

Position Paper „Made in Europe and Partner Countries“

International competition is now politically pre-structured

The liberal global economic order is increasingly being supplanted by a geo-economic logic.

Economic relations are being instrumentalized for power-political purposes and can therefore no longer be assessed solely on the basis of efficiency, but must also be evaluated in terms of vulnerability, dependencies, and strategic value. Trade, investment, and technology policy are increasingly driven by security and strategic considerations. Open trade remains central for the EU and particularly to Austria¹. However, in light of the industrial² and trade policy actions of the United States and China, it is increasingly conducted under structurally asymmetric competitive conditions.

Openness in the strictly multilateral sense is currently hardly realistic in many areas.

With the United States, the rules-based order has partly lost its central actor for rule enforcement. Organizations such as the WTO and the OECD are often no longer able to enforce rules multilaterally. Economic policy instruments should therefore be based on plurilateralism and designed to remain open to cooperation with “like-minded countries”.

Competitiveness must be considered more broadly.

In an interdependent world characterized by technological power shifts, security risks, and strategic dependencies, “competitiveness” must be understood more broadly than mere price and cost competition. A geopolitically robust strategy therefore combines innovative capacity, resilience, EU-centred cooperation, and strategic governance embedded in long-term security policy. The adaptation of European instruments is thus not protectionism, but rather a pragmatic response to changed global competitive conditions.

Europe needs a strategic industrial and trade policy toolkit.

Without its own strategic industrial and trade policy toolkit, Europe will not achieve the competitiveness it strives for. A purely supply-side agenda (cost relief for labour, energy, regulatory compliance, etc.) cannot offset the cost advantages generated elsewhere through subsidy and tariff policies. Without demand-side instruments, highly exposed sectors face the threat of site closures or relocation. Countervailing duties alone are not enough, as they compensate only measurable subsidies and do not create a sustainable demand base for EU production.

- ➔ It will always require **political consideration** to determine in which areas consumers should benefit from low import prices due to subsidies and where **security or strategic reasons** justify maintaining domestic production capacities. Inaction cannot be an option. An overly restrictive use of European preference instruments weakens Europe’s ability to compete under newly structured geo-economic competitive conditions. What is required instead are **targeted, strategically aligned instruments** that enhance the EU’s resilience.

What are local content requirements (LCRs)?

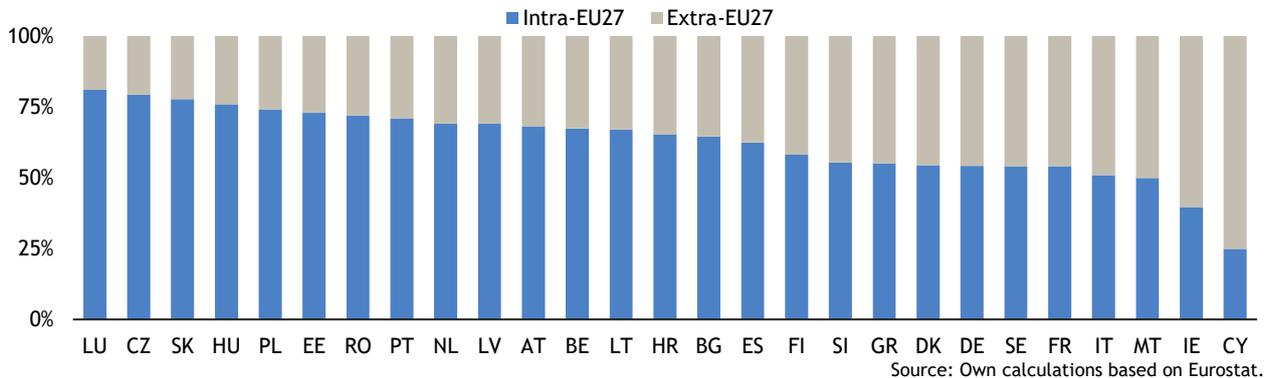
Local content requirements (LCRs) prescribe a minimum share of locally produced value added, components, services, or production in order to protect domestic industries in their development and learning phases, until they have reached a sufficient scale to be internationally competitive, and to protect them from negative cross-border externalities from industrial policy measures of other economic areas.

In doing so, they build on the EU’s greatest economic asset: the demand base of its own internal market. For the vast majority of Member States, the internal market is the most important sales area and thus the central lever to set investment incentives, enable economies of scale, and accelerate learning curves in strategic stages of the value chain.

¹ In 2024, Austria exported goods and services worth around 55% of its GDP, with around 70% of these exports going to other EU member states.

² The term ‘industry’ is used broadly in this document and encompasses commercial production in the industrial and craft sense, as well as production-related value added along the entire value chain, including SMEs.

Share of intra-EU trade in total goods exports of the EU27
in %



European local content requirements can accordingly be understood as industrial policy instruments with which, at the EU level or in the Member States, it is stipulated that a certain minimum share of value added, components, services, or production including necessary intermediate products and key components (including globally sourced inputs) must come from the EU in order to receive access to public contracts, funding, or regulatory advantages.

Typical forms of European LCR:

- **Public Procurement:** Preference for suppliers with EU production or EU value-added share
 - **Funding and subsidy programs:** Eligibility for funding is often linked to location or value-added criteria.
 - **Regulatory market access conditions:** Instead of formal quotas, market access conditions are designed that effectively favour local value added.
 - **Reciprocity and protection instruments:** Third-country suppliers receive full access to the EU market only if comparable openness for European companies exists.
- ➔ LCRs are an industrial policy alternative to classic industrial subsidies, which address the aggregate demand side of the economy.

Local content requirements as an opportunity for Austria and Europe

LCRs, if designed appropriately in legal, administrative and budgetary terms, can deliver **multiple benefits for the European economy:**

- **Strengthening European value added:** LCRs can direct investment decisions specifically to Europe, where the market alone no longer does so. In this way, value chains can be built and deepened, existing industrial clusters stabilized, and critical production stages brought back to Europe. Studies (e.g. [Pardi et al. 2025](#) or [Eicke 2025](#)) show that even moderate local value-added requirements are sufficient to trigger noticeable investment effects, especially when the whole of Europe acts as a common market.
- **Protection against unfair competitive conditions:** European companies increasingly compete with state-affiliated enterprises, massively subsidized competitors, and/or non-market-based pricing structures. LCRs can partially neutralize asymmetric competitive conditions by protecting European value added from dumping imports or subsidy-driven products. In this way, extreme countermeasures such as blanket protective tariffs can be avoided, while still providing some compensation for distorted competitive conditions. **Particularly relevant for export-oriented economies:** Unlike tariffs and classic trade defence measures, which as coercive instruments can quickly lead to retaliation and escalation, LCRs act primarily through access to funding, public contracts, or regulatory advantages. When designed in a WTO-compliant and proportionate manner, and communicated transparently, they are therefore generally less susceptible to immediate countermeasures than broad-based tariff increases.
- **Creating predictable demand („Lead Markets“):** LCRs can make public and regulated demand in Europe bundled and predictable. They establish reliable sales markets for European producers and

provide investment security, especially in capital-intensive industries. Reliable domestic demand and a large unified market make Europe attractive as a production location.

LCRs in practice: The Inflation Reduction Act (IRA) during the presidency of Joe Biden

A prominent example of this demand-driven investment logic (“crowding-in”) along the value chain is the U.S. Inflation Reduction Act (IRA): The long-term subsidy and tax credit schemes, in combination with LCR components, have since 2022 led to strong momentum in factory construction investment in the United States (e.g., compared to Germany).

Real construction investment in factory buildings: USA vs. Germany

Index: 2020 = 100



Source: FRED, Destatis; DE: deflated using the construction price index for commercial industrial buildings, construction work on the building structure; US: deflated using the producer price index for the construction of industrial buildings.

This has also raised expectations among suppliers of downstream clean tech products regarding future demand, which has likewise led to investment incentives in these areas. Expectations of future demand growth can therefore trigger a positive feedback effect.

- **Increasing economic resilience and security through risk diversification:** LCRs reduce so-called “single points of failure” in supply chains and limit dangerous dependencies on highly interventionist or politically unstable third countries—especially in security- and defence-relevant areas, where a security-technology base must be ensured. This increases the crisis and supply resilience of European industries and societies. Resilience here does not arise through complete isolation, but through critical minimum capacities and functioning European networks.
- **Better linking of industrial, climate, and innovation policy:** Smartly designed LCRs can combine industrial, climate, and innovation policy benefits. For example, by promoting regional supply chains with shorter transport routes and thus lower CO₂ emissions. In this way, industrial policy objectives can be supported alongside environmental policy goals. This is particularly relevant where long transport distances and logistics-intensive supply chains make up a large part of the overall balance. Furthermore, LCR requirements create incentives for the establishment of modern, energy-efficient production facilities and link support to R&D, training, and technological development.
- **LCRs offer benefits especially for smaller and medium-sized economies:** Many Austrian companies supply intermediate products, components, machinery, specialty materials, or industrial services, but not final products. When LCR requirements are applied across Europe, they consequently function as a demand anchor for existing Austrian competencies (e.g., reliability, quality, standards compliance), as subsidy-driven price advantages of suppliers from third countries recede into the background. Moreover, integration into European value chains allows specialization in high-quality niches instead of mass production. This makes national solo efforts less attractive, strengthens the level playing field in the European internal market, and reduces fiscal burdens compared to national subsidy systems.

Functional design principles of LCRs

European local-content policies then unfold positive effects when they are coordinated at the European level, designed to be partner-open, implemented in a moderate way, demand-oriented, cumulatively based on value added, and complemented by flanking location policy measures. These functional conditions must be translated into a **(WTO)-legally secure, fiscally viable, and easily administrable policy design**:

- **Clear objectives and strategic focus:** LCRs are not an all-purpose industrial policy instrument, but must be used selectively. Complete localization is inefficient, increases production costs, restricts supply, and weakens competitiveness. The goal is not isolation, but the compensation of unfair, subsidy-driven competition, with a focus on strategic bottlenecks and key sectors. LCRs should also promote learning and innovation processes in Europe, not just conserve existing production.
- **European coordination, cumulation, and partner inclusion:** National solo efforts fragment markets and drive an inefficient subsidy race. Especially with regard to the complex supply chain structure of European companies, **EU-wide uniform and objective definitions** of “local/European,” coordinated thresholds, transition periods, and compatible criteria are indispensable. Central is **EU cumulation**: value-added shares from several Member States must count jointly as “European” to strengthen specialization and cross-border value chains. At the same time, access for (FTA) partners should be kept open, tied to reciprocity (e.g., through reciprocity clauses) and transparency, so that LCRs support cooperative trade policy without isolating the internal market. This requires clear responsibilities and cross-DG coherence in the European Commission to avoid contradictory requirements.
- **Moderate, practicable thresholds:** The level of required local value-added shares must be chosen realistically. Excessive quotas risk counterproductive effects, which in the worst case can lead to declining production, rising costs, or circumvention attempts. Companies respond to unachievable requirements with production relocation, foregoing support, or market withdrawal. Therefore: moderate entry, stepwise increase only in line with EU capacities, systematic consideration of imported intermediate products, as well as transition periods and planning security to allow companies to adjust. Where a quota is (still) objectively not achievable, justified exceptions (“opt-out” possibilities) should be provided to avoid unnecessary harm. It is also recommended to include sunset clauses and to conduct early impact assessments, particularly regarding the (cost-related) effects on SMEs.
- **Demand-driven rather than coercive logic:** It is central that LCR measures function best through demand-side impulses rather than through rigid prohibitions. International experience shows that demand-based instruments are economically more effective and politically more sustainable than rigid production quotas or even production bans. In practical terms, this means: LCRs should be linked to public procurement, subsidies, or bonus programs in order to make investment in Europe more attractive, instead of prescribing to companies where they must produce. This approach generates the desired lead-market effect, making production in the EU worthwhile without unnecessarily restricting openness to trade.
- **SME-compatible administrability and standardization:** LCRs must be implementable with minimal proof requirements. This is particularly crucial for SMEs. Where possible, for example, standardized self-declarations and digital templates should be used. Since obtaining the data necessary for calculating the European value-added content can involve high administrative effort for companies, it is important to examine how the requirements can be designed as practicably as possible.
- **Embedding in an industrial policy mix:** LCRs are not a panacea and only work if accompanied by flanking measures. Complementary policies must in particular focus on areas such as workforce qualification, infrastructure, energy prices, faster approval procedures, as well as research and innovation. Only as part of a comprehensive industrial policy concept can LCRs fully unfold their effects. Long-term strategic continuity is one of the central prerequisites for successful industrial policy.

Conclusion

In the new geo-economic era, international competition is increasingly politically pre-structured. **Competitiveness is no longer solely a matter of the economic characteristics of companies** (productivity, price competitiveness), **but is also shaped by industrial policy frameworks. European local-content requirements** are an instrument that, under these new conditions—and with due regard to fundamental design principles—can safeguard **competitiveness, resilience, and investment dynamics.**