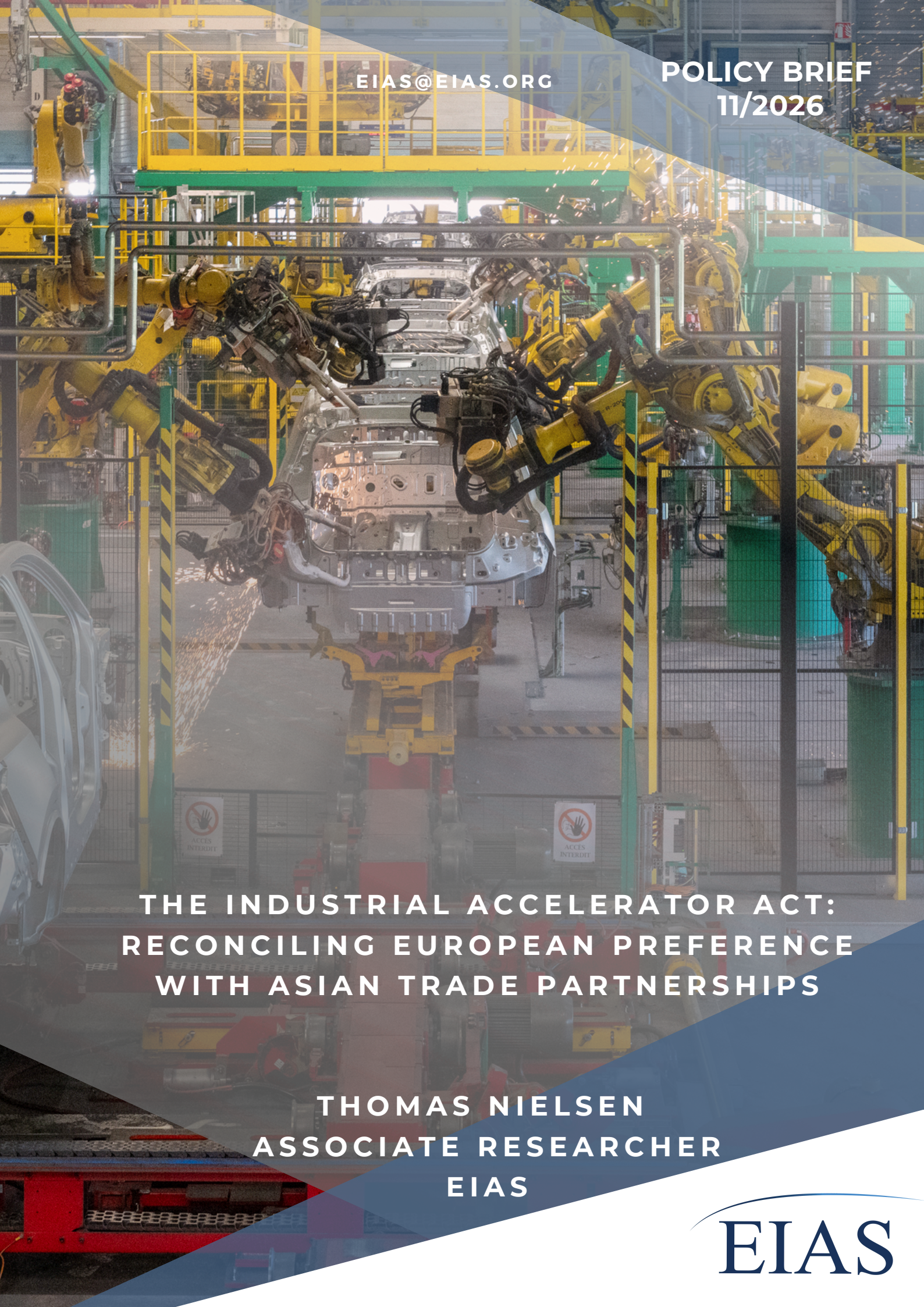


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THE INDUSTRIAL ACCELERATOR ACT: RECONCILING EUROPEAN PREFERENCE WITH ASIAN TRADE PARTNERSHIPS

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The Industrial Accelerator Act: Reconciling European Preference with Asian Trade Partnerships

Within the framework of the Clean Industrial Deal, the European Commission's proposed 2026 Industrial Accelerator Act is set to prioritise public spending towards European production and attach conditions to foreign investment. It sits within a wider push to rebuild manufacturing and technological capability while reducing concentrated dependencies. Yet the EU has also diversified its trade and investment across Asia. How European preference treats those partners will shape the future balance between stronger domestic capacity and the relationships that support Europe's wider economic resilience.

As geopolitical competition intensifies and global trade becomes more contested, the EU is seeking to rebuild industrial capacity at home while broadening its trade and strategic partnerships abroad. The Industrial Accelerator Act (IAA), presented in March 2026, is one of the European Commission's main industrial-policy proposals. It aims to strengthen EU manufacturing in strategic sectors, particularly energy-intensive industries, clean technologies and automotive production, while supporting industrial decarbonisation. The proposal is currently being examined by the European Parliament and Council, where the scope of European preference and its treatment of trading partners remain contested.

The proposal builds on the 2024 Net-Zero Industry Act, which sought to expand Europe's clean-technology manufacturing capacity. The IAA takes this approach further, placing greater emphasis on where industrial production takes place and the value it creates within Europe. This broader focus reflects the pressures facing both Europe's established industries and its clean-technology supply chains.

Production in the EU's energy-intensive industries has fallen by nearly 20% since 2019, while European manufacturers continue to face energy costs above those of major competitors. In clean technology, the imbalance is starker. China accounts for around 85% of solar photovoltaic (PV) and around 80% of lithium-ion battery supply-chain production capacity globally, rising above 90% at some individual stages of the battery value chain. The

EU, meanwhile, relies on Chinese suppliers for 94% of its PV modules and cells. Chinese suppliers' cost advantage has been built through scale, integrated supply chains and sustained industrial support. European policy, by contrast, has been more successful in expanding demand for clean technologies than in developing the manufacturing supply chains needed to produce them at scale. Global solar module prices fell sharply as capacity expanded, making deployment cheaper while European manufacturers struggled to compete.

The European Commission's proposal aims to raise manufacturing's share of EU GDP from 14.3% in 2024 to 20% by 2035. To do so, the IAA combines faster permitting with measures to increase demand for "Made in EU" and low-carbon products. A central channel is public procurement, with spending equivalent to around 15% of EU GDP. The IAA would cover only part of that market, but targeted requirements could still shift demand towards European production. By introducing minimum requirements for the use of qualifying materials and components in public procurement and supported projects, the IAA would incentivise purchasers to favour eligible suppliers. With more predictable demand, the Commission hopes to encourage manufacturers to expand production in Europe or relocate parts of their supply chains. Nevertheless, whether firms make those investments will depend on the wider costs of production in Europe.

From 2029, the IAA would require covered building and infrastructure projects to use minimum shares of low-carbon steel, concrete and aluminium, with different origin criterions for these materials. Under the proposed IAA, steel would face a low-carbon requirement without the same general European Union-origin condition applied to concrete and aluminium. This gives Asian producers of qualifying low-carbon steel a more direct route into covered public projects. For concrete and aluminium, the minimum qualifying shares must also meet Union-origin requirements or receive equivalent treatment under the relevant trade agreements. That distinction could favour low-carbon steel imports from partners such as Japan and South Korea, although drafts put forward by the Irish Council Presidency and European Parliament's co-rapporteurs would extend Union-origin requirements to steel. Stricter origin rules could therefore favour qualifying steel produced at foreign-owned facilities within the EU, such as Tata Steel's IJmuiden works in the Netherlands, over steel imported from Asia. Meanwhile, the Japan Iron and Steel Federation has warned that extending EU-origin requirements to steel could disrupt established supply chains between Japan and European industries, including through steel incorporated into exported vehicles and machinery. The Federation estimates that around 1.7 million tonnes of Japanese steel reaches the EU annually through these products, compared with 700,000 tonnes in direct exports, illustrating how closely the two economies' manufacturing industries are connected.

Electric vehicles face separate requirements covering European final assembly and specified components. The proposal also targets foreign direct investment (FDI) projects worth more than 100 million EUR in batteries, electric vehicles, solar PV and critical raw materials where the investor's home country accounts for more than 40% of global manufacturing capacity in the relevant sector. Covered investments would be assessed against six conditions concerning ownership, joint ventures, technology and intellectual property, research and development (R&D), employment and European sourcing. Investors must meet the employment requirement and at least three of the five remaining conditions. However, the proposal exempts investors and investments covered by relevant commitments under EU economic partnership or free trade agreements.

European Preference and Its Partners

The IAA would operate alongside the established network of EU trade agreements across Asia, part of a wider effort to diversify through rules-based trade. Japan, South Korea, Singapore and Vietnam already have trade agreements in force with the EU. In addition, the European Commission sent the concluded EU–Indonesia Comprehensive Economic Partnership Agreement (CEPA) to the Council in June 2026, while EU–Malaysia free trade agreement (FTA) negotiations completed a fifth round in September. The EU is also continuing FTA negotiations with Thailand and reached substantial agreement with the Philippines in September 2026. Beyond bilateral agreements, Brussels has opened a trade and investment dialogue with Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) members, seeking closer cooperation on trade diversification and supply-chain resilience. These relationships widen the range of countries Europe can source from, invest in and build resilient supply chains with. Diversification is also part of the EU's economic security strategy. The IAA proposal takes these existing trade commitments into account by allowing goods and components originating in third countries to receive Union-equivalent treatment where relevant FTA, customs-union commitments, or WTO Agreement on Government Procurement (GPA) commitments (for covered public procurement) apply.

The European Council has backed a "targeted and proportionate European preference", although Member States remain divided over how far it should extend beyond the Union. France has sought to direct more public demand towards production inside the EU, while Germany's "Made with Europe" approach reflects concerns that restrictive origin rules could disrupt established international manufacturing supply chains. Spain has proposed a more graduated approach, allowing treatment to vary between sectors. More Member States now appear to favour recognising European Economic Area (EEA) countries and partners covered

by relevant EU trade or procurement commitments from the outset, subject to reciprocity or negotiated trade agreements. For Asian companies already manufacturing in Europe, the distinction between where a product is made and who owns the manufacturer is particularly important, although separate conditions may still apply to qualifying foreign investments.

A Franco-German agreement over the automotive industry shows how narrowly European preference might still be drawn. Germany accepted tighter European-content requirements in exchange for French flexibility on vehicle emissions rules. Their proposed automotive framework would extend preferential treatment to the EEA, Switzerland and the United Kingdom, subject to association agreements, reciprocity and anti-circumvention conditions, but not to Japan or South Korea. The compromise therefore favours Europe's closely integrated neighbouring markets rather than extending the same treatment to all FTA partners. Although Japan and South Korea's trade agreements protect certain procurement rights, they do not guarantee eligibility for new European-origin incentives. The European Commission's original proposal, by contrast, would recognise qualifying FTA-partner content as equivalent to EU origin where relevant commitments apply. France and Germany have also proposed moving the automotive provisions into the separate Automotive Package, although that proposal has yet to secure wider support among Member States.

The European Parliament's three co-rapporteurs have proposed a more restrictive "opt-in" approach than the European Commission, starting from EU origin. While the Commission would recognise partner-country content under relevant trade and procurement commitments, the co-rapporteurs would preserve the access guaranteed by those agreements but make broader equivalence conditional on meeting all seven criteria. These include reciprocity, economic security, labour and climate standards, and safeguards against circumvention. The approach remains contested, with more than 5,000 amendments tabled in October 2026, including competing proposals within the European People's Party (EPP). Three EPP lawmakers have also proposed rejecting the IAA outright, warning that its restrictions could undermine existing trade agreements and provoke retaliation. Others favour allowing countries covered by EU trade or procurement agreements to qualify initially, but would require them to demonstrate reciprocity within a year. For Asian partners, the outcome will determine which products from their established supply chains can qualify as equivalent to EU origin beyond the access already protected by existing agreements.

The co-rapporteurs' draft would also tighten the foreign investment rules. It would lower the investment threshold from 100 million EUR to 50 million EUR and the ownership threshold

for notification from 30% to 10%, while requiring covered investors to meet all six conditions rather than four. The lower threshold remains contested, with some EPP lawmakers favouring the Commission's original proposal. The European Commission's main concern is that foreign investment can expand production in Europe without necessarily bringing the associated technology, R&D or supplier networks with it. The question is how to secure these wider industrial benefits without discouraging foreign investment in the EU.

What the IAA Would Mean for Asian Partners

Japanese and South Korean firms already manufacture at substantial scale in Europe. In 2024, Japanese carmakers produced around 616,000 vehicles in the EU and purchased 13.8 billion EUR of EU-made parts. Corporate cars account for roughly 60% of new EU car registrations, making them an important source of demand for electric vehicles and batteries that could be influenced by the IAA's origin requirements.

For those firms, FTA status or GPA membership does not by itself make every product equivalent to EU origin, as treatment depends on whether the relevant agreement covers the product and public measure concerned. Korean legal analysis has highlighted that EU reservations in utilities procurement could leave some grid equipment, energy storage systems and renewable-energy products outside equivalent treatment despite Korea's FTA and GPA status. Seoul has also raised related concerns directly with Parliament, asking that Korea's status as a trusted partner, its investment in Europe and its contribution to European supply chains be taken into account.

Korean plants in Europe are already well placed as the origin requirements move deeper into the supply chain. In 2024, Korean manufacturers accounted for around 82% of the EU's 188 GWh of installed battery-cell capacity. Japanese battery producers have no comparable large-scale cell-manufacturing footprint in the EU, making the origin requirements a more sizeable adjustment and investment challenge for their European supply chains. This comes as Tokyo is also targeting 150 GWh of domestic battery capacity and wants Japanese companies to triple their global battery-related sales by 2035, placing competing demands on the investment available to expand production in both Japan and Europe. A durable EU–Japan relationship will therefore need to accommodate both partners' ambitions to strengthen their own industrial capacity while continuing to build more resilient supply chains together. The Japan Business Council in Europe (JBCE) makes the case for that cooperation through its "Made with Common Values" proposal, arguing that established

partner supply chains should continue to count even where not every stage of production is located inside the EU.

The IAA's investment rules create a sharper distinction among Asian investors as the trigger depends on whether an investor's home country accounts for more than 40% of global manufacturing capacity in batteries, electric vehicles, solar PV or the extraction, processing and recycling of critical raw materials. Singapore is the largest Asian investor in the EU and has a well-functioning FTA with the Union in place, but the trigger measures manufacturing concentration rather than investment volume. On that measure, China is the only country that meets the trigger in all four. It also remains outside the GPA's reciprocal procurement framework, with its accession negotiations still pending. Beijing has responded by describing the provisions as discriminatory investment barriers, objecting to the technology-transfer and local-content requirements and warning that it could take countermeasures if Chinese firms are harmed.

Even as negotiations continue, Chinese carmakers are expanding production in Europe. Changan aims to establish an annual European production capacity of 350,000 vehicles by 2030, while Magna already produces vehicles for Xpeng in Austria. The expansion reflects the attraction of the European market as well as changing trade and industrial rules. Local production could help meet origin requirements, but it would not necessarily change where technology or key components come from, while qualifying investments would still face separate IAA conditions.

Chinese-origin capital accounted for 84% of Southeast Asian solar-manufacturing investment between 2018 and early 2026. Malaysia is one of the region's main solar manufacturing hubs, making the structure of those supply chains increasingly relevant under the co-rapporteurs' anti-circumvention approach. Their draft would also seek to prevent circumvention through re-exports or subsidiaries. Given the scale of Chinese investment in the region, how production and supply chains are organised would become increasingly important elements.

While solar raises questions over how supply chains are organised, aluminium illustrates a different problem. Meeting the EU's carbon standard would not necessarily be enough to satisfy its origin requirements. Press Metal has 1.08 million tonnes of annual smelting capacity, while its GEM low-carbon aluminium series records Scope 1 and 2 emissions below 4 tonnes of CO_2e per tonne. From 2029, the IAA would require at least 25% of aluminium used in covered procurement and support schemes to be both low-carbon and Union-origin. Even if Malaysian aluminium meets the IAA's eventual low-carbon standard, it could still fall

outside the qualifying origin share. An eventual FTA could change that, where related commitments would apply.

Vietnam's trade agreement with the EU already includes government procurement commitments, giving its suppliers a route to equivalent treatment where the relevant product and measure are covered. Vietnam exported 285 million USD of steel wind towers to the EU in 2025, accounting for 4.8% of EU imports of comparable products. Around 60% of EU wind deployment is allocated through auctions, depending on the year. Under the proposed IAA, covered wind projects would need one main component of EU origin after one year and two components after three years, with towers being among the components that can count towards such a requirement. Vietnamese towers would remain able to enter the European market, although projects covered by the IAA would have a new incentive to source qualifying components inside the EU. Under the co-rapporteurs' proposal, broader EU-origin equivalence for Vietnamese solar products beyond access protected by the FTA would depend on Vietnam meeting the proposed conditions, including safeguards against circumvention through re-exports or subsidiaries.

Further upstream, Europe's battery industry will continue to need materials and processing outside the Union. Indonesia dominates global nickel supply and is now trying to expand from extraction into precursors, cathode materials and other higher-value stages of battery production. Its planned anode active material capacity exceeds that of either Japan or South Korea, while Chinese capital and technology remain important across its nickel-processing industry. More battery manufacturing in Europe could increase demand for Indonesian inputs. The IAA's origin rules also move into battery cells and cathode active material, increasing the incentive to locate some of the higher-value stages Jakarta wants to build at home inside Europe.

For most of the EU's Asian partners, the IAA would first be felt through investment and sourcing decisions. For investments subject to the IAA's foreign investment provisions, approval would depend on commitments to European employment and additional conditions relating to ownership, technology, R&D or sourcing. Procurement and origin rules would operate differently, influencing which suppliers manufacturers and project developers choose and potentially encouraging Asian firms to move component production closer to their European customers. Firms with production already inside the EU may be better placed to meet the new requirements, depending on the origin of their components, while exporters will face stronger incentives to move more manufacturing and supplier activity into Europe. FTA and GPA coverage can preserve access in some areas, while the

rules could still make European production more valuable. Over time, that can shape where new factories, components, R&D and supplier contracts are placed.

Japan and South Korea are pursuing similar capacity-building at home, meaning European localisation will compete for some of the same capital and industrial investment. The EU is therefore trying to draw more production from the same partners it increasingly relies on to diversify its supply chains.

European preference also leaves some of the industry's underlying difficulties unresolved. In 2025, electricity prices for energy-intensive industries in the EU were roughly twice those in the US and more than 50% higher than in China and India. Faster permitting could help attract investment, but stricter sourcing and certification requirements risk adding costs for European manufacturers that still depend on imported materials and components. In trying to support European production, the IAA could therefore make some of that production more expensive unless these wider disadvantages are also addressed.

Localisation and Diversification

A factory can move into the EU while technology, processing and upstream supply remain elsewhere. Sourcing an input from several partner countries can also reduce concentration while production remains outside the EU. A comparison of 27 local-content cases in wind and solar found that local-content requirements were effective at fostering domestic industries when they were not too restrictive or when related industries already existed. JBCE's "Made with Common Values" proposal rests on a similar argument: an established partner supply chain can still support European industry without every production stage moving inside the Union. The International Energy Agency (IEA) estimates that Southeast Asia could, in principle, produce polysilicon and wafers at costs comparable with China, with some of that production capacity already in place.

Competitive production in Southeast Asia would not automatically satisfy the IAA's origin requirements for publicly supported projects in Europe. The European Parliament's co-rapporteurs have proposed reviewing the customs rule on "last substantial transformation", with the aim of introducing a minimum 50% European added-value requirement for covered products and components. If such a requirement were introduced, it could push Asian manufacturers assembling in Europe to undertake more value-creating production within the Union. The Irish Council Presidency's October compromise would continue to recognise qualifying goods from EU trading partners, distinguishing between public procurement, where GPA commitments may apply, and other public support, where

relevant FTA or customs-union commitments would determine eligibility. It would also allow exclusions for particular products where reciprocity or security of supply is at risk.

Overall, the IAA is part of a wider EU effort to strengthen competitiveness by rebuilding industrial and technological capability in Europe and reducing concentrated dependencies. Brussels has also pursued greater resilience through diversified trade and investment across Asia, often through agreements built on reciprocal market access. How far European preference should extend to those partners, and on what terms, remains contested across the EU institutions. The eventual compromise will influence where firms invest and source their components, and how Europe's industrial ambitions affect the Asian partnerships it has built to diversify its supply chains.

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