LEAD MARKETS

DEMANDING EUROPEAN INDUSTRIAL LEADERSHIP

THE GREENS/EFA in the European Parliament

European industry faces a critical choice: act swiftly to decarbonize, build resilience, and protect millions of jobs — or maintain the status quo and suffer a 'slow agony.' To secure a green industrial future, Europe must urgently ramp up investments and take decisive action. Creating lead markets that drive demand for green products and materials made in Europe, will provide the stability and predictability that industries need to invest. It's time to demand European industrial leadership.

Europe's challenge

Industrial decarbonisation is progressing too slowly, mainly due to insufficient investment. For example, investment in energy-intensive sectors like cement, steel, and chemicals must increase six-fold compared to the previous decade to meet EU climate targets. However, recent announcements suggest the investment gap is widening, not closing.

Reforms to the EU Emissions Trading System (ETS) and the introduction of the Carbon Border Adjustment Mechanism (CBAM) have improved the investment climate by strengthening carbon pricing and should be further strengthened. Initiatives like the Industrial Decarbonisation Bank aim to help close this gap further. Yet, those instruments will not fully close the cost gap between sustainable and conventional technologies nor bring the long-term predictability industry needs. Global industrial value chains and geopolitical tensions—such as the US tariffs and Chinese overcapacity—further exacerbate this uncertainty.

These factors suppress EU exports and raise the risk of product dumping. A more assertive trade defence policy is therefore pivotal for a successful industrial future, but will however, not automatically strengthen European demand.
The same is true for clean tech supply chains, in which the EU is increasingly relying on Chinese imports to cover demand. If the EU wants to lead and ramp up investments in the manufacturing and deployment of these critical technologies, it needs to ensure a stable demand for cleantech made in Europe.

The key challenge for Europe is to accelerate the transition by ramping up green investments in energy intensive industries and cleantech manufacturing. To invest, industry needs to be able to pass on the additional value of the investment along the chain. Lead markets offer industry the bridge between green European products and conventional imports. Supporting European leadership.

European demand

Demand-side policy is vital for Europe's industry, allowing risks and investment costs to be shared across the value chain. Decarbonizing a steel plant requires billions in investments, but using 40% green steel adds just €57[1] to a car's price; fully green steel canned tomatoes would add a few cents[2] . Spreading small price premiums across millions of consumers has the power to unlock the massive investment we need. Even without public subsidies.

This principle also applies to resilience premiums, dividing risks like overreliance and unemployment from Chinese competition across all European consumers. At the same time, demand side measures can and must stimulate innovation and performance, so that the quality of products improves, and their price falls over time. Demand must reward European leadership.

While EU initiatives like the Clean Industrial Deal and sector action plans acknowledge the need for action, the measures announced are underwhelming. Voluntary labelling and fragmented action on procurement lack the certainty industry requires. Europe should build on existing mandates like those of the Battery Regulation, Renewable Energy Directive and ReFuelEU Aviation, as well as successful national policies. These policies provide clear, binding frameworks that offer investment certainty, and should be reinforced with further demand-side measures in lead markets.

The EU must urgently take comprehensive, predictable and binding action to build European lead markets for both cleantech and energy intensive industries. Setting the standards, targets and support mechanisms for the demand to materialise.

1 Transport & Environment (2024), Cleaning up steel in cars: why and how?

2 Deloitte (2025), Mobilizing consumer demand for sustainable investments

European solutions

Based on the experience with demand side policy we propose a comprehensive package to address the demand side concerns of European industry. With this package of standards, procurement and mandates, we can enhance green industrial leadership.

1. Common European standards

Standardisation is crucial. It provides clarity on where the market should be going in terms of **environmental sustainability, including carbon emissions and circularity**. Evidence based and market informed standards will leverage the power of the single market. However, the current EU-framework is underutilized or even holding back innovation. The Commission needs to step up by:

- **Standards before labels:** Currently, the Commission plans a voluntary carbon intensity label for basic materials. Instead, the Commission should focus its work on mandatory standards that provide transparency, enable common procurement criteria, and help companies align investments with decarbonisation goals. Possible labels should by no means replace the ESPR framework.

- **Accelerate Implementation of ESPR and CPR:** The Ecodesign for Sustainable Products Regulation (ESPR) and the revised Construction Products Regulation (CPR) offer ready avenues to set minimum sustainability and circularity standards for materials and products. However, their impact depends on swift secondary legislation and adequate resources. The Commission should urgently allocate staff and budget within DG GROW, ENER, and ENVI to ensure ambitious implementation.

- **Prioritise work on green steel and low-carbon cement**: these two sectors represent approximately 10% of EU greenhouse gas emissions and are critical for infrastructure and manufacturing. The upcoming Industrial Accelerator Act (IAA) should place these materials at the forefront. Cement standards under CPR must be revised to stimulate clinker reduction, a major emissions source. Concrete standards also offer an avenue to boost circularity and emissions reduction. For steel, ESPR should mandate “green steel” standards, incentivizing low-carbon production methods like hydrogen-based direct reduction and scrap based production.

- **Buy European:** major economies such as the US, Brazil, China and India have implemented local content requirements[3]. They offer hundreds of examples, including domestic content bonus credits, public loans, or “Buy Chinese” targets for state companies. Without European preference, lead markets risk subsidising cheaper imports, failing to reinforce the EU’s economic security. The EU must urgently implement European preference requirements in public schemes and private mandates, ensuring a minimum share of production happens within the EU. These requirements should be adapted to the product specific needs.

3 Strategic Perspectives (2025), The case for European preference in strategic sectors

2. Green and resilient public procurement

Public procurement is a powerful lead market lever, accounting for about €2 trillion yearly—roughly 15% of European GDP. Yet, in 2022 only 45% of procurement decisions incorporated criteria beyond price. To build lead markets for sectors like steel and wind, this needs to change.

Current policies, including the Net Zero Industry Act and CO2 standards for heavy-duty vehicles, offer fragmented or even voluntary approaches. Governments can cherry-pick criteria or waive them due to cost concerns. Moreover, these policies derisk, but lack mechanisms to promote European production specifically, and do therefore not provide the clear signal and long-term certainty investors and innovators need.

The EU should establish a **common, mandatory, and long-term framework** with:

- **Sustainability targets:** mandate minimum ESPR standards for high-impact sectors. For example, require that X% of steel used in construction projects meets the highest environmental standard or performance class by 2030, phasing out low-standard steel. This would create a unified European market for green products, driving scale and investment.

- **Buy European targets:** Introduce rules requiring a minimum percentage of products' added value to be manufactured and recycled in Europe. Starting with the most strategic product and material categories, including critical raw materials (CRM). For instance, by 2030 X% of an EV / EVs purchased by public authorities shall be made in Europe. Or X% of a certain CRM used should be produced or recycled in Europe. These percentages can increase over time. This has resemblance with the "buy Chinese" target for state companies in China.

- **Procurement as a service:** to overcome member states' limited administrative capacity and fragmented markets, the Commission could pool demand and coordinate public tenders across countries. This approach would standardize criteria, reduce bureaucracy, and increase bargaining power, much like joint procurement of vaccines during the COVID-19 pandemic.

- **Social conditionalities:** further building on the approach followed in NZIA, public authorities should consider social sustainability (to promote decent work, social inclusion and compliance with labour rights) as mandatory requirements in public procurement.

3. Basic material product mandates

Public procurement alone cannot deliver the scale and certainty of demand needed in sectors dominated by private buyers. **It's therefore vital that the Commission complements it by introducing binding European green content obligations on finished products sold in the EU**. This ensures consistent demand and uses price premiums to stimulate investment in European industrial value chains. **The Industrial Accelerator Act offers a unique opportunity to set up the system of product mandates, to be further developed over the next few years.**

Key principles for these mandates include:

- Binding obligations to buy green products in key (sub)sectors
- Placed on companies close to end-users
- Start with large product volumes, high environmental impact and low-price effect
- Origin requirements to stimulate EU-investments
- Common standards, methods and performance classes
- Strong market surveillance and compliance mechanisms

Product mandates explained:

1. The Commission would first **analyse which large end-markets would be suitable** to place product mandates for energy intensive materials. For instance, automotive (cars and trucks) and construction (foundation, beams) for steel, packaging (bottles) and construction (e.g. pvc) for chemicals.
2. The Commission would **define a standard and performance classes** for the specific mandate. A **working programme**, in line with the ESPR would be established in which more products are gradually covered by binding obligations.
3. The Commission would **set a binding amount of green content finished products.** And place this obligation on the (close to) end-user in the defined sector. For example, by 2030, X% of steel used in wind turbines, vehicles, bridges, or tanks could be required to be EU-made green steel (e.g., ESPR performance class A). **These targets would gradually increase over time** so that producers of energy intensive materials can deal with demand expectation in their long-term investment cycles. To ensure this demand strengthens European demand, local content requirements would be included.
4. The Commission would **set up a compliance mechanism**, including penalties, and market surveillance, including on imports. The compliance mechanism can take various shapes depending on the sector (e.g. direct product tracking or certificates).

4. Cleantech lead markets

Lead markets for EU manufactured cleantech should ensure a stable demand for these products. The Commission should work on European instruments, using examples from best practices in member states. Some proposals that should urgently be realised are:

- **Private mandates**: to stimulate demand for EU-manufactured cleantech, the EU should introduce private mandates targeting large companies. For instance, the proposed Green Corporate Fleets Initiative could require that a growing share of company-owned electric cars, buses and trucks be produced in Europe. Similar mandates must be extended to other sectors, ensuring that corporate procurement actively supports European clean technology manufacturing and scales up lead markets, such as for solar panels, heat pumps, energy efficiency, grids and e-bikes.

- **Bonus-malus schemes**: although the EU lacks direct taxation powers, it can design regulatory frameworks that mimic tax-like incentives. A European eco-bonus system could reward the purchase of low-emission products—such as heat pumps, electric vehicles, or solar panels—with bonuses funded by levies on higher-emission alternatives. Building on France's eco-bonus for vehicles, or China's New Energy Vehicle (NEV) credit system. Such schemes could help shift market demand toward low-emission technologies and support EU production.

- **Social schemes**: affordability remains a major barrier to the adoption of cleantech among lower-income households. To bridge this gap, the EU should support social leasing schemes for products like EVs, solar panels, and heat pumps. These could be financed through national development banks or EU instruments, allowing consumers to lease clean technologies at low monthly costs. In return, manufacturers would benefit from stable, long-term demand, helping de-risk investment in EU-based production.

5. Public support, European demand

All public support instruments — including the Innovation Fund, future Industrial Decarbonisation Bank, state aid, consumer bonuses, tax credits, and renewable auctions — must apply the same non-price criteria as public procurement. This alignment broadens the scope of public lead markets and maximizes investment impact.

Subsidy schemes also offer the opportunity to smoothen the rollout of basic material product mandates. Key here would be the introduction of double-auction mechanisms, such as the German initiative H2 Global. Under the Industrial Decarbonisation Bank, the Commission could act as a market maker by auctioning long term contracts to guarantee offtake of green European basic materials, which would then be auctioned to end users, thereby derisking the investment.

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