usual, provided the current low-emission quotas for aluminium, steel, and cement are implemented. As an example, a gradual increase to **50% for steel and aluminium, and 10% for cement would therefore result in minimal cumulative** additional costs for the public sector.

Table 1: Quotas and requirements in the IAA proposal (author's table).

25%[1]	**5%**	**25%**
Low-emission (& Made in Europe)	Low-emission & Made in Europe	Low-emission & Made in Europe
Steel	**Cement & Mortar**	**Aluminium**

Cost-based exemptions **relating to the final products or services to be procured** (25% additional costs in public procurement and 30% in tenders) are appropriate in order to rule out negative economic or social effects when material costs account for an unusually high proportion of the total cost of a product or service. This exemption level should not be reduced in the further legislative process to sustain investment incentives for climate-neutral production processes. Their practical relevance should be monitored and reviewed.

Furthermore, steel should benefit from 'Union Origin' privileges in the ongoing legislative process. The IAA's objective is to establish a baseline for low-emission steel production within the EU, thereby enhancing Europe's resilience. It is vital that a clear investment signal is provided to companies that have already begun the transition and are now investing in Europe and in its industrial value chains. The trade defence instruments in the steel sector, currently discussed in the European Parliament, are no viable substitute for this, as they do not target the initial additional costs of investments in low-emission steel production.

2 Reintroduce the Steel Label into the IAA

The Commission has removed both the proposed voluntary steel label and the associated methodology for calculating low-emission steel from the proposal, **thereby missing a key industrial policy opportunity and slowing necessary progress**.

A robust steel label is vital to clearly define low-emission steel, to create market transparency and to ensure reliable demand for first mover companies through public procurement. It is also the prerequisite for greater demand from private markets and, in sum, can boost final investment decisions relevant to climate-neutral steel production in Europe.

The steel label should therefore be reintroduced into the IAA. The foundation is already in place: in its Impact Assessment, the Commission has proposed a methodology with steel emission classes (A–F), very similar to the Low Emission Steel Standard (LESS) by the German Government and Steel Association. Using this label would enable the EU to rely on a broadly supported, industry-backed, and low-bureaucracy instrument to scale up low-emission steel.

[1] According to the European Commission's analysis, there are currently 61 new European low-carbon steel projects in EU emission classes A–C (BloombergNEF). This would represent a total capacity of 75.4 million tonnes, of which 29.7 million tonnes will be built by 2030 (approximately 22% of the projected EU27 production of 134 million tonnes). The remaining 41.4 million tonnes, which are the early stages, would account for an additional 31%, thereby allowing for significantly higher quotas.

3 Cover all public funding schemes for basic materials

The Commission's current proposal is confined to traditional public procurement, thus falling significantly short of its full potential. It is recommended that all tax-funded support schemes in the construction and transport sector should be reinstated within the scope of quotas, as originally envisaged by the Commission. This would send a markedly stronger and more reliable demand signal. In the automotive sector alone, this adjustment has the potential to cover approximately three-quarters of the total market, provided that all powertrain technologies are taken into account.

In contrast to the debate around utilising green steel credits to achieve the renewed EU CO_2 emission standards for cars and vans, this measure would provide a robust, timely, and dependable signal of market demand. With regard to the final product (the car), the additional costs are acceptable. The Commission estimates these at EUR 69.27 when applying the proposed 25% (steel & aluminium) for procurement. A gradual increase in the quotas to 50%, for example, would result in additional costs of approximately EUR 140.

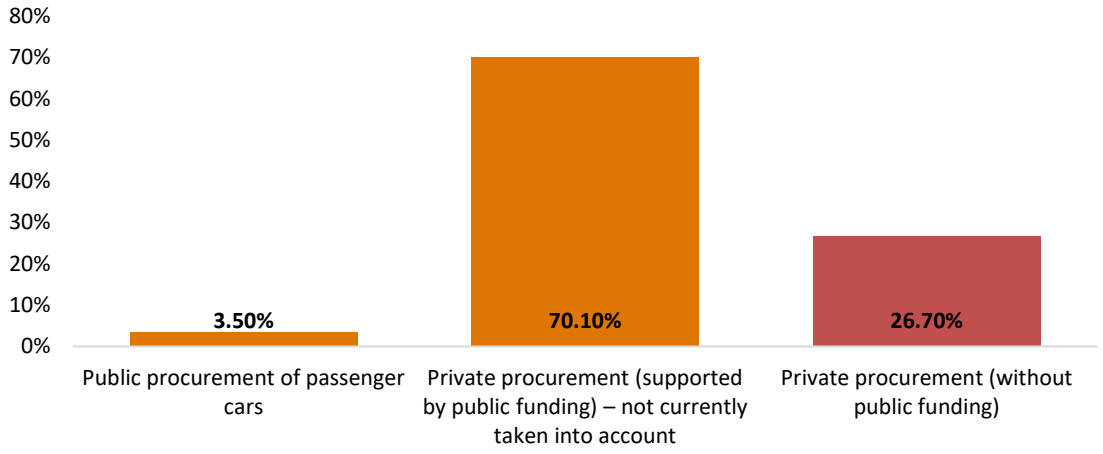

Figure 1: Market shares of vehicle procurement in the EU (European Commission 2026/0068: Impact Assessment).

4 Enable strategic climate partnerships with reliable third countries

The 'Made with Europe' approach, as supported by the German government, is a rational strategy to enhance both European value creation and regional resilience. Furthermore, it provides a solid foundation for collaborating with reliable international partners. However, the various objectives may be at odds, particularly in the short term. For example, opening up quotas to producers outside the EU could undermine the necessary certainty regarding reliable demand for European-made low-emission products.

Hence, we suggest a phased approach. Initially, European demand could be restricted to European manufactured products, and, with gradually increasing quotas, expand in line with the current geographical scope of the Commission's proposal (Agreement on Government Procurement, GPA / free trade agreement, FTA).

Strategic climate partnerships with countries that pursue ambitious climate targets and meet high sustainability standards can make a decisive contribution to advance global decarbonisation and to ensure the security of supply of relevant products. However, the criteria used by the Commission to assess reciprocity, and the timeframe for its response to potential circumvention practices are not yet clear.

The Commission should make the best possible contribution to globally decarbonise industries and to create a level playing field for European manufacturers. It should hence link reciprocity in new FTAs that contain procurement chapters to corresponding requirements for low-emission product quotas on the partners' side. This would strengthen the export opportunities of companies producing with increasingly low emissions, while ensuring that trading partners adopt comparable shares for low-emission products in their own procurement.

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