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Corporate Leaders Group Europe

The European industry framework and lead markets

Driving innovation, competitiveness and strategic autonomy in the EU

Policy recommendations

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Policy recommendations for effective lead markets

As reflected in the Commission's decision to include lead market creation as a specific objective under the Clean Industrial Deal (CID), additional policy interventions are needed to establish and grow financially viable clean and circular industrial activity within the bloc. Business examples can inform and build confidence in the success of such policies. Decisive and swift action by government and industries can prevent the EU economy from missing out on the benefits that will accrue to those who develop and deploy cost-effective ways to produce materials and products with a lower environmental footprint. To benefit from the first-mover advantage in a competitive context, time is of the essence.

This summary outlines how European policymakers can support effective lead market development for clean and circular products in a way that enables economic growth, wellbeing, competitiveness, strategic autonomy and progress towards the EU's climate goals all at once. It outlines key considerations for effective lead market policies in the EU context, acting as guiding ideas for the design of policy portfolios. It then looks into the interaction between lead market policies with instruments that support innovation or phase out carbon-intensive products and production technologies, in the interest of coherent and comprehensive policy frameworks. Finally, it sets out strategic recommendations for policy development.

We present more details on how do lead markets work and what lessons can be learned from businesses supporting the early adoption of clean and circular technologies in the full publication "*The European industry framework and lead markets: Driving innovation, competitiveness and strategic autonomy in the EU.*"[1]

1. Adjusting the approach to market readiness

The purpose of lead market policies is to support a product or technology from market introduction to market diffusion, addressing the key challenges to its adoption, scaling and mass deployment. The clean and circular products and technologies covered in the CID are at different stages of development, and more than one solution may be needed for the key sectors covered in the CID and the IAA.

Policies should be developed in line with the S-curve economics framework. This will guide the zero-carbon transition and adapt the policy instruments according to how market-ready the technology, product or service is, helping ensure success and reducing the risk of failure.

This approach, illustrated in Annex 2, divides the technology development process into four stages along the technology learning curve: **invention, market introduction, diffusion and reconfiguration**. Each stage is associated with its own challenges, which inform the policy choices and the key principles to guide policymaking. However, specific policy instruments and regulations need to be adapted to each product category.

At the invention stage, the focus is on **encouraging research and development** of new technologies and products, and new ways of meeting society's needs. Policies at this stage centre on **supporting and**

de-risking innovation and piloting, clarifying desired performance standards and facilitating knowledge sharing and collaboration.

- The key principles informing policy development at the invention stage include technology neutrality, building on existing strengths, and developing a clear vision for the future to reduce uncertainty and reassure investors.
- Getting the policy framework right at the invention stage is crucial to enable new clean and circular products and technologies to emerge.

At the market introduction stage, the focus is on creating early market demand to kickstart the positive feedback loop of technology learning. Policies at this stage centre on early demand and enabling supply despite higher production costs, with a view to identifying the most promising solutions for scaling and any regulatory barriers that may impede this.

- The key principles informing policy development at this stage include concentrating efforts on solutions that have the greatest potential to meet the long-term needs of a given sector, and complementing policies to incentivise demand with measures to encourage and enable supply.
- Lead market policies such as grants and concessional lending, production and purchase subsidies, public sector procurement and content quotas – followed by mandates and standards – can support many existing clean and circular products and technologies to achieve commercialisation.

At the diffusion stage, the focus is on capitalising on technology learning and economies of scale to improve the relative attractiveness of the clean or circular alterative and creating enabling conditions for its adoption at scale. Policies at this stage centre on improving the new product's competitiveness, scaling up demand and supply, and addressing infrastructural and societal barriers to its large-scale deployment.

- In addition to continuing and strengthening the lead market policies designed at the market introduction stage, policymakers must ensure that the enabling infrastructure and regulatory framework are supportive of their growth. This may involve amendments to pricing policies that reduce the competitiveness of clean and circular alternatives to incumbents, and setting up new institutions and regulatory bodies to govern and oversee new services, business models and other operations to enable scaling.
- This requires policymakers to prepare plans and precise timelines for the phasing out of fossil fuel reliant technologies, for the sectors that can operate effectively using the emerging solutions.

At the reconfiguration stage, when the transformation is progressing, the focus is on expanding the market reach to more remote or slower-moving market segments and phasing out emission-intensive practices with minimal disruption to consumers. Policies at this stage centre on completing the required reforms to market structure, regulation and infrastructure, and supporting workers, communities and regions where the economic impact of the transition may otherwise be negative.

- The key principles informing policy development at the market reconfiguration stage include capitalising on the benefits from cross-sectoral applications, integrating the transition into broader governance strategies and economic development plans, and dealing with distributional issues.

Although lead market policies are required primarily to support product development through market introduction and diffusion, it is useful for policymakers to plan for market reconfiguration at the very start of the process. Having long-term objectives for phasing out emission-intensive technologies – such as a date for a sales ban for gas boilers or internal combustion engine (ICE) vehicles, or for the phase-out of free ETS allowances – can reduce the risk of investing in new clean and circular product development and associated services and direct more capital to innovation, R&D and commercialisation. A clear vision supported by sectoral roadmaps for decarbonisation and greater circularity indicate predictability, commitment and stability that will encourage the private sector to develop its own transition plans to benefit from the lead market policies.

2. The role of public and private finance instruments

Creating European lead markets will provide predictable offtake for clean and circular materials, bring down costs through scale, and make Europe a more attractive target for investment capital. There are several ways in which public and private financial flows can support this development in Europe:

Public procurement: This accounts for 15 per cent of EU GDP, meaning it can play a major role in creating early demand for clean products. Governments can set minimum quotas or standards for low carbon and recyclable materials – such as steel, cement, construction products and vehicles – and use EU-level financial tools like the Competitiveness Fund, the Decarbonisation Bank and InvestEU to help cover the extra cost of cleaner options, especially in countries with limited budgets. Procurement rules should include strong sustainability requirements, address long-term cost efficiency, and consider where products have strategic EU industrial value or are produced with key trade partners. Private sector purchasing can also accelerate the uptake of clean technologies in key industries.

Price stability mechanisms: To unlock investment in clean and circular industry projects, companies need predictable demand and lower financial risk. EU guarantees, subordinated debt and other de-risking tools can reduce financing costs. EU-level offtake mechanisms – such as contracts for difference or guaranteed purchasing agreements – will be especially important for hard-to-abate sectors, and would be a meaningful complement to demand creation.

Finance for downstream demand: Scaling industrial investment also requires strong demand from end users. Retail finance tools like green mortgages, soft loans and renovation loans – supported by InvestEU and the Competitiveness Fund – can help households, SMEs and social-economy actors adopt clean solutions. Demand aggregators, such as energy communities, can pool smaller buyers to help them access finance and create scale in fragmented markets.

Criteria and safeguards: Clean and circular markets only work if 'low carbon' and 'circular' are clearly defined, measurable and verifiable. Public funding should strengthen EU value chains and support social fairness. This requires strong safeguards and conditions to ensure that investments genuinely support a fair and sustainable industrial transition. EU financial tools should recognise certified clean products in risk assessments, and sustainability, circularity and Union origin criteria (when they consistently drive domestic industrial capacity, jobs and decarbonisation) should be embedded across state aid, procurement, renewable auctions, EV bonuses and other public finance mechanisms. EU and national funding should also support regions with limited fiscal capacity to avoid widening inequalities.

Streamlined and co-ordinated EU/national funding: Access to public funding must be simpler and more co-ordinated. Today's complex and fragmented procedures slow down clean industry investment. Simplified applications and reporting requirements, if implemented in a balanced way, could further improve permitting efficiency. A more standardised approach – such as a one-stop shop – would make it easier for companies to access support. The next EU budget should better align national and EU funding through the National and Regional Partnership Plans (NRPP) and the European Competitiveness Fund, while the Competitiveness Coordination Tool should ensure national support matches EU-wide lead market goals. EU funds would be strategically used if a larger share was allocated to the green transition through research and innovation, and scale-up of fossil-free processes and technologies. Public investments have a key role to play to support the enabling infrastructure for a competitive and resilient economy, for instance through building key infrastructure, such as energy production, grids, railways and ports, which are horizontal and benefit all businesses.

If Europe wants to lead in clean industrial production, it must build markets that make **clean investments financially viable**. By combining strong demand-side measures, targeted finance tools, and consistent sustainability and EU-preference criteria, the EU can unlock its €100 billion clean industry pipeline, accelerate project deployment, create high-quality jobs, and strengthen its position in the global cleantech race. Of course, a part of this will be following through on wider recommendations of reports like the Draghi report and implementing plans like the Capital Markets Union – measures to improve European competitiveness by creating larger, more liquid capital markets are critical to enable clean innovation investment as much as other parts of the economy.

3. Strategic recommendations for policy development

Supporting the emergence and scaling of clean and circular industrial activity requires a coherent approach to lead market design within the broader context of decarbonising the EU economy. Below, we outline five strategic considerations to guide policymakers in developing effective lead market policies with lasting impact.

1. Ensure policy coherence, predictability and alignment

- **Assess how each policy affects various stakeholders in the value chain,** so no group is unfairly impacted. To avoid problems caused by supply shortages, demand-side tools like content quotas should be flexible when supply is tight. As many key policy files are under development, EU institutions should ensure proper impact assessment, carefully consider the consultation outcomes, and maintain an open and transparent stakeholder dialogue during the legislative process.
- **Set a clear long-term direction for the transition, with sector-specific plans that support both decarbonisation and competitiveness.** Both overarching goals and sectoral, adapted and sequenced plans are needed to deliver on decarbonisation at scale, while maintaining the necessary competitiveness, in alignment with long-standing existing instruments such as carbon pricing. When electrification is technically possible, policies should make it the most cost-effective option and prevent perverse incentives favouring fossil-based solutions.
- **Create long-term emissions, low carbon and circularity targets, including phase-out dates for high carbon technologies.** The IAA can support this by embedding long-term low carbon performance criteria in procurement and investment frameworks, stabilising expectations for manufacturers.

- **Introduce mandatory data reporting and clean/circular content standards and labels.** These should support a gradual shift to cleaner production through tiered categories rather than binary thresholds. Content standards for materials like clean aluminium or plastics must align with supply-side measures to avoid shortages. The IAA can help deliver this through its low carbon product criteria and requirement that supported production meets defined sustainability and origin standards, provided these definitions are transparently developed and in close co-ordination with supply-side measures.

2. Generate strong, reliable market demand across value chains and market types

- **Help consumers and businesses choose cleaner, more circular options** by improving their awareness, skills and motivation through education, training, financial incentives and tools like insurance products. The upcoming Circular Economy Act will be an important moment to advance these measures.
- **Create strong, reliable systems for collecting and reporting data** to enable credible labelling and product information, underpinning the identification of genuinely clean and circular products.
- **Use the IAA to pilot demand for low carbon industrial products,** by embedding minimum low carbon performance criteria and Union-origin content rules in government-led procurement and public support schemes for sectors such as steel, cement, aluminium, chemicals, vehicles and net zero technologies. These rules, if designed with clear definitions and transparency, can help build early demand and send long-term signals that anchor investment.
- **Make strategic use of the upcoming revision of the Procurement Directive,** which can be a strong enabler for clearer, harmonised rules, as part of a consistent legislative framework that paves the way for a successful implementation of sectoral legislation like the Circular Economy Act. Making non-price requirements the norm holds strong potential for the uptake of more clean and/or local products and materials.
- **Ensure that ongoing negotiations clarify where and how these criteria apply,** since definitions of 'Made with Europe' and trusted partners are still under discussion. Decisions about scope, exemptions and phase-ins will require consensus with industry to avoid unintended consequences and maintain the integrity of sustainability objectives. As much as possible should be clarified within the primary legislation to avoid additional years of market uncertainty caused by delegated acts.

3. Enable competitive, scalable supply

- **Support innovation from early ideas to commercialisation through pilot funding, partnerships, mission-oriented collaborations and regulatory sandboxes.** Financing tools such as the Innovation Fund and the European Competitiveness Fund should integrate this early-to-late-stage support.
- **Simplify access to finance** by providing low-cost loans and government guarantees that reduce risk for capital-intensive industrial projects.
- **Ensure the legal framework is clear and easy to understand,** to enable company uptake of financial incentives and new market rules.
- **Fix structural cost gaps that hinder competitiveness of electrification, especially in globally traded sectors.** The Affordable Energy Action Plan and the Grids Package are central to this, and the IAA can complement them by lowering market uncertainty for low carbon industrial products, helping companies justify electrification investments by strengthening future demand signals.
- **Leverage the IAA's accelerated permitting and Industrial Acceleration Areas to reduce delays for strategic manufacturing and industrial decarbonisation projects.** This can shorten time-to-market for low carbon technologies and improve the competitiveness of EU supply.

- Help companies bring clean and circular products to market without risking their financial stability. This includes de-risking big investments with public funds, and encouraging co-operation between policymakers, insurers and regulators so new technologies can be insured. These actions are not classic lead market policies, but they are essential for scaling clean innovation.

4. Build an environment that supports clean and circular lead markets

- Increase public investment in skills, awareness, infrastructure and enabling systems for clean and circular production. This includes renewable electricity and hydrogen systems, CO_2 transport and storage for unavoidable emissions, and more effective recycling and reuse systems.
- Simplify permitting for large, strategic infrastructure. The Grids Package already proposes accelerated procedures for energy infrastructure; the Circular Economy Action Plan should extend similar support to circular systems. The IAA's 'one project, one submission' permitting approach can also reduce bottlenecks for industrial projects needed to supply clean materials.
- Replace prescriptive technology standards with performance standards where possible, and update these regularly to reflect innovation.
- Lower the cost of using electricity and clean hydrogen, including through ancillary markets that fairly reward flexible loads. Over time, this will make electrified industrial processes more competitive and better aligned with the demand created by lead market policies.

5. Foster collaboration

- Invest in joint efforts on the demand and supply side, such as buyer coalitions and partnerships (see Chapter 4). These help aggregate demand, improve offtake certainty and strengthen lead markets.
- Work with industry and trade partners to harmonise data collection, improve interoperability, and develop shared definitions and metrics for clean and circular materials (for example 'low-emission steel'), ideally using tiered levels, in policies related to EU industry.
- Look for trade partners and opportunities for joint initiatives that benefit both them and EU countries by lowering costs, improving resilience and supporting global decarbonisation. Examples include Clean Trade and Investment Partnerships (CTIPs),[2] Just Energy Transition Partnerships (JETPs)[3] and sectoral initiatives.[4]
- Use IAA discussions to advance these collaborations, since the Act's approach to trusted partners, reciprocity and trade-aligned procurement rules provides an opening to shape common sustainability standards with like-minded economies.

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