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The EU's Industrial Accelerator Act and the Limits of Strategic Protection



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Abstract

The European Commission's proposed Industrial Accelerator Act (IAA) marks a significant shift toward a more interventionist industrial policy. This Brief examines the IAA mechanisms intended to reduce Europe's dependence on China in the battery and electric vehicle (EV) sectors (the IAA's coverage of sectors such as cement and steel is not addressed). Although the objective of strengthening Europe's industrial base is understandable, the proposed measures are unlikely to achieve that objective. Origin requirements and foreign investment screening are weakened by broad exemptions for free-trade partners, while thresholds based on price differentials between European and Chinese production are too low to incentivize private investment in Europe. By underestimating the scale of China's competitive advantages and paying insufficient attention to global market conditions, the IAA risks raising prices within the EU without delivering meaningful strategic gains.

Tiivistelmä

EU:n esitys teollisuuden vauhdittamisesta ja strategisen suojelun rajat

Euroopan komission esitys teollisuuden vauhdittamista koskevaksi asetukseksi (Industrial Accelerator Act, IAA) merkitsee siirtymää kohti interventiohakuisempaa teollisuuspolitiikkaa. Tässä muistiossa tarkastellaan esityksen mekanismeja, joilla pyritään vähentämään Euroopan riippuvuutta Kiinasta akku- ja sähköautosektoreilla. Tarkastelun ulkopuolelle jäävät asetusehdotuksen vaikutukset esimerkiksi sementti- ja terästeollisuuteen. Vaikka tavoite Euroopan teollisen perustan vahvistamisesta on ymmärrettävä, ehdotetut toimenpiteet eivät todennäköisesti tuota tavoiteltuja tuloksia. Alkuperävaatimusten ja ulkomaisten investointien seulonnan vaikuttavuutta vähentävät vapaakauppakumppaneille myönnetyt laajat poikkeukset. Euroopan ja Kiinan tuotantokustannusten eroihin perustuvat kynnysarvot puolestaan ovat liian matalia kannustamaan yksityisiä investointeja Eurooppaan. Asetusehdotus aliarvioi Kiinan kilpailuetujen laajuuden eikä ota riittävästi huomioon globaaleja markkinaolosuhteita. Tämän vuoksi se uhkaa nostaa hintoja EU:ssa ilman merkittäviä strategisia hyötyjä.

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Ph.D. (Econ.) **Petri Rouvinen** on Elinkeinoelämän tutkimuslaitoksen tutkimusneuvonantaja ja Suomen itsenäisyyden juhlarahaston Sitran vanhempi neuvonantaja.

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Keywords: Industrial Accelerator Act, Geoeconomics, Battery Supply Chain, Electric Vehicles, China, European Union

Avainsanat: Teollisuuden vauhdittamissäädös, Geotalous, Akkujen toimitusketjut, Sähköautot, Kiina, Euroopan unioni

JEL: F13, F52, L52, L62, O38

Introduction

Professor **Martin Kenney** (University of California, Davis) makes a bold statement in the title of his ETLA Brief: "Batteries, not AI, will define the next geoeconomic era" (Kenney, 2026b, p. 1; see also Kenney, 2026a and Martin's interview in *Helsingin Sanomat*, Raeste, 4 October 2026). His subtitle, "Chinese dominance and the Western response," highlights the central geopolitical tension in the global battery supply chain.

In this companion Brief, I take Martin's proposition as my starting point. His analysis of China's rise and its implications is not repeated here; the reader is encouraged to read that Brief before delving into this one.

Following Martin's lead, I assume that **batteries** are the foundational technology defining the next global techno-economic paradigm. The core reality is that batteries will not only dominate transportation in all its forms, but also on- and off-grid energy storage. Beyond petrochemicals, this transition will heavily affect seemingly unrelated industrial materials, such as sulfur and helium.

Through decades of conscious, state direction-setting initiatives, China has achieved a dominant position in the global battery supply chain. China's central and regional governments provided extensive and sustained, but evolving, subsidies. These subsidies were designed to build knowledge, support entrepreneurial activity, encourage investment, and spur competition while discouraging a focus on high short-term profits.

Consequently, China now controls key mineral inputs, refining, and production, while also leading the world in battery innovation (Bielewski et al., 2026). In several domains, most notably electric vehicles, China possesses the largest and most fiercely competitive domestic market in the world. The cost, scale, and strategic advantages enjoyed by Chinese producers are sizable and continue to grow (Bernhart et al., 2025). If long-lasting market lock-ins have not yet emerged, they soon will.

Europe is panicking – and rightly so. Currently, it lacks a viable geoeconomic answer to China's rising dominance. The European Commission's (EC, 2026b) proposed Industrial Accelerator Act (IAA), published in March 2026, represents an urgent effort to formulate that answer.

The European Union has historically championed privately led, competitive, open markets; the IAA marks a significant departure from this stance. At heart, the IAA is a (protectionist; see García Bercero et al., 2026) regulatory wall specifically designed to stop a superior (and unfair; see Bickenbach et al., 2024) competitor.

The Act is motivated by broad competitiveness concerns, the urgency of advancing decarbonization, and the perceived necessity of strategic autonomy. Ultimately, it is also a bid to save all European industries built around the internal combustion engine, the most important of which is the auto industry.

Scope

The stated overarching objective of the IAA is for the EU to raise the share of manufacturing in GDP to 20%. However, critics have rightly pointed out that this flat 20% target lacks a sound economic rationale and risks distorting efficient resource allocation across the broader economy.

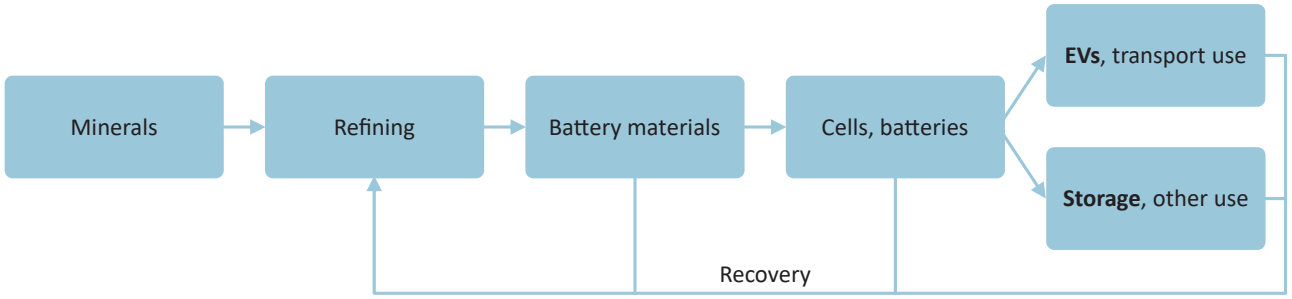
While the IAA covers a broad spectrum of industries, this Brief focuses solely on aspects directly related to the battery supply chain illustrated in Figure 1. The IAA intervenes in this chain with the aim of establishing an EU-based and EU-owned (both terms carry heavy caveats) ecosystem via four primary instruments:

1. EU origin requirements,
2. FDI screening,
3. faster permitting, and
4. cluster development.

Of these four pillars, this Brief analyzes the first two, as the latter two currently remain too vague for rigorous analytical discussion.

Martin's companion Brief (Kenney, 2026b) addresses the issue of battery chemistries, particularly sodium, which is not discussed in this brief.

Figure 1 Battery supply chain



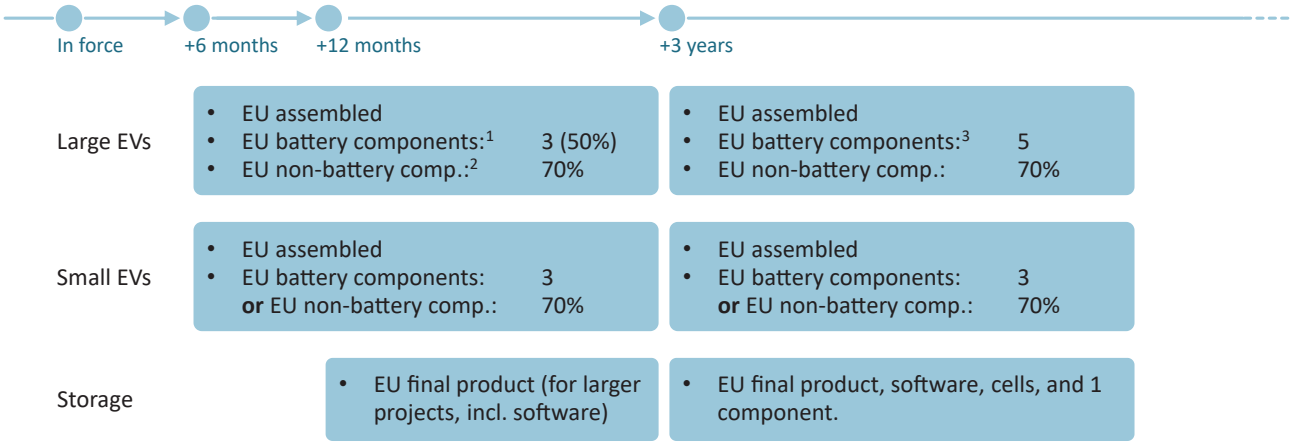
Source: The author's illustration.

IAA: Origin requirements

Within the scope of this Brief, the IAA covers electric vehicles (EVs) and batteries that are either publicly procured or benefit from public subsidies.[1] Specifically, the IAA imposes mandatory origin requirements on these products when their procurement or purchase benefits from public support.

To be eligible for such support, EVs and batteries must meet specific local-content conditions (Figure 2). Generally, both EVs and storage batteries must undergo final production within the EU. As a rule of thumb, qualifying EVs must derive approximately 70% of their final value from EU-sourced inputs. These conditions apply not only to the final stages of the supply chain (cell production and assembly) but also apply to earlier component-production stages. Only the initial mineral extraction stage and the final materials recovery stage are not explicitly bound by the IAA's origin requirements. However, the IAA operates within a dense network of complementary EU policies (Box 1), such as the Critical Raw Materials Act, which governs mineral extraction, and the Batteries Regulation, which dictates battery life cycles and reuse and recycling requirements. The related frameworks also include the Procurement Directive proposed in September 2026 – better known as the Public Procurement Act (PPA) –, which is intended to guide public authorities' procurement across member states. To be effective,

Figure 2 The IAA's requirements for EVs/batteries that are either publicly procured or receive public subsidies



1. Includes cells. 2. The threshold for main electronic systems is 50%. 3. Includes cells, cathode active material, and battery-management systems.

Source: The author's illustration based on the proposal by the European Commission.

the IAA must achieve legislative coherence with these related frameworks, including the Net-Zero Industry Act (NZIA) and the Ecodesign for Sustainable Products Regulation (ESPR).

Box 1: Some EU policies related to the IAA

Automotive Package: Sweeping policy package to support European EVs. Directs public funding toward battery supply chains (**Battery Booster**) and promotes the use of local components.

Batteries Regulation: Governs the life cycles of batteries with conditions and quotas on reuse and recycling. Aims for the use of locally recovered rather than virgin materials.

Carbon Border Adjustment Mechanism: To support the competitiveness of EU-based industries, imposes a carbon price on emissions-intensive imports from outside the EU.

Clean Industrial Deal: Policy framework aiming to turn decarbonization into a source of competitiveness by lowering energy costs and boosting green demand.

CO_2 Emission Performance Standards: Sets progressively stricter carbon dioxide emissions limits for vehicles.

Competitiveness Compass: The European Commission's strategic roadmap that emphasizes European EV production and raw materials supply.

Corporate Sustainability Due Diligence Directive: Requires large European companies to mitigate adverse environmental impacts in their global supply chains.

Critical Raw Materials Act: Aims to secure the EU's access to vital minerals, such as lithium and cobalt, by setting European extraction, processing, and recycling benchmarks.

Ecodesign for Sustainable Products Regulation: Minimum sustainability, durability, and circularity requirements for physical goods sold in the EU.

Emissions Trading System: Caps industrial emissions and forces companies to purchase allowances.

End-of-Life Vehicles Regulation: Mandates circular vehicle design and sets quotas for materials recovery.

European Economic Security Strategy: Aims to reduce the risks associated with the EU's economic interdependencies by balancing open trade with protective measures.

FDI Screening Regulation: Allows member states to block foreign direct investment that threatens security or public order.

Foreign Subsidies Regulation: Empowers the Commission to address market distortions caused by non-EU government subsidies.

Innovation Fund: Supports the commercial demonstration of low-carbon technologies.

Net-Zero Industry Act: Aims to scale up the EU's production capacity for clean technologies through accelerated permitting and nonprice procurement criteria.

Public Procurement Act: Proposed by the Commission in September 2026 to replace existing procurement directives. Governs public authorities' procurement and imposes origin requirements.

Waste Shipments Regulation: Restricts the export of valuable waste and bans the shipping of hazardous battery recycling intermediates to non-OECD countries.

Source: The author's compilation based on European Commission materials.

IAA: Investment screening

The IAA's foreign direct investment (FDI) screening mechanisms act as an additional layer on top of the established national security screening frameworks. This new layer covers both greenfield investments and foreign acquisitions that attempt to qualify as "EU-origin" under the rules (Figure 2).

This targeted screening is triggered only if three specific conditions are met:

- The investment originates from a country controlling over 40% of global production capacity, which effectively targets **China**.
- The size of the investment exceeds **100 million euros**.
- The investment results in a controlling **stake of more than 30**% in the target.

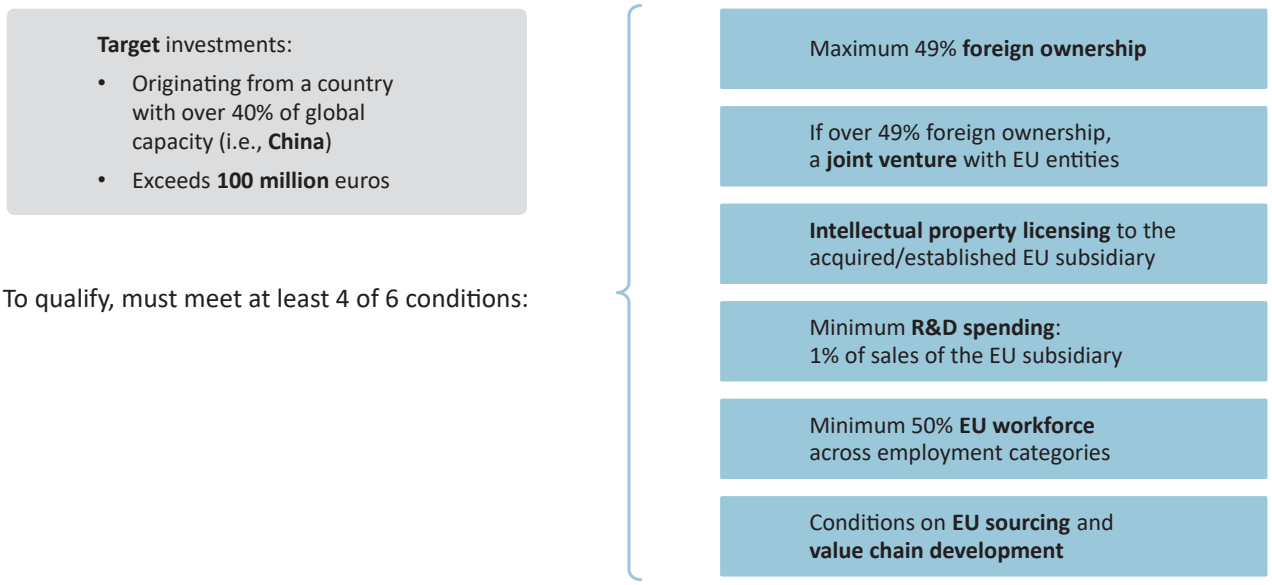
Investments that wish to qualify for public support under the IAA, and which meet these three triggering conditions, must satisfy at least four of the six criteria listed in Figure 3. As Jayanthan (2026) points out, the EU is essentially adopting the same logic China has used for decades to boost its domestic industrial development: trading market access for technology transfer.

IAA: Implementation issues

As Jäger and Redeker (2026) correctly note, the actual impact of the IAA hinges on three factors: (1) the total volume of demand covered by the Act, (2) the stringency of the local-content requirements, and (3) the volume of existing European production that already meets these criteria.

They conclude that the proposal might shape only a fraction of total demand and thus risks being a "paradigm shift in principle but a paper tiger in practice," as broad exemptions could leave implementation entirely at the discretion of individual member states. This limited impact is likely in sectors such as cement and steel. However, the EU-based EV and battery supply chains are potentially substantially influenced. According to the European Commission's own estimates (EC, 2026a), approximately 70% of the internal EV market benefits from some kind of public support; Jäger and Redeker (2026) put

Figure 3 The IAA's additional screening requirements for sizable Chinese investments that wish to qualify



Source: The author's illustration based on the proposal by the European Commission.

this share at roughly 80%. As the EV market matures and public budgets face mounting fiscal pressure, this subsidized share of the market is likely to shrink over time.

Furthermore, the IAA's local-content requirement is fundamentally "leaky." Due to the WTO's Government Procurement Agreement (GPA) and the EU's own Free Trade Agreements (FTAs), EU-equivalent origin status is extended to roughly 70 countries (EBRD, 2026). This list includes battery-industry heavyweights like Japan and South Korea, as well as lower-cost manufacturing hubs like Morocco and Türkiye. It remains unclear how the IAA would regulate, for example, a Chinese-owned production facility operating in Morocco, or whether reciprocal market access will be enforced (in which case EU products would likewise be eligible in the corresponding country).

A further issue is the IAA's cost exemption: EU member states are not required to apply the IAA's rules if the cost difference between qualified EU supply and extra-EU supply is deemed "excessive," defined by thresholds ranging from 20% to 30%. Details on calculating these thresholds are scarce. While such a price premium seems steep, the EU already applies tariffs on Chinese EVs: 17% on BYD vehicles, 18.8% on Geely vehicles, more than 35% on SAIC vehicles, and 9% on Tesla vehicles made in China (Arak, 2026). Current data suggest that the baseline cost differences between China and the EU may already frequently exceed the IAA's maximum thresholds (see, e.g., Figure 5), potentially rendering the protective measure ineffective in practice.

Global supply realities

To assess the IAA's adequacy, one must understand China's entrenched role in the global battery/EV supply chain.

In terms of geography, China does not directly dominate the **minerals** stage of the supply chain in Figure 1, apart from natural graphite, of which 80% is mined in China (IEA, 2026a, p. 117). However, as IEA (2026a, p. 90) notes, "*Between 2018 and 2023, the country poured over USD 98 billion in upstream investment across copper, nickel, lithium, cobalt, niobium and other minerals in nearly 20 countries. The pace has since accelerated. Chinese firms deployed an estimated USD 120 billion in outbound mining investment from 2023 to 2025.*" Thus, China exercises considerable control over deposits outside the country through direct ownership or purchasing agreements. Nevertheless, Chile for copper, Australia for lithium, Indonesia for nickel, and the Democratic Republic of the Congo for cobalt are the leading producer countries globally.

Figure 4 shows the top country's share of **refining** of battery minerals (as defined by IEA) in 2025 and the International Energy Agency's (IEA) estimates for the shares in 2035. Except for nickel, for which Indonesia leads, the top country is China. China accounts for at least three-quarters of global battery-mineral refining, a reality expected to change only modestly over the next decade.

Figure 5 reveals why building new refining capacity outside of China is privately unattractive, even with sizable local subsidies. For example, capital costs for battery-grade graphite facilities in the rest of the world are more than double those in China.

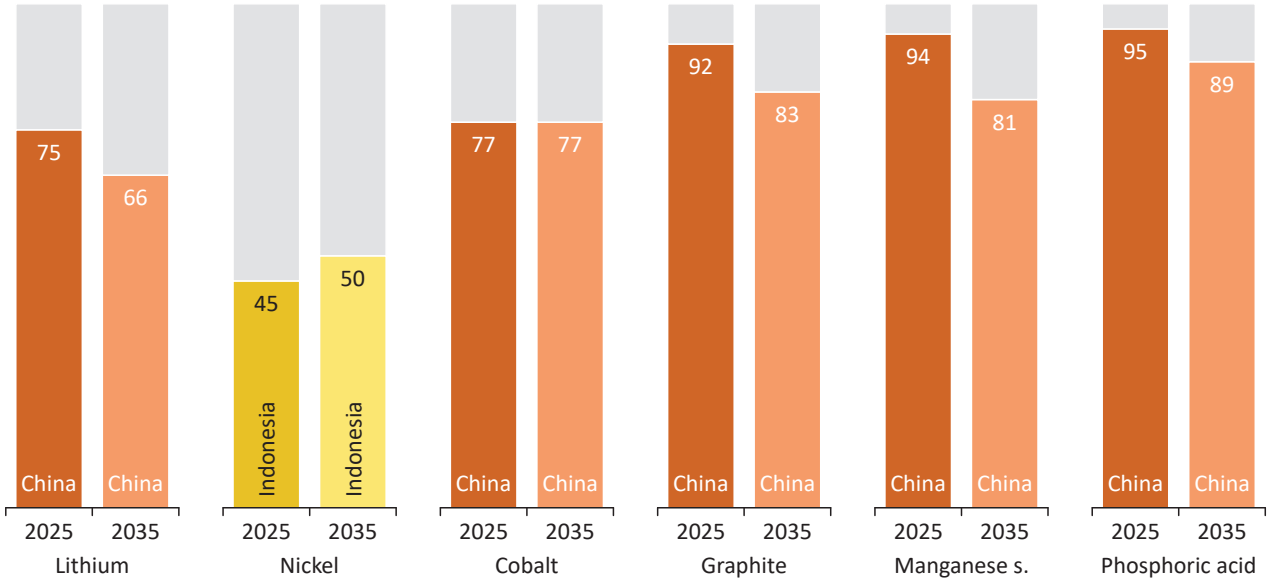
Figure 6 suggests that, while the EU has some strengths – such as electrolytes – its role in **battery materials** is modest.

Currently, 80% of battery **cell** production takes place in China (Figure 7a). Global demand for batteries is expected to triple in a decade (Figure 7b).

China represents over 70% of the global **EV** market. Since Chinese manufacturers dominate their domestic market and are quite strong elsewhere in the world, some 71% of global EV production is by companies headquartered in China (Figure 8a). Companies with headquarters in the EU nevertheless command three-quarters of the EU market (Figure 8b; EU-headquartered companies are about 20% of the US market, where Chinese manufacturers are excluded (not shown; calculated from the cited source).

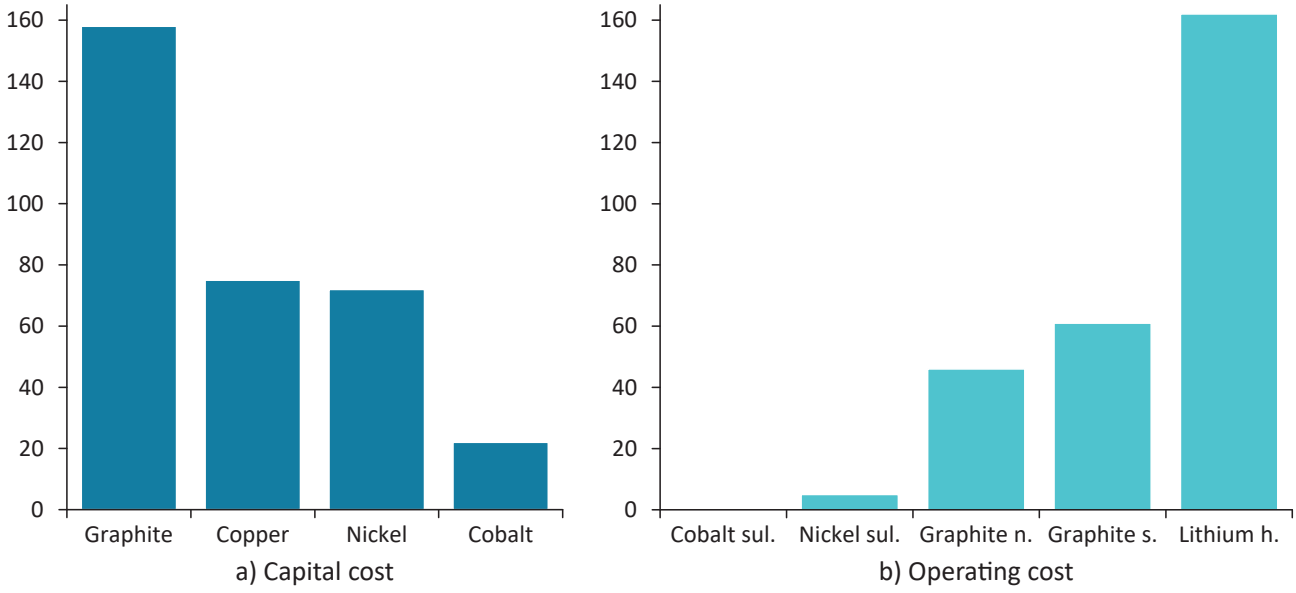
Finally, while material recovery and the circular economy theoretically offer the EU a way to bypass mineral dependencies, this potential is currently unrealized, as China also dominates the pre-treatment (Figure 9a) and material recovery (Figure 9b) of battery waste.

Figure 4 **Top country's share of battery mineral refining, %**



Source: IEA (2026a, pp. 118, 187, 190). Both graphite and manganese s. (sulphate) refer to battery grade. Phosphoric acid refers to purified.

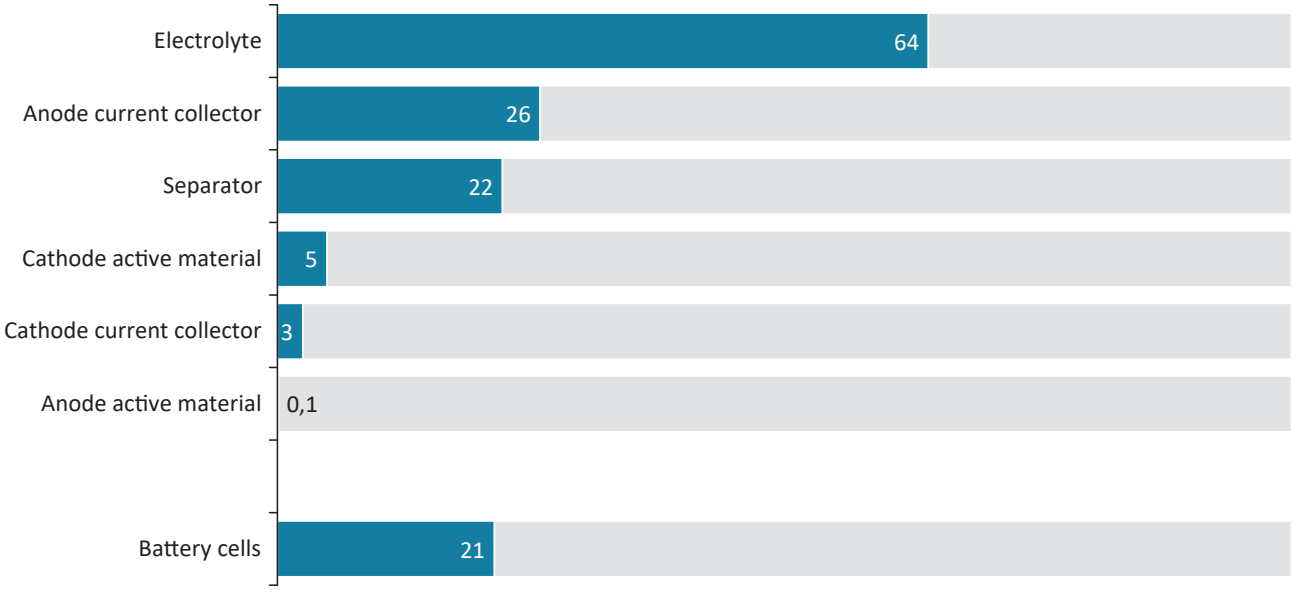
Figure 5 **Costs in the rest of the world compared to the dominant country, %**



In (a), the dominant country is Indonesia for nickel and China for all others. In panel (a), graphite is battery-grade.
In (b): sul. refers to sulphate, n. to natural, s. to synthetic, and h. to hydroxide. For similar additional estimates, see Bernhart et al. (2025).

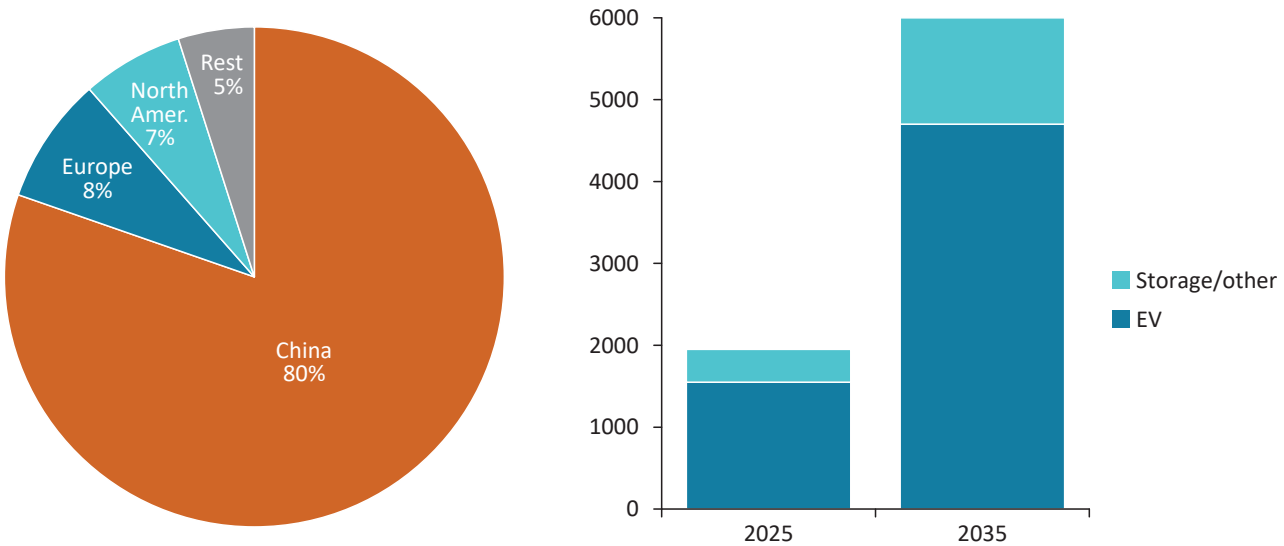
Source: IEA (2026a, pp. 263, 264).

Figure 6 Share of EU demand covered by EU supply in 2030, %



Source: Bielewski et al. (2026, Table 12).

Figure 7 Global battery cell production locations and estimated battery market size

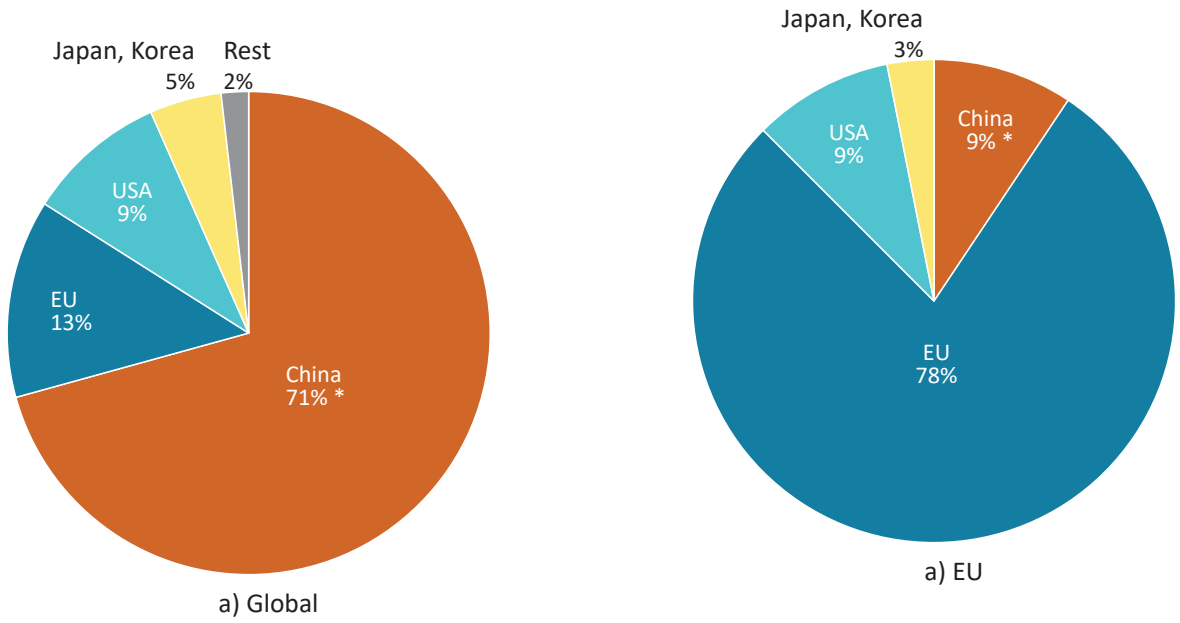


a) Cell production location

b) Global battery market, GWh

Source: IEA (2026a, Figure 7.10) for (a) and Bielewski et al. (2026, Figure 56) for (b).

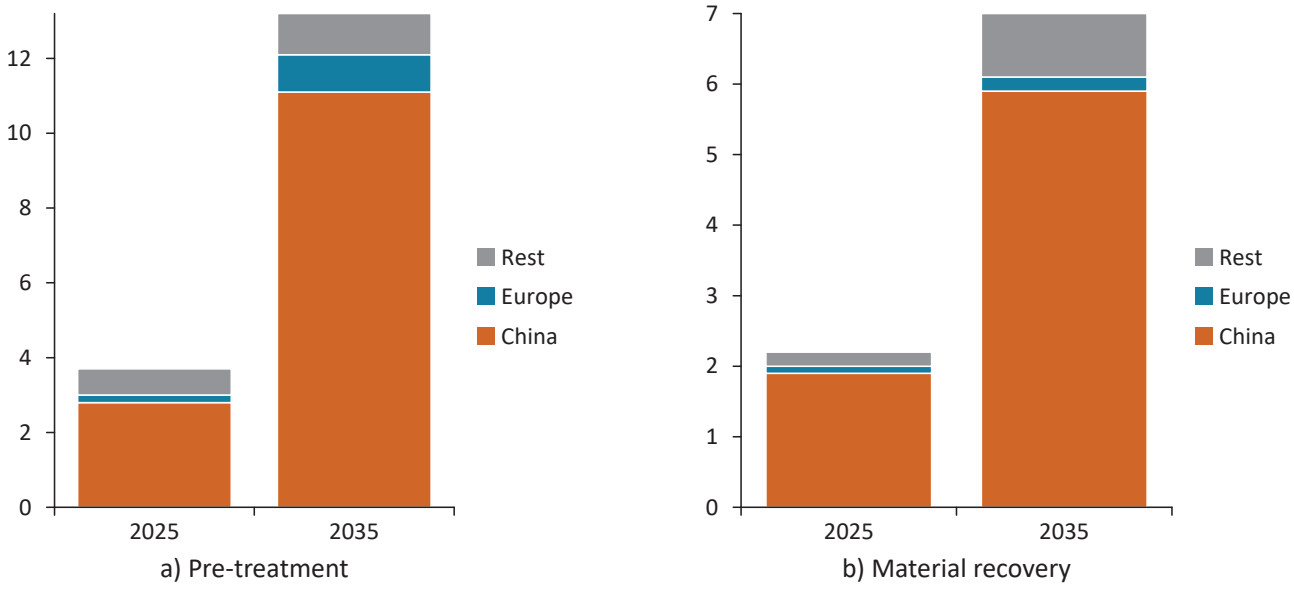
Figure 8 EV production in 2025 by manufacturers' headquarters location, %



* China includes joint ventures in China.

Source: IEA (2026b; data extracted from Figure 7.1).

Figure 9 Geography of battery-recycling capacities, millions of tons



Source: IEA (2026a, p. 69).

Discussion

In its proposed form (EC, 2026b), the IAA attempts to establish a large, protected intra-EU market for qualified EVs and batteries – a market in which demand cannot easily be met by foreseeable domestic supply.

However, two structural features undermine the intended market impact. First, the origin requirements are diluted by the inclusion of over 70 extra-EU countries, many of which operate at significantly lower costs. Second, the 20% to 30% price-difference threshold is insufficient to bridge the structural cost gap between the EU and China, and therefore fails to encourage the necessary private investment in Europe.

The IAA will raise the prices of the affected goods within the EU. These premiums must ultimately be absorbed by supply chain participants, public bodies, and Europeans – as both customers and taxpayers. The European Commission justifies these price premiums by assuming the IAA will give EU producers time to become globally competitive in both technology and price. This is an optimistic assumption that cannot be taken for granted. Furthermore, it implicitly assumes that China will not deploy countermeasures, a dangerous miscalculation, as Beijing arguably initiated retaliatory supply chain "armour plating" as early as April 2026 (Herrero, 2026).

With sufficient political unity, the EU could force the IAA into effect. The pressing question is whether Europe should be willing to pay the economic price it entails. In its current iteration, the IAA appears insufficiently informed by operational realities and global competitive dynamics. While the EU must undoubtedly confront Chinese dominance in EVs and batteries, it is difficult to make a credible economic case for the Industrial Accelerator Act in its proposed form.

Endnote

[1] In the context of the IAA, these include corporate-fleet compliance frameworks, emissions supercredits, and consumer subsidy schemes.

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