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EU Commission Proposes Buy European, Invest European Rules

The Industrial Accelerator Act proposes new “Union-origin” quotas for public procurement and public support schemes, plus new FDI conditions on ex-EU investment

Overview of the IAA proposal

On 4 March 2026, the European Commission adopted its [proposal](#) for the Industrial Accelerator Act (“IAA”), as trailed by President von der Leyen in her 2025 State of the Union address, to boost demand for clean and “Made in EU” products and, in turn, strengthen economic resilience and accelerating decarbonisation. This is not final legislation: the proposal kicks off the EU legislative process. The European Parliament and Council (comprising Member State ministers) must accept the contents before it becomes law – which is not expected before mid-late 2027 at the earliest. The Commission has also published its industrial maritime and ports strategies with aligned objectives for those sectors.

The EU’s overarching objective remains “open strategic autonomy”. However, the proposed IAA will mandate EU-origin requirements in public procurement and public support schemes in specified strategic sectors in order to boost demand for EU products, driving growth in those EU manufacturing sectors. In certain sectors, it will exclude access to public procurement for economic operators from third countries where there is no international agreement guaranteeing access. It will also introduce new FDI controls on ex-EU investment from some countries into core sustainability sectors to ensure such investment grows the EU industrial base. Industrial manufacturing acceleration zones with preferential conditions are provided for, and industrial project permitting will be streamlined.

The sectors targeted by the IAA are very focused in scope, only accounting for around 15% of EU manufacturing production (which in total only accounts for 14.3% of EU GDP). However, the implications and associated costs for businesses are likely to be more far reaching.

The geopolitical drivers behind this legislation are significant and pressing (concerns over the “weaponisation” of trading dependencies are referred to twice within the first paragraphs of the explanatory memorandum), but many aspects are expected to be controversial both between the EU institutions and with Member States. Material changes to the Commission’s proposal cannot, therefore, be ruled out.

Key takeaways

EU preference and green requirements in procurement

- The IAA introduces mandatory “Union origin” and low carbon quotas for public procurement and public support schemes in strategic sectors, including the energy-intensive steel, cement and aluminium sectors (which have seen anti-dumping duties imposed on Chinese imports), the automotive sector and net-zero technologies. The IAA aims to leverage public purchasing power and support schemes to boost demand for EU-sourced and low-carbon goods.

- The IAA will also exclude tenders in these strategic sectors from suppliers owned or controlled by an ex-EU entity, unless the entity is from a jurisdiction with an international agreement with the EU that guarantees access to public procurement processes.
- “Union-origin” status will be given to suppliers from countries with which the EU has agreed a free trade area or a customs union (or which are parties to the Agreement on Government Procurement where relevant) for public procurement and public support schemes. This can be withdrawn by the Commission if the third country has not complied with the relevant agreement, where dependencies might threaten EU security of supply, or for other exceptional reasons. This was a last minute change to the proposed IAA and the exclusion or inclusion of ex-EU suppliers in EU procurement is likely to remain a point of contention through the legislative process – not least because of the lack of consensus on this issue between Member States.

Blanket FDI conditions on foreign investment in focused sectors

- New pan-EU conditions on foreign investment are introduced, to apply in addition to existing Member State FDI regimes:
 - ◆ The IAA regime will apply to investments (including greenfield investments) over EUR 100 million in **battery technologies and the related supply chain, electric vehicles, solar photovoltaic technologies; and extraction, processing and recycling of critical raw materials**, but only for investors from third countries with more than 40% of global manufacturing capacity in those sectors – commentators have noted that only China currently meets this threshold in the specified sectors.
 - ◆ Investments which result in ownership of at least 30% of the shares voting rights of an EU target or of an EU asset will trigger a mandatory prior notification requirement. Clearance will be conditional on compliance with at least four of six preset conditions, including a 49% cap on foreign investor ownership, obligatory investment through a joint venture with EU partners (and a 49% shareholding cap), IP licensing arrangements (with pre-existing IP of EU targets remaining exclusively owned by EU entities), at least 1% of gross annual revenue invested in R&D, at least 50% EU workforce and a strategy for enhancing EU supply chains and prioritising EU inputs with a target (not obligation) to have at least 30% EU-manufactured inputs. The requirement to have at least 50% EU workforce must be met in all cases.
 - ◆ Exemptions are provided for investments which are (i) covered by a current or provisional economic partnership or free trade agreement, (ii) targeted at the provision of services or (iii) portfolio investments (defined as a purely financial investment with no intention to influence the management or control of the investee company).
 - ◆ The Commission will have power on its own initiative where the investment could significantly impact value creation in the EU, or where the investment is over EUR 1 billion to decide on IAA FDI clearance directly, in place of the authority. It can also take over as decision-maker a case at the request of a Member State authority.
- The qualifier on these controls that the investor’s origin country has 40% of global manufacturing capacity, combined with the selection of sectors has – at least initially – created a tight focus for their impact. Hohe Commission is given power to extend the affected sectors to certain net zero technologies, nuclear fuel technologies and electric propulsion technologies for transport without additional scrutiny by Member States (or the European Parliament). Not only is this likely to be contentious with Member States, but it also means there is a risk of broader impact of these provisions in the future. Notably, late revisions to the proposed IAA expressly exclude digital technologies, artificial intelligence, quantum technologies and semiconductors from the scope of the Commission’s power to extend the IAA FDI provisions.
- Similarly, the proposal that the Commission can supplant a Member State authority in some cases to take the decision on a notified investment is also likely to be controversial. Foreign investment controls are usually focused on national security, which is reserved to Member States. The Commission has framed the controls as a Single Market and trade measure to prevent fragmentation of approach between Member States but economic security is more usually seen as an extension of national security. Certain Member States are known to object to these FDI controls being included at all.
- The FDI approval regime will come into effect 12 months after the IAA is enacted.

Industrial clusters

- All Member States will be required to designate at least one “industrial manufacturing acceleration area” within 12 months to build EU industrial capacity in a particular energy-intensive sector, the automotive sector or net zero technologies. The cluster must be supported by the Member State with favourable conditions, including with blanket project permits, financial support and provision for energy infrastructure to meet demand.

- There is clearly opportunity created by this policy, although there is overlap between the sectors which could benefit from these provisions and the new IAA FDI rules. Ex-EU investment into businesses in an IAA industrial cluster sectors will also need to consider local FDI controls, any impact of the EU preference rules and the particular terms of consider Member State support for the cluster in question.

Industrial project permits

- The IAA will simplify and streamline processes for the grant of permits for industrial projects. This will reduce costs and administrative burden for businesses needing permits for their industrial initiatives, and is in line with the wider drive for regulatory simplification from the Commission to reduce red tape.

The IAA proposals in more detail

1. A focus on strengthening the EU manufacturing base in strategic sectors

The Commission has proposed the IAA legislation as part of the EU's response to geopolitical threats to its resilience, competitiveness, economic security and strategic autonomy, with measures to strengthen its industrial base, innovation capacity and the Single Market. It is focused on the EU's manufacturing sector, which has declined from generating 17.4% of EU GDP in 2000 to 14.3% in 2024: the IAA sets an industrialisation objective to increase this to 20% by 2035. In addition, it aims to strengthen the EU's own manufacturing and innovation capacities to accelerate the decarbonisation of the economy.

The Commission flags both the potential structural impact of a weak manufacturing sector and the challenges faced by EU industry, including high energy prices, overcapacity, low investment (compared to other regions), regulatory hurdles and the high capital and operational costs of both decarbonisation – which the EU continues to prioritise – and technology deployment. EU economic security is framed as inextricably linked to its capacity to strengthen resilience and mitigate risks arising from hostile economic interconnections, but in line with the EU's climate objectives.

However, the IAA is not economy-wide in scope. It focuses on certain strategic sectors, including energy-intensive industries, net-zero technologies manufacturing and the automotive industry. The Commission has selected these sectors because, while they only account for around 15% of EU manufacturing production, they have strategic importance for decarbonisation and as suppliers and enablers of downstream industrial ecosystems including construction, mobility, energy, space and defence.

The IAA is framed as both a Single Market measure (based on Article 114 of the Treaty on the Functioning of the EU (“TFEU”)) and a trade measure (Article 207 TFEU). It is presented as a Single Market measure because the complexity and cross-border nature of EU resilience and the EU's industrial decarbonisation objectives mean that harmonisation is required. It is also presented as a trade measure under the EU common commercial policy – primarily because of the foreign investment controls in the legislation.

2. A new layer of pan-EU FDI conditions

Most significantly from an M&A perspective, Chapter IV of the proposed IAA includes proposals for new controls on foreign investment into the EU. These are tangibly different to existing Member State FDI regimes, imposing fixed requirements on certain investments into certain sectors, without qualitative risk assessment. There is no evaluation of substantive national or economic security risk, but instead a formalistic check that mandatory terms and conditions are complied with.

The Commission's intention is, firstly, to address the potentially divergent conditions applied by Member States as regards technology transfer, job creation and value chain integration to the investments in scope; and secondly, to ensure that ex-EU investment generates value for the EU and technological advancement in these strategic sectors, without significant risk for its development and supply security. When launching the IAA proposal, Commission Séjourné commented that the EU wants to remain an attractive place for foreign investment but that it must generate added value on the ground: Europe must be a full industrial base and not an assembly line.

Scope of the IAA FDI controls

They will only apply to investments where the following cumulative conditions are met:

- foreign investments of above EUR 100 million (unless the investment is covered by a current or provisional economic partnership or free trade agreement, is targeted at the provision of services or is a portfolio investment (defined as a purely financial investment with no intention to influence the management or control of the investee company)). Greenfield investments are included in scope; and
- the investment is into any of the following sectors:

- ◆ Battery technologies and the related value chain for battery energy storage systems;
 - ◆ Pure electric vehicles, off-vehicle charging hybrid electric vehicles and fuel-cell electric vehicles (including components related to electrification and digitalisation);
 - ◆ Solar photovoltaic technologies; and
 - ◆ Extraction, processing and recycling of critical raw materials; and
- The foreign investors is from a third country which accounts for more than 40% of global manufacturing capacity in the specified sectors.

The Commission is empowered to extend the scope of the FDI controls to other sectors critical to the EU's economic security, including to certain net-zero technologies listed in the Net-Zero Industry Act, nuclear fuel technologies and electric propulsion technologies for transport. It is also able to set the global manufacturing capacity threshold for any additional sectors (which operates to fix the geographic impact of these provisions). It cannot, however, extend the scope of the controls to digital technologies, artificial intelligence, quantum technologies and semiconductors through delegated legislation but would need to propose formal reforms through the full legislative process with scrutiny from the Parliament and Member States.

Mandatory and suspensory prior notification is required to the authority in the Member State where the EU investee target or asset is located, if the investor plans to take control, defined as (i) a stake of 30% or more of shares or voting rights in an EU target or (ii) 30% or more ownership or leasehold or other rights conferring control of an EU asset. Fines can be imposed for failure to notify. The current proposal is that the notification obligation will take effect 12 months after the IAA is enacted.

Conditions for clearance

Clearance will not be granted unless the investment meets four out of six obligatory requirements, including an ownership cap for the foreign investor of 49% of shares or voting rights; a joint venture structure (with a 49% ownership cap for the foreign investor) with EU partners who have effective participation rights in the JV's management, technology transfer and the building of capacity; arrangements to ensure the EU target and EU JV partners benefit from IP and knowhow development from the investment; R&D spending commitments in the EU of at least 1% of gross annual EU revenue; at least 50% of the workforce being EU workers (a compulsory requirement); and a strategy for enhancing EU supply chains and prioritising EU inputs with a target to endeavour to source at least 30% of EU-manufactured inputs.

Notification is made at Member State level. The IAA provides for screening by the Commission, similar to the recently revised EU FDI screening rules which apply to Member States' current FDI regimes ([discussed in our client memo](#)). However, the IAA proposal goes further by also giving the Commission the right to take the decision on a notified transaction in place of the national authority, either at the request of the Member State authority or on its own initiative where (i) the investment in question has the potential to significantly impact value creation in the EU (evaluated based on specified criteria) or (ii) the investment is over EUR 1 billion.

These measures will operate “notwithstanding” the existing EU FDI screening mechanism and “without prejudice” to EU merger control and the Foreign Subsidies Regulation.

Controversial powers for the Commission

Eye-catching and unprecedented as they are, the impact of these controls and caps is significantly constrained by the sectoral and geographic limitation that they will apply only to investors from countries with 40% of global manufacturing capacity in the specified sectors. Commentators have noted that China is currently the only country meeting this threshold for the specified sectors. However, the proposed grant of delegated legislative power to the Commission to expand the scope of these provisions without new primary legislation or scrutiny from the Parliament and Member States may prove contentious.

The ability for the Commission to take the final decision in relation to some notified foreign investments will certainly be controversial with Member States. National security – the usual focus of foreign investment controls – is a matter reserved to Member States. However, trade policy is reserved to the Commission under the common commercial policy. As noted above, the IAA is both a single market and trade policy measure. The foreign investment controls are specifically identified a harmonisation measure to avoid fragmentation of the Single Market (preventing foreign investors from arbitraging Member States' different FDI regimes) and as a trade measure. In the FDI field, economic security has long been part of the assessment of national security. Supply chain resilience, strategic industries and technologies and ensuring domestic capacity production are often the focus of scrutiny and remedies. While the scope of these provisions appears to be very

targeted, it remains to be seen whether the European Parliament will seek to expand its scope, or Member States object to this blurring of the line between EU and Member State exclusive competences.

3. “Union origin” preference in public procurement and public support schemes

Chapter III of the proposed IAA seeks to introduce EU preference in public procurement and EU or Member State public support schemes. It will:

- establish “Union-origin” and low-carbon requirements in procurement contracts and public support schemes in specified strategic sectors; and
- limit access to public tender processes in those sectors for suppliers from jurisdictions without an international agreement with the EU that guarantees access.

Since public procurement amounts to 15% of EU GDP, the Commission is seeking to leverage the ability of contracting authorities to award tenders with an eye to fostering EU economic security and supply chain resilience. Compliance with the requirements will be self-certified and there will be exemptions (for example, where there is a sole supplier, no suitable tenders were received, or compliance would significantly increase costs or cause delays).

The IAA proposes to grow the EU’s manufacturing base through “demand-side measures” to increase the supply of certain EU-produced products in public procurement projects and EU / Member State support measures. The industries benefitting from these quotas include certain energy-intensive industries (steel, cement and aluminium) and net zero technologies: the IAA’s demand-boosting measures will therefore also support investment in the green transition. Some of these industries have seen anti-dumping measures imposed on imports from China.

In addition, quotas for Union-origin are also imposed for the automotive industry. The Commission identifies this sector as a “cornerstone” of the EU economy, but where the proportion of EU-made components have been decreasing with the switch to electric vehicles.

Union-origin and /or low carbon quotas

The specific Union-origin and / or low carbon quotas for public procurement include:

- at least 25% low-carbon requirements for steel used in buildings, infrastructure and transport;
- at least 5% Union-origin and low-carbon requirements for concrete, mortar used in buildings and infrastructure;
- at least 25% Union-origin and low-carbon requirements for aluminium used in buildings, infrastructure or transport; and
- detailed Union-origin requirements for vehicles, including requirements for assembly in the EU, at least 70% of vehicle components (excluding battery) of EU origin by value and additional requirements for battery cells, e-powertrain components and electronic systems. These requirements will be phased in.

The same provisions will also apply to public support schemes, accounting for at least 45% of the total national budget allocated to such schemes for steel, cement and aluminium, and 100% of schemes for the automotive sector.

The IAA includes delegated legislative power for the Commission to enact Union-origin and sustainable-carbon requirements for the chemical industry.

Beyond energy-intensive industries and the automotive sector, the IAA introduces Union-origin requirements for public procurement of net-zero technologies (battery energy storage systems, solar photovoltaic technologies, hydronic heat pumps, onshore and offshore wind technologies, nuclear fission technologies and electrolyzers). These requirements will be phased in over one to six years depending on the technology. For example, battery energy storage systems must be of Union origin from entry into force, with additional requirements for battery management systems and battery cells phased in over one to three years. Solar photovoltaic technologies must have photovoltaic inverters and at least three additional main components of Union origin from three years after entry into force.

“Union origin” and third countries

“Union origin” under the IAA is based on the location of production rather than ultimate ownership, in line with the EU customs rules of origin.

Significantly, suppliers from countries with which the EU has agreed a free trade area or a customs union (or which are parties to the Agreement on Government Procurement where relevant), will be deemed to have Union-origin status for

public procurement and public support schemes. The Commission will be able to withdraw that status where the third country has not respected its obligations under the relevant agreement, where dependencies might threaten EU security of supply or for other exceptional reasons.

This was a last minute change to the proposed IAA and the exclusion or inclusion of ex-EU suppliers in EU procurement is likely to remain a point of contention through the legislative process – not least because of the lack of consensus on this issue between Member States. Countries including the UK, Switzerland and Japan, all significant trading partners with the EU, have been seeking to secure designation as Union-equivalent sources. As drafted, the inclusion of countries with a free trade agreement with the EU will bring them all within Union-origin status.

4. Industrial clusters

Under Chapter V of the IAA, all Member States will be required to create at least one “industrial manufacturing acceleration area” to support one of a list of industrial sectors where a stronger EU industrial base is needed. These include energy-intensive sectors (paper, coke and refined petroleum products, chemicals, rubber and plastics, other non-metallic minerals and basic metals), the automotive sector and net zero technologies. These industrial acceleration areas are intended to foster “industrial symbiosis” through the geographical clustering of industrial activities, combined with favourable conditions for the industries within them.

Member States are required to create an aggregated baseline permit for industrial manufacturing projects in the industrial cluster; ensure energy needs and the consequent required energy infrastructure capacity are identified and reflected in energy network planning, facilitate financing for projects in acceleration areas, promote R&D investments and support skills development and workforce training.

5. Simplification of industrial project permit processes

Chapter II of the proposed IAA seeks to streamline and digitalise processes for securing permits for industrial manufacturing projects. This will reduce the burden on businesses and the time taken to issue permits. The intention is to create a “one-stop shop” across the EU, to prevent delays in securing permits that can cause industrial projects to be cancelled.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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