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Policy Brief

Buy European need not break the bank

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Why the EU can afford stronger Buy European and low-carbon requirements

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The Industrial Accelerator Act, as proposed by the European Commission, is too weak to give European industry a strong investment signal. New data and cost estimates presented in this brief show that strengthening its Buy European and low-carbon requirements need not be expensive. Even large premiums on individual components typically translate into modest increases in the cost of buildings and clean energy. For electric vehicles, today's price gaps between EU-made and imported cars are also moderate, although the cost of the Act's battery requirements remains uncertain. Meanwhile, excessive-cost clauses risk adding bureaucracy and uncertainty while offering little protection. Co-legislators should widen the Act's market coverage, extend requirements to more strategic components and remove unnecessary cost clauses, retaining safeguards where buyers or energy consumers face substantial cost risks.

1. Introduction

Europe needs to maintain a strong industrial base while decarbonising. But manufacturers investing in cleaner production face fierce international competition and higher costs, making demand for their products uncertain. The Industrial Accelerator Act (IAA), proposed by the European Commission in March 2026, attempts to address this: Public procurement, subsidies and energy auctions would be subject to low-carbon and Buy European ("Union-origin") requirements, thereby creating demand for low-carbon products and supporting domestic industry.

In principle, these provisions could mark an important shift in EU industrial policy. However, as we argued in our earlier policy brief,[1] the requirements proposed by the Commission are too weak to provide a strong investment signal. Parliament and Council should therefore strengthen the requirements in the upcoming trilogues, including by increasing the market volumes subject to Union-origin and low-carbon requirements.

One key objection, however, is cost. Critics argue that stronger requirements would make public projects and the clean transition too expensive. This policy brief presents new evidence that this concern is largely unfounded. It shows that large component premiums typically translate into only small increases in the cost of buildings and clean energy, even under substantially stronger requirements. The accompanying interactive models allow readers to explore these costs and adjust all assumptions.

This, in turn, has consequences for the IAA's excessive-cost clauses, which let authorities waive requirements when compliance becomes too expensive. These aim to protect budgets and competition but add administrative burdens and legal uncertainty while weakening the investment signal. Co-legislators should discard them where they offer little protection, retaining safeguards where purchasers or energy consumers face substantial cost risks.

2. The cost of the IAA's Union-origin and low-carbon provisions

The Industrial Accelerator Act aims to introduce EU-wide Union-origin and low-carbon requirements. The requirements would apply only in a few sectors deemed strategic: electric vehicles, some energy-intensive products, and clean tech. They would apply only to public spending: through public procurement, public financial support such as subsidies, and renewable energy auctions for projects such as wind and solar parks. Widespread low-carbon and local-content rules could be very costly for EU taxpayers. But three policy choices in the Commission's IAA proposal constrain costs for most sectors and products.

First, the requirements in the proposal are limited to certain parts of the products' value chains. For instance, for a heat pump to qualify, only the final product must be of Union origin, rather than the entire value chain. In other words, all its components can still be imported from, say, China. The extent of coverage varies across IAA sectors; for solar PV, the cells and the inverter must be Union-origin; for wind, any two out of eight major specific components; for EVs, coverage requirements are more comprehensive and include assembly, multiple battery parts and 70% of non-battery parts. For energy-intensive products, it is not yet clear whether certain inputs – such as scrap used to make new aluminium – may be imported.

[1] Our policy brief "Paradigm Shift in Principle, Paper Tiger in Practice? How to Make the Industrial Accelerator Act Count" offers a wider analysis of the IAA's effectiveness and how to deal with partner countries. The IAA's foreign direct investment pillar is analysed in another JDC policy brief. The current policy brief focuses on the IAA's cost implications.

Table 1: IAA alue-chain coverage for clean tech and EVs

Product	Union-origin provision (no low-carbon provision proposed)	
	1 year after entry into force	3 years after entry into force
Battery energy storage systems (BESS)	Final product (and for projects >1 MWh also software (BMS))	Final product + software (BMS) + cells + 1 component
Solar PV technologies		Inverter + PV cells (or equivalent)
Heat pumps Only hydronic (water-circuit) heat pumps; air-to-air not included in scope		Final product (i.e. assembly suffices). Applies only to hydronic (water-circuit) heat pumps
Wind technologies Onshore and offshore	1 component	2 components
Electrolysers for producing hydrogen	Final product + stack + 1 component	Final product + stack + 2 components
Nuclear fission technologies / SMRs		After 4 years, 2 components; after 6 years, 3 components
EVs	Assembly + 3 battery components (incl. cells) + 70% non-battery components *Already active 6 months after entry into force*	Assembly + 5 battery components + 70% non-battery components
Small EVs	Assembly + 3 battery components OR 70% non-battery components	

Second, market coverage is – somewhat arbitrarily – limited to small shares for some IAA sectors. In renewable auctions, only 40% of auctioned volumes would need to comply with the IAA requirements. For subsidy schemes for energy-intensive products, only 45% of the total budgetary volume would need to comply. Moreover, only 5% of the cement, 25% of the steel and 25% of the aluminium used would need to be low carbon and Union-origin (steel only needs to be low carbon). Together, these limits constrain the IAA's coverage, as shown in our previous work. This keeps the additional cost of the IAA requirements low.

Table 2: IAA requirements or energy-intensive industries

Product	Provision	Active in	Timeline	Certification of low carbon
Aluminium	25% Union-origin & low carbon	100% of public procurement 45% of the budget of subsidy schemes for construction & cars	1 Jan 2029	Construction Products Regulation (CPR) for construction; Ecodesign (ESPR) for use outside of construction
Concrete (cement, mortar)	5% Union-origin & low carbon			
Steel	25% low-carbon (no Union-origin provision)			

Source: own depiction, Redeker & Jäger 2026

Table 3: IAA channels for clean tech and EVs

Product	Active in			
	Public procurement	40% of auctions	other forms of support (e.g. demand-side subsidies)	manufacturing support
Battery energy storage systems (BESS)	●	●	●	
Solar PV technologies	●	●	●	
Heat pumps only hydronic (water-circuit) heat pumps; air-to-air not included in scope	●		●	
Wind technologies onshore and offshore	●	●		
Electrolysers for producing hydrogen		●		●
Nuclear fission technologies / SMRs	●			●
EVs	●		●	
	subsidies include purchase premiums as well as corporate cars that receive tax benefits (tbc)			

Source: own depiction, Redeker & Jäger 2026

The third cost-dampening factor is the broad definition of Union-origin. In the Commission proposal, products imported from many partner countries could be eligible for preferential treatment. Countries linked to the EU through customs unions or free-trade agreements would generally qualify for auctions and subsidy schemes, while procurement rules would also extend to countries covered by the WTO Government Procurement Agreement (GPA). Products from over 80 partner countries could qualify as Union-origin. The definition of Union-origin has been hotly debated, and the exact rule to be agreed during trilogues is unclear. However, the only politically feasible compromise seems to involve granting Union-origin status to at least some non-EU countries – some of which have lower production costs for the IAA products. This softens the cost of Union-origin compliance.

But cost considerations should not drive the debate on geographical scope. As we have argued here, including some partners makes sense to maintain good trade relations, leverage reciprocal access to foreign procurement and subsidy schemes, and diversify supply chains. At the same time, the option to withdraw Union-origin status should help manage the risk of circumvention through partner countries acting as transit hubs for Chinese products.

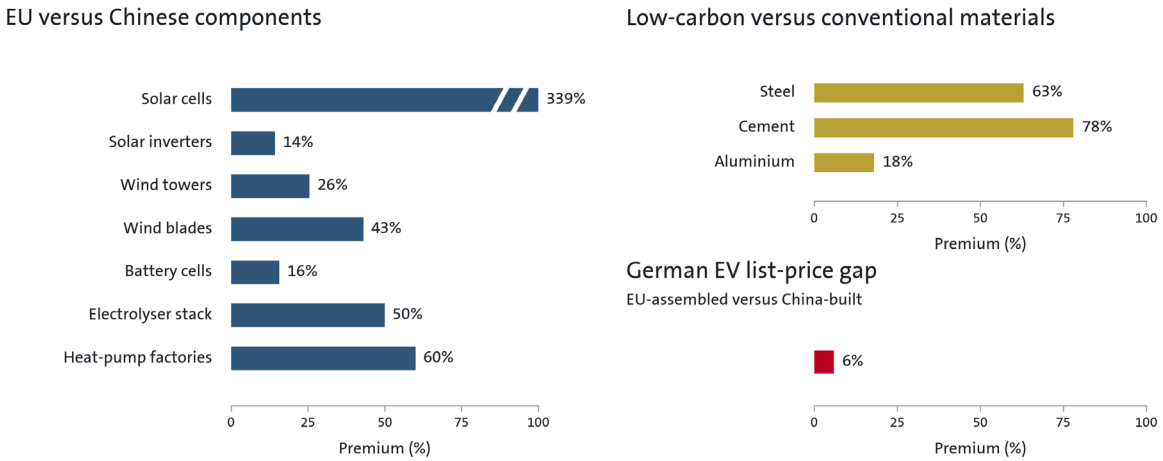
Given the uncertainty over which countries would qualify, the calculations below exclude the cost-dampening effect of the broad geographical scope.

2.1 Estimates of cost increases

Viewed at component and product level, the cost of Union-origin and low-carbon requirements appears large. Figure 1 estimates this IAA premium for selected components and products.[2] These large premiums explain the concern about costs. But they are only the starting point. To assess the actual cost burden, the additional expenditure must be measured against the cost of the complete product, project or output.

[2] In many instances, isolating the cost of IAA compliance precisely is not possible; many estimates therefore use proxies for compliance with the IAA requirements.

Figure 1: Large component premiums don't necessarily translate into large downstream costs



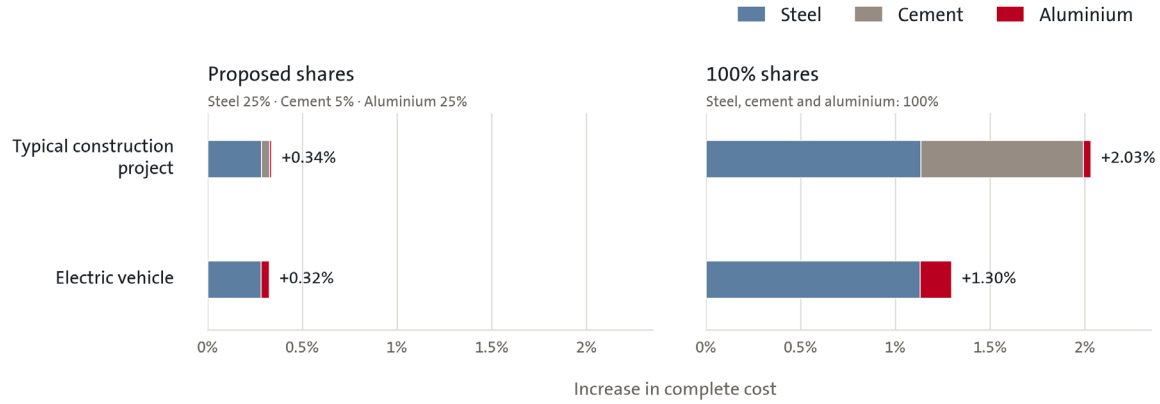
Source: own calculations, see website

Looking at a component premium in isolation is misleading, since the component typically represents only a small part of total cost. With the exception of EVs, none of the IAA products are bought or subsidised directly by the state. For instance, the state does not procure steel and cement directly, but it procures bridges and school buildings; it does not buy wind turbines, but it auctions off wind parks; and it typically does not subsidise heat pumps themselves, but it subsidises the total cost of supplying and installing them. This greatly reduces the IAA's effect on total costs.

2.1.1 Energy-intensive products

Cost increases would be low for energy-intensive products. For the average construction project, steel accounts for less than 2% of total costs, cement for only 1%, and aluminium for even less. Moreover, under the IAA proposal, only 5% of cement and 25% of steel and aluminium would need to comply with the IAA requirements. Therefore, even if low-carbon, Union-origin cement, steel and aluminium were twice as expensive as their high-carbon foreign alternatives, the total cost of public construction would rise by roughly half a percent. If co-legislators increased the requirements from 5% (cement) and 25% (steel and aluminium) to 100% for each, costs would rise by less than 3% and remain very manageable. For an EV, clean steel and aluminium would likewise increase total costs only marginally: less than half a percent at the 25% requirement, and around 1.5% if co-legislators increased that share to 100%. Figure 2 shows these effects, with more precise low-carbon premiums.

Figure 2: Cost increase for low-carbon steel, cement, and aluminium



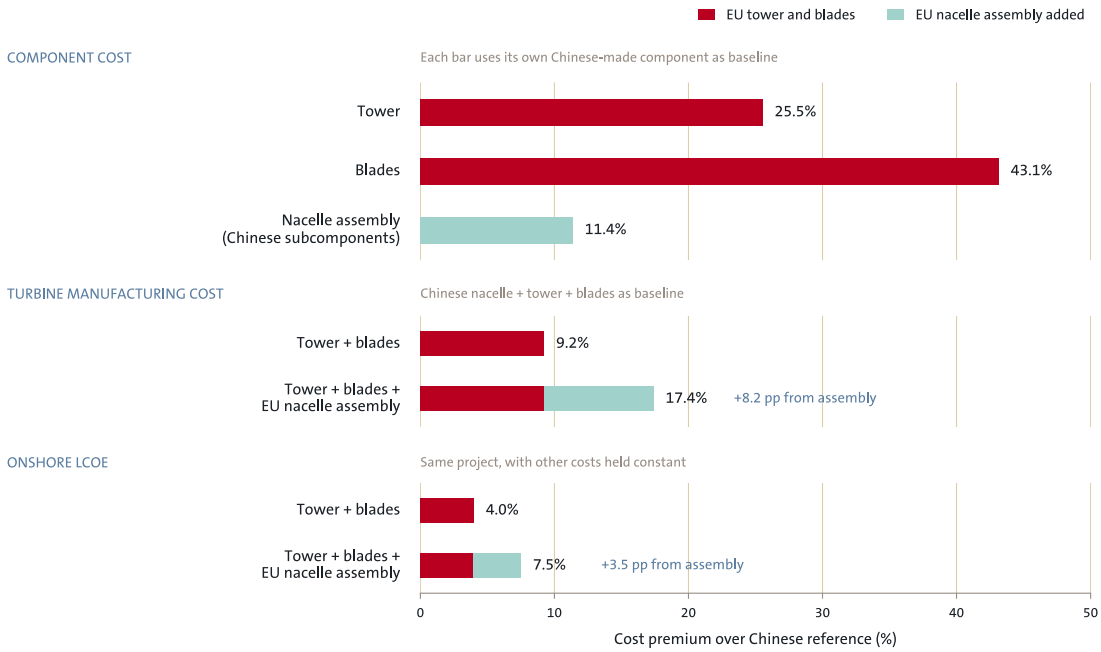
Source: own calculations, see website for all sources. Union-origin premium excluded for simplicity.

2.1.2 Clean technology

For clean technologies, the cost increase would be small but noticeable. Manufacturing individual clean tech components in the EU is often significantly more expensive than in China, which typically has the lowest costs globally. For instance, EU-made wind turbine blades and towers can be 43% and 26% more expensive, respectively, than Chinese-made ones. However, using EU blades and towers increases turbine costs by only about 9% relative to a Chinese turbine. Electricity from a wind park using EU-made blades and towers is only an estimated 4% more expensive than electricity from one using exclusively imported (Chinese) components. Moreover, only 40% of auctioned wind volumes would be subject to requirements; this means the volume-weighted cost increase over all auctions would be only 4% × 40% = 1.6%.

For wind, the IAA proposal requires two out of eight components to be of Union origin. Requiring more components increases costs, but to a manageable degree. Consider the nacelle, which houses the key parts of the turbine. Assembling the nacelle in the EU with imported components would increase electricity costs by an additional 3.5%.

Figure 3: Clean tech component premiums shrink moving down the cost chain

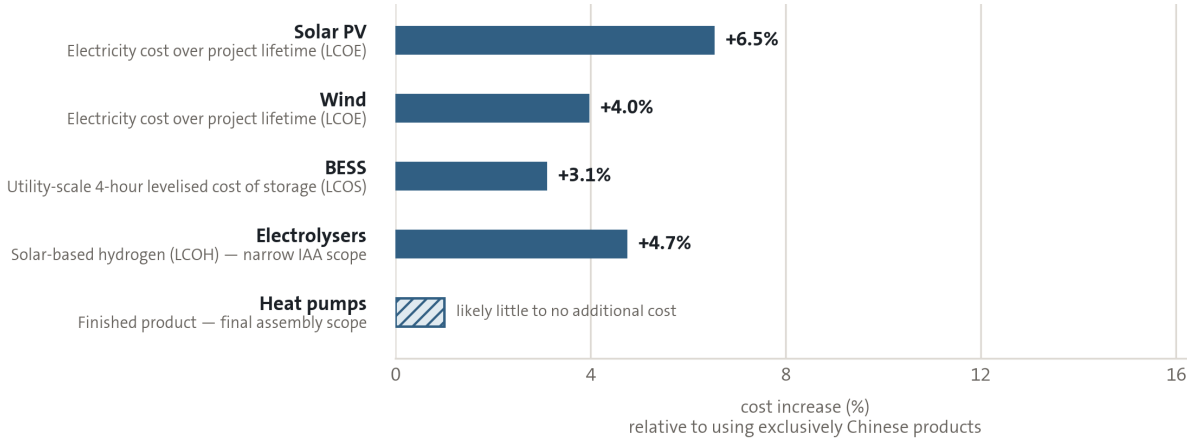


Source: own calculations, see website for all sources.

Today, almost all wind parks built in the EU use EU-made turbines. The estimate is therefore best understood as the *forgone saving* from a future switch to fully Chinese-made turbines (since the IAA would only allow partly Chinese-made turbines).

For other clean tech, the pattern is similar. As shown in Figure 4, electricity costs for solar PV would rise by about 6%, even though EU-made components such as solar cells can be three times as expensive as their Chinese equivalents. For electrolysers, the cost of producing hydrogen using solar power would increase by an estimated 5%. For heat pumps, the Commission's Impact Assessment estimates that producing the final product in the EU should not increase costs at all (the IAA sets no requirements for component sourcing for heat pumps). The cost of storing energy in batteries in a large-scale project would increase by about 3%. Figure 4 does not account for the requirement that only 40% of auctions must comply, which would reduce the first four bars by 60%.

Figure 4: IAA cost increase for clean tech



Source: own calculations, see website. Nuclear technology is omitted due to lack of data.

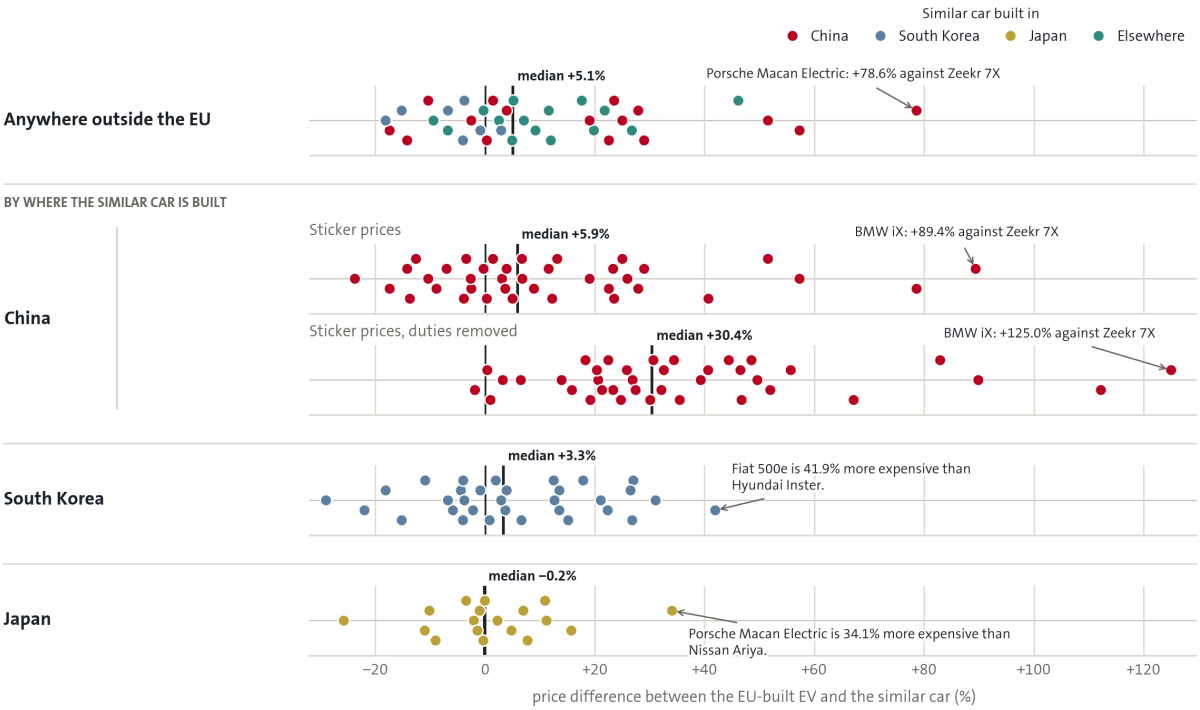
2.1.3 Electric vehicles

For EVs, the price difference between EU-made and imported cars is surprisingly small. The IAA imposes several Union-origin requirements for EVs (Table 1), most of which cannot be priced. As a proxy for IAA compliance, we compare EU-made EVs with foreign-made EVs. This understates the cost difference, since an EU-made EV might, for instance, have a battery made entirely in China. For each of the 38 best-selling EU-made EVs in Germany, we identify the most similar imported cars. Following the Commission's approach in its anti-subsidy investigation into Chinese EVs, models are matched by vehicle segment (e.g. SUV, sedan or mini), type of drive, length, range, motor power and battery capacity.

Comparing EU-made with all non-EU-made EVs in our dataset gives a median price difference of about 5% (see Figure 5). Compared with just Chinese EVs, the median gap is about 6%. The price gap relative to South Korea and Japan[3] is even smaller, at about 3% and close to zero, respectively. These numbers need careful interpretation, however. First, Chinese EVs are penalised by high countervailing duties imposed by the EU; if these duties are subtracted from the sticker price, the price gap with Chinese EVs increases to about 30% (this is an illustrative calculation; Chinese manufacturers would likely increase prices in the absence of EU duties). Second, an EU-made EV is not necessarily IAA-compliant. We could confirm for only 6 of the 38 EU-made EVs that the battery cells are made in the EU, as the IAA would require. The cost of moving more of the battery value chain to the EU is not reflected in today's prices and could raise them considerably.

[3] The IAA proposal is stricter for EVs than for other sectors: To be eligible, an EV must be assembled in the EU-27 (i.e. the Union-origin definition is narrower for EVs than for other products; if an EV is assembled in a partner country (say, South Korea), it would not qualify). However, under certain circumstances, a foreign-assembled EV can qualify under the 85% manufacturer-level rule in Annex III, under which all of a manufacturer's EVs may temporarily be deemed compliant.

Figure 5: Price gap between EU- and foreign-made EVs



The chart compares prices for the 38 best-selling EU-made EVs. Each dot shows the price difference between an EU-made EV and its closest Chinese/South Korean/Japanese competitor, matched on segment, type of drive, length, range, motor power and battery capacity. The 38 EU-made EVs were selected based on registrations in Germany from January to August 2026; prices are German list prices of 5 October 2026. Source: own calculations based on various sources, including EV-database.eu; see website.

Excluding premium brands shrinks the gap further. If all premium brands, such as Porsche and Mercedes, are excluded, the price gap with Chinese EVs narrows to about 3% (2% for South Korea, while EU-made EVs are about 2% cheaper than Japanese ones; see website). This exclusion is reasonable, since EV purchase premia often exclude very expensive cars, and the public sector procures few Porsches. Unlike the cost of clean tech components and energy-intensive products, however, an EV's purchase price is not diluted within a larger product or project.

Overall, the IAA would raise costs only slightly for energy-intensive products and clean tech, even if requirements are strengthened considerably. For EVs, today's price gaps are moderate too, but the cost of the IAA's battery requirements is uncertain and could be substantial. Moreover, high duties on Chinese EVs are needed to keep EU manufacturers competitive. Concerns over costs are therefore not as urgent as often portrayed, and mechanisms to waive the requirements on cost grounds are relevant only in a few areas.

3. The IAA's excessive-cost clauses add uncertainty with little benefit

To guard against excessive costs, the Commission has proposed safeguards. If the cost of complying with the IAA's Union-origin and/or low-carbon requirements becomes too high ("disproportionate"), the responsible authority can decide whether to waive the rules. This gives considerable discretion to national and regional governments and local public procurement agencies. The legislative proposal indicates when costs can be considered disproportionate (Table 4). There are also other grounds for waiving the requirements, including insufficient competition or delays caused by compliance.

Table 4: IAA excessive-cost clauses and other derogations

Provisions channel	Cost derogations ("escape clause")	Relevant products	Other derogations / exceptions
Auctions	**20%** (increased from previously 15% in NZIA)	Battery storage; solar parks; wind parks; hydrogen using electrolysers	Time delays >7 months, e.g. because of unavailability
Public procurement	**25%**	Broad coverage of IAA products	Single supplier / no reasonable substitute; no suitable tenders; technical incompatibility For clean-tech procurement under NZIA also significant delays / unavailability
Other financial support (demand-side subsidies; purchase premiums; tax advantages)	**30%**	EV support schemes & tax advantages (corporate cars) energy-intensive products in supported buildings/ infrastructure/vehicle support schemes	Time delays >7 months, e.g. because of unavailability
	No cost derogation in place; if *additional* subsidies are given for compliant products, they are capped at **15%** (20% for energy-poverty schemes)	Demand-side support for BESS, solar PV, hydronic heat pumps	
Manufacturing subsidies	**25%**	electrolysers, new-build nuclear / SMRs	Single supplier / no reasonable substitute; technical incompatibility; project would be jeopardised; significant delays / unavailability

Source: Redeker & Jäger 2026

Safeguards to limit costs are well intended. In principle, the excessive-cost clauses could serve three purposes. First, they can contain costs. In public procurement they protect public budgets, and in clean energy auctions they keep electricity and hydrogen costs from rising too much. Second, they limit delays to the clean transition, as higher costs slow the deployment of EVs and clean electricity. Third, they expose EU companies to healthy competition, helping prevent EU production from becoming inefficient and expensive. In the context of the IAA, however, the excessive-cost clauses also create several problems.

3.1 Excessive-cost clauses create problems

First problem: There is uncertainty over the cost basis. When expressing the additional cost of the IAA as a percentage, the cost increase (numerator) must be measured against a cost basis (denominator). The cost basis could be a) the component, b) the final product, c) the project, or d) the output created by that product. To illustrate: For solar PV, this could be the cost of Union-origin PV cells relative to Chinese PV cells (component level), of a complete solar module using Union-origin cells and inverters (final product level), of the capital investment needed for a solar park (project), or of the electricity generated by the solar park (output). The debate remains unclear about which basis to use.

As long as the cost basis is undecided, numerical cost ceilings – like 25% in public procurement – are virtually meaningless. As discussed above, one tonne of low-carbon steel might be 60% more expensive than one tonne of traditional steel, but even building a steel bridge (one of the most steel-intensive projects) using 100% low-carbon steel would not raise its cost by more than 25%. Thresholds around 25% are, therefore, likely too low at the product level and much too high at the project level. If the IAA sets numerical cost thresholds, the cost basis must be clarified before adoption.

The choice also determines which projects are deemed expensive. At project level, the same steel premium would produce a larger percentage cost increase for a steel-intensive bridge than for a school building. The assessment would depend mainly on the project's material intensity, rather than the cost efficiency of its suppliers. A product-level comparison, on the other hand, would isolate material premiums more directly but add administrative burdens and thus aggravate the second problem.

Second problem: Measuring cost differences creates administrative burdens and legal uncertainty. Even with an agreed cost basis, authorities must identify which costs the IAA requirements actually change. For low-carbon products, this starts with definitions. The IAA does not define what low-carbon means. A label for clean steel was initially planned but dropped from the Commission proposal, as it proved too complicated to develop in the time available. The definitions are to be set under the Construction Products Regulation and the Ecodesign Regulation (ESPR), but only after the IAA's adoption. Yet cost implications depend heavily on them: If only steel produced with clean hydrogen counts, it is expensive; if traditional but efficiently produced steel can qualify, it becomes much cheaper.

Beyond definitions, compliant and non-compliant products need to be matched, and they differ in many respects unrelated to carbon intensity or origin. Chinese electrolysers, for instance, are much cheaper, but their quality and efficiency are said to be lower. For EVs, even models closely matched on length, battery size, power and vehicle category differ substantially. In our own comparison, the median price gap with Chinese EVs ranges from about 5% to 12% depending on reasonable choices in the matching method, and individual pairs differ far more. A premium model with leather seats and an expensive sound system will cost much more than a non-Union-origin EV of similar size and power, but that's comparing apples and oranges. Overall, such matching gives a lot of wiggle room to inflate or deflate the cost increase in the desired direction.

Consider a municipality tendering a bridge. Assessing additional costs requires comparable prices, material quantities and specifications, and evidence linking the additional costs to the requirements. A product-level assessment might require separate comparisons for steel beams, reinforcing steel bars, steel bolts, steel plates, etc. Timing adds further uncertainty: Steel may be purchased years after the tender, when prices and low-carbon premiums have changed.

These market enquiries, calculations and justifications take time and can invite legal disputes. A compliant bidder might challenge an exemption based on outdated or incomparable prices, while another bidder might contest a refusal to grant one.

Third problem: For subsidies, excessive-cost clauses can have unintended effects. For EV purchase premia, for instance, the proposed cost clauses would work as follows: If an EU-made EV is more than 30% more expensive than a comparable EV from, say, China, member states could also offer a purchase premium for the Chinese EV. This price gap, however, might be due to unfair subsidies in China. The purchase premium would widen this unfair price difference even further, disadvantaging EU-made EVs and undermining the IAA's intended effect.

Fourth problem: Broad exemptions risk uneven implementation, weakening the IAA's predictability and impact. If a threshold is breached, the responsible authority can choose whether to apply the IAA requirements. Some authorities might prioritise lower costs, others clean, Union-origin production. If exemptions become frequent – which might happen if excessive-cost thresholds are set too low – the IAA could be implemented piecemeal, weakening both its predictability for investors and its overall impact.

3.2 Excessive-cost clauses offer only limited benefits in the IAA context

Competition would be ensured even without cost clauses. Regardless of cost thresholds, competitive pressure on companies to lower costs and produce efficiently remains. That is because many companies in the IAA sectors export to non-European markets, where they face open competition. And within the EU market, pressure remains high as well. First, plenty of companies are based in the single market, and the broad "Union-origin" definition further increases the number of qualifying competitors – the pool of competition remains large. Second, the IAA applies only to subsidies, procurement and auctions, and hence covers only a small fraction of total demand in the EU – competition remains in the much larger rest of the market.[4] Most importantly, the IAA proposal has additional safeguards to ensure sufficient competition. If there is only a single supplier, for instance, additional derogation clauses (see Table 4) allow authorities to waive the IAA requirements.

4. Costs do not stand in the way of a simpler and more powerful IAA

Like all industrial policy measures, the IAA will create some administrative burden and introduce some inefficiencies. To justify this burden, the IAA's low-carbon and Union-origin requirements must have a strong effect. As currently proposed by the Commission, they are too weak to do so. The analysis above has shown that cost concerns do not stand in the way of strengthening the requirements. Co-legislators should do so in the following three ways.

Recommendation 1: Expand the IAA's market coverage

As argued extensively in our previous work, the IAA would have too limited market reach under the Commission proposal. For most products, only a small share of each covered industry's market would be subject to IAA requirements compared to what is already compliant today. Therefore, in its current form, the IAA would neither incentivize new investments, nor guarantee enough demand to safeguard existing production capacities. For instance, the Commission proposal would impose Union-origin requirements on only 40% of renewable energy auctions. Given that about 60% of wind turbines are covered by auctions, this means only about 25% of all deployed wind turbines would be subject to Union-origin requirements, yet over 90% of deployed wind

[4] See our other policy brief for market data. To give one example: Only about 11% of annual steel demand is covered by public procurement and 8% by support schemes; the remaining share of over 80% is outside the IAA's reach.

turbines are already manufactured in the EU. The situation is similar for most other products covered by the IAA. Co-legislators should therefore increase parameters to ensure wider market coverage.

As shown in this policy brief, cost concerns do not stand in the way of substantially raising several parameters. The case is particularly clear for energy-intensive products, where the qualifying shares should rise well above the Commission's proposed 5% (cement) and 25% (steel and aluminium). A first step to 50%, followed by a published path towards 90–100%, would give producers a clearer investment signal without putting much of a strain on public budgets.

Coverage within the support channels should also increase. Co-legislators should move towards full coverage of energy auctions and of the relevant energy-intensive-product support budgets, rather than rely on the 40% and 45% minima. As shown above, the additional costs would be manageable, and excessive-cost clauses would still apply.

The Parliament rapporteurs propose raising auction coverage to 60% (or 12 GW annually) and coverage of relevant energy-intensive-product support budgets to 90%, while increasing qualifying steel and cement-related material shares to 50% by 2036. These changes move in the right direction, and our cost findings support going even further towards full coverage and higher material shares.

Recommendation 2: Increase value-chain coverage for clean tech where the EU has industrial strengths

The Union-origin requirements in the Commission proposal are limited to certain parts of the value chains or, for example, two out of eight components, as shown in Table 1. This is particularly striking for wind and heat pumps, which have very light-touch requirements. But both industries are important for the clean transition, and EU manufacturers retain a strong manufacturing position in them. Co-legislators should therefore extend coverage to more of their components and inputs – in many cases, this can be done at little additional cost for taxpayers or consumers. Decisions to strengthen or relax requirements should reflect the EU's industrial strengths and weaknesses. Detailed recommendations are beyond this paper's scope, but some cases are relatively straightforward. For solar, for instance, it is unlikely that the EU will catch up with Chinese companies in many parts of the solar value chain. The EU should therefore not strengthen the IAA's requirements for current-generation solar. For EVs and batteries, which already face more extensive requirements with uncertain costs, any further strengthening should identify a specific gap rather than simply add to the component count.

The Parliament rapporteurs' proposal to require at least four Union-origin wind components after three years, rather than two, aligns with this approach. Their stronger solar and battery requirements warrant greater scrutiny, however. Extending heat-pump coverage beyond hydronic systems leaves the case for component requirements unresolved.

The "pick and choose" approach can also have unintended consequences. Suppose component A accounts for 25% of a product's cost and carries a 20% European premium, while component B accounts for 10% and carries a 40% premium. Localising A adds 5% to product cost, compared with 4% for B. Firms have an incentive to choose B. That may be commercially sensible, but then the IAA would support the component that is both less important for the product, and less competitive. The cheapest compliance option need not be the component that industrial policy most needs to support. Requirements should therefore name indispensable components where there is a clear strategic case and leave flexibility where different routes deliver comparable benefits.

Recommendation 3: Use excessive-cost clauses more sparingly

In public procurement for construction, cost escape clauses should be discarded. As shown above, even stronger IAA requirements for energy-intensive products would add very little to total project (bid) costs, the relevant measure for public budgets. Discarding them will reduce red tape, give industry greater predictability, ensure a more coherent implementation across the single market, and reduce legal uncertainty. Sufficient competition is nonetheless safeguarded by the IAA's design and by other derogation clauses specifically addressing competition.

In auctions, cost escape clauses – already established through the NZIA – should be maintained. For wind parks, solar parks, grid batteries and hydrogen, the IAA works mostly by amending the Net-Zero Industry Act (NZIA). The NZIA established cost escape clauses for its resilience requirements (at 15%, now to be increased to 20%). While the state initially bears the cost of auctions, costs are typically transferred to energy consumers (via higher tariffs and levies), meaning energy prices could rise due to the IAA (or not fall as fast as they otherwise would). Given the importance of lowering energy prices in the EU, excessive cost clauses therefore make sense for auctions. Since the NZIA has set a precedent, the added administrative burden would be smaller than for procurement and subsidies, where this type of cost checking would be new. This will limit energy price increases and maintain the pace of the energy transition.

For EVs, the escape clause should be kept for procurement but not for purchase premia. Only about 0.6%[5] of total public procurement spending goes on passenger cars. At the median 6% price gap discussed above, total public procurement costs would rise by only about 0.04%. However, the IAA's EV requirements could raise prices considerably. The extent is hard to estimate, since few EU-made EVs meet them today. For some models, moreover, the price gap already exceeds 30%. A cost safeguard can therefore make sense – but co-legislators need to clarify how cost checks would work in practice, as comparing different EVs can be error-prone (see section above).

The escape clause for EV purchase premia, on the other hand, creates more problems than it solves. It would add substantial administrative burdens and often widen the very cost gap the IAA is meant to close. Co-legislators should therefore discard it. This does not prevent citizens from buying a Chinese EV – it only prevents taxpayer money from going to countries like China that discriminate against European EVs in their own support schemes. The effect on the clean transition is not clear cut. On the one hand, also offering purchase premia for cheaper foreign vehicles can accelerate the clean transition in the short term in the EU. On the other hand, a continued weakening of the EU automotive industry would likely have the opposite effect in the medium term, since political pressure would rise to give the combustion engine another lifeline. The best way to aid the EV transition in the EU is therefore to increase overall support for EV purchases and infrastructure and ensure that EU industry benefits.

[5] About 405 000 passenger cars are procured in the EU (IAA Impact Assessment); at an illustrative fleet price of €30 000 per car, this amounts to roughly €12 billion annually, or 0.6% of public procurement.

5. Conclusion

The cost evidence gives co-legislators room to raise the IAA's ambition. For most products examined here, large component premiums translate into modest increases in final costs, even under substantially stronger requirements. For EVs, today's price gaps are moderate as well, although the cost of the battery requirements remains uncertain. This leaves scope to widen market coverage and strengthen requirements where Europe has a credible industrial case.

Greater ambition should go hand in hand with simpler rules. Excessive-cost clauses should be removed where they offer little protection, while clear safeguards should remain where buyers or energy consumers face substantial cost risks. Together, these changes would make demand for clean European products larger and more predictable, giving producers greater confidence to invest.

Europe can afford a stronger IAA – and should demand one strong enough to matter.

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