Industrial Accelerator Act: What It Means for the Energy Sector

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The EU's Quest for Reindustrialisation

For decades, the European Union experienced a steady decline in manufacturing's share of the economy. In 1990, industry accounted for 20% of the EU's GDP; by 2024, that figure had fallen to 14%. This deindustrialisation was driven by a deliberate shift to a services-led economy. Although the EU's industrial output declined as a share of GDP, overall economic output grew by 68% over the same period.

However, recent geopolitical and economic developments have required the EU to rethink its common industrial policy. Industrial capacity is no longer viewed solely through a productivity lens. It provides something larger: strategic autonomy and the capacity to act independently in a world that increasingly weaponises supply chains for political leverage. The EU is therefore working to retain existing industries as well as establish a strong foundation for new ones, such as net-zero technologies and critical raw materials extraction and processing.

The EU is pivoting to stimulate local capacity, reduce dependencies and incentivise investment within the single market. But the structural headwinds are significant. High energy prices, long permitting procedures and extensive regulation make the shift towards industrial revival more difficult.

Enter the Industrial Accelerator Act (IAA). The concept behind it has undergone several alterations, including dropping "decarbonisation" from its initial title. But its key objective is clear: by 2035, the EU's manufacturing industry should account for at least 20% of the EU's GDP, effectively returning to 1990 levels.

For the energy sector, the open question is how the EU can feasibly align reindustrialisation with affordability, decarbonisation and trade.

"Facing unprecedented global uncertainty and unfair competition, European industry can count on the provisions of this Act to boost demand and guarantee resilient supply chains in strategic sectors. It will create jobs by directing taxpayers' money to European production, decreasing our dependencies and enhancing our economic security and sovereignty."
- Stéphane Séjourné, Executive Vice-President for Prosperity and Industrial Strategy

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Key Takeaways for the Energy Sector

1. Energy is not just an input, but an industrial policy lever

- The IAA may not be framed as an energy legislation, but it will shape the energy transition
- One of the aims of the proposal is to create demand for low-carbon materials. Public procurement and public support measures for sectors including steel, concrete, mortar and aluminium and their products are explicitly conditioned on meeting specific low-carbon criteria. For many of these heavy industries, switching to decarbonised energy sources remains the most viable option to lower greenhouse gas emissions.
- Going further than this, all decarbonisation projects of energy-intensive industries are declared Strategic Projects. The energy transition is used not just to reduce carbon emissions, but also to help rebuild European industrial competitiveness.

2. Electrification is at the core of reindustrialisation

- The net-zero sectors prioritised by the IAA, batteries, solar PV, heat pumps, onshore and offshore wind, hydrogen and nuclear, are core electrification technologies. The EU is intent on establishing a strong European supply chain, with Made in Europe criteria attached to qualify for public support.
- In addition, the IAA adds concrete FDI restrictions on batteries, electric vehicles, solar PV and critical raw materials. One common thread is that these are all sectors where China exercises global dominance. Another common thread is that all these technologies concern electricity supply chains.
- The Commission is therefore moving beyond a market-driven approach. Investment in electrification infrastructure is increasingly filtered through a political lens.

3. Low-carbon content is becoming a pricing signal

- The IAA explicitly embeds low-carbon criteria in public procurement and public support schemes for construction-linked materials. For energy-intensive industries, carbon intensity is therefore no longer just a compliance cost. Instead, it is becoming a competitive differentiator.
- In turn, this policy will likely support the net-zero technologies covered by the IAA, including batteries, renewables and hydrogen, which are predicated on the requirement to comply with Union origin criteria to access public support.
- With the IAA, the European Commission is looking to establish a process of mutual reinforcement for low-carbon technologies, decarbonisation and European industrial revival. Low-carbon credentials become essential to qualify for public funding, while technologies enabling low-carbon manufacturing must increasingly be produced in Europe.

Next Steps

- With the Commission's proposal now published, the IAA formally moves to the European Parliament and the Council of the EU. Both institutions must establish common positions to proceed to interinstitutional negotiations.
- Divisions between Member States will make reaching consensus difficult. France is currently the main driving force behind the IAA, while Germany is leading a group of Member States that want a much more liberal definition of what Made in Europe means.
- EU leaders are expected to discuss the concept of a targeted and proportionate "European preference" in strategic sectors at the European Council Summit on 19-20 March.
- It will take several months for each institution to reach internal agreement and then conclude an interinstitutional agreement. Final adoption by the end of the year is plausible, but negotiations will be intense and highly politicised.

Authors

Otto Laird
Director

Eglė Karečkaitė
Senior Consultant

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