Event report: Activating Lead Markets: A Demand-Side Strategy for Competitive Low-Carbon Industries

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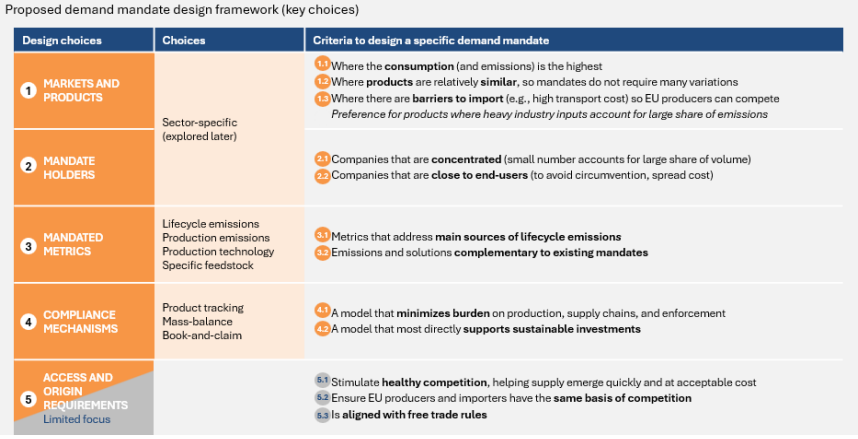
In its Communication on a Clean Industrial Deal (CID), presented on 26 February 2025, the European Commission identified lead markets as a key business driver for a competitive, resilient, and decarbonised European economy. The CID recognises the importance of an integrated value chain approach, to strengthen industrial ecosystems and highlight the need for demand-side measures, in order to create a solid business case for low-carbon products. The event, organised by the **MEP Group on 'Climate Change, Biodiversity and Sustainable Development'** and hosted by **MEP Jeannette Baljeu**, convened policymakers, energy-intensive industries, and civil society, to engage in an open dialogue on the design of effective European lead markets for low-carbon products.

MEP Baljeu, in her opening speech, emphasised that investments in green products do not tend to occur in a linear way. Considering corporate investment timelines of seven or eight years, the next 25 years present only limited opportunities for green investments. When examining the value chain, special attention should be paid to demand-side measures. The current moment, with the upcoming Industrial Accelerator Act, presents a timely opportunity to bring forward new solutions. This commitment requires real, practical solutions, to create a future in which Europe maintains strong businesses and industry.

Mr. Ijmert Muilwijk, Programme Manager for the Gas Market and Hydrogen at Energie Nederland, delivered a presentation on mobilising consumer demand for sustainable investment. Challenges facing EU heavy industry have led to the low adoption of low-carbon solutions. There is a strong incentive for imports, mainly due to the EU's high energy prices and the (future) impacts of the EU ETS, posing a risk of strategic dependency. Investments in lower-emission solutions are currently not viable, given significant cost differences that create an annual value gap of approximately €165 billion. To close this gap, Mr. Muilwijk stated that the focus should be on new ideas and methodologies, as subsidies alone will not be sufficient.

Policy to date has focused predominantly on the supply side of the value chain, leaving scope for new instruments focussed on demand. These instruments should be guided by four key principles: **scale** to enable supply ramp-up, **effectiveness** to prevent circumvention, **feasibility** in terms of administrative burden, and **competitiveness**. Demand mandates involve five key design choices: **which markets and products** are suitable for demand creation; who the **mandate holder** will be; what the **mandated metric** should be; how the **compliance mechanism** will be designed; and what **access and origin requirements** should apply.



Compliance mechanisms should minimise administrative burden while supporting sustainable investments. He explained two possible systems to ensure compliance: first, tracking the green product through the entire supply chain, which would create a significant administrative burden; and second, a certificate system representing the environmental value of the green product, which can be purchased by the mandated party more easily. It is important to identify the right point in the value chain to designate mandate holders. The optimal "sweet spot" lies towards the end of the value chain while keeping the number of mandate holders manageable.

Using fertilisers and dairy as examples, Mr. Muilwijk explained how a demand mandate downstream for low carbon fertilizer use combined with a certificate system could function. In Europe, only about 260 dairy companies handle more than 75% of all dairy products, making them a manageable number of mandated parties. If a mandate required using 10% green fertilisers for dairy production, dairy producers would need to purchase green fertiliser certificates, creating a demand pool for green fertiliser producers. This process would help de-risk European green fertiliser projects through the use of a trading platform for green certificates. Mr. Muilwijk stressed that creating demand is essential, as there is currently no real market demand for green fertiliser or green steel plants. Mobilising demand is therefore the key driver for enabling green production.

Shifting to the panel discussion, **Mr. Luc Haustermans**, VP Corporate Affairs & Industry Relations at Yara International, praised the presentation for clearly laying out practical policy design principles. This is especially useful for the EU institutions, since upcoming policies such as the Industrial Accelerator Act will require concrete design principles, to guide further work.

Mr. Hans Grünfeld, Chair of IFIEC, remarked that attractive products are usually characterised by superior quality and price, and offered some reflections on the effects of demand-side measures on product prices. Firstly, European industry faces competition from cheap imports from abroad; EU industry therefore needs to be protected from substitution by cheaper grey alternatives. Secondly, he drew attention to the implementation challenges of Europe-wide demand-side measures. Thirdly, he warned of competition from "green imports" – products that, through subsidisation or greenwashing, could out-compete European producers.

Ms. Irene Domínguez, Lead for Markets & Embodied Carbon at Bellona, reiterated the opportunity presented by targeted demand mandates. She stressed that policies should be simple yet robust, with strong carbon accounting and a clear link to their impact on decarbonisation.

In response to a question on how the Lead Markets Initiative can be better designed to support energy-intensive industries and scale these markets, **MEP Baljeu** gave the example of hydrogen. She emphasised that policy must clearly define what qualifies as low-carbon product, and noted her support for a technology-neutral approach, provided that the focus remains on low-carbon outcomes and the development of appropriate infrastructure.

A subsequent question explored how the Industrial Accelerator Act can ensure a sector-specific approach that accounts for market particularities. In reply, **Mr. Grünfeld** underlined that there is no one-size-fits-all solution, as sectors such as steel, fertilisers, and dairy products differ significantly, including in their price elasticity of demand. These differences must be recognised, since for some products substitution effects may ultimately lead to demand destruction. He also stressed that any obligations should be harmonised with existing regulations and legislation. Pan-European systems such as electricity certificates have historically posed challenges. Demand

mandates for industry, he argued, will require an effective cost path downstream, which will be the ultimate test of the system's success.

Turning to **Mr. Luc Haustermans** for the perspective of the fertiliser sector, the discussion moved to what specific characteristics of the agri-food value chain policymakers should consider when aiming to stimulate market demand for low-carbon fertilisers. Policymakers, he explained, must consider the unique structure of the agri-food chain, particularly the central role of farmers, who are typically small, low-margin businesses with limited capacity to absorb additional costs. The cost burden should therefore fall more heavily on larger downstream actors. He further highlighted the importance of harmonised certification frameworks, to enable scalability and traceability, and noted that a unified approach for incentives to use low-carbon fertilizers to decarbonise agri-food production should be closely linked to eco-schemes.

Ms. Domínguez argued that public procurement will be one of the most powerful tools available to stimulate demand for low-carbon products. She further emphasised the importance of aligning upcoming rules under the Clean Industrial Deal and the Industrial Accelerator Act with procurement preferences, and of deploying mandates and sectoral action plans in areas where public market influence is weaker. Ms. Domínguez also underlined the potential of public-private partnerships to accelerate market creation, and stressed that EU reference criteria and buyer requirements must be firmly linked to climate conditionalities to avoid locking in unsustainable production pathways and undermining long-term competitiveness.

She added that the public sector can play a significant role in supporting the uptake of decarbonised production. However, she cautioned that mandates should not rely excessively on individual consumers, whose ability to pay varies widely. Family-run companies with small margins should not be overburdened, and the principles of a just transition must remain central.

In addition to the above, **MEP Baljeu** argued that compliance mechanisms should be lean and draw on data already available in end products, rather than creating new and potentially burdensome administrative systems. Any mechanism, she stressed, must be both sector- and product-specific. She then invited Mr. Muilwijk to expand on a recurring question she encounters in companies: *how should percentage-based mandates be phased in over time?*

Mr. Muilwijk acknowledged the need for careful calibration in designing demand mandates but noted that, at this stage, it may still be premature to focus on technical details when some stakeholders remain unconvinced of the necessity of demand-creation measures. He explained that the system proposed should act as a "friendly twin" to the ETS, providing the "pull" to complement the existing "push-only" approach. MEP Baljeu agreed that public procurement is a key instrument for driving sustainable markets, and emphasised that, given intense global competition, European industrial autonomy must be safeguarded during the sustainable transition, even from a liberal world-trade perspective.

Moving on, **Mr. Haustermans** argued that fertilisers and ammonia should be included in the Industrial Accelerator Act. From the perspective of the food industry, it is particularly important not to burden farmers. EU origin requirements, he noted, present an opportunity to enhance the competitiveness of sustainable European farmers. **Mr. Grünfeld** agreed with the need for a strong "made in Europe" component, stating it would be necessary to protect the European industry from both grey and green imports. However, he also emphasised the need to attract and retain investments in Europe, recognising that many investment decisions affecting European industries are made outside the EU. For this reason, he stressed the importance of maintaining a

favourable investment climate on the supply side, complemented by well-designed demand-side measures.

Ms. Domínguez also advocated for robust, science-based, and sector-specific definitions in the Industrial Accelerator Act, and for the Act to adopt a systemic perspective. While clear certification mechanisms for low-carbon products are important, she noted that chain-of-custody systems must be carefully assessed, as there is no one-size-fits-all approach.

Responding to an audience question on the lack of political ownership in low-carbon product policy, **Ms. Domínguez** stated that certain areas, such as construction machinery, tend to fall between the cracks. For this reason, she emphasised the need to involve representatives from different Directorates-General in discussions and events. Echoing this, Mr. Grünfeld urged the Commission at the highest level take clear ownership over the topic of low-carbon industry production. In response to this, MEP Baljeu recognised the issue and also called for greater coordination, although she noted with optimism that increasingly, parliamentary committees are engaging jointly on these matters.

Last but not least, **Mr. Muilwijk**, responding to a final question from the audience on milk imports, highlighted the need for strong political backing alongside technical design to address uneven competition with foreign producers. He also called for close collaboration with European organisations, to develop the detailed framework and to supply the evidence base needed, to support the forthcoming European Commission proposals.