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EU's IAA policy on China Autos

Expert call highlights and our take

- **We recently hosted an expert call on EU's IAA (Industrial Accelerator Act) policy:** The policy initiative is set to reshape the European auto sector by tying subsidies and incentives to strict local-content rules, rather than blocking Chinese imports outright. Meanwhile, our expert also highlighted that the IAA's phased rollout—likely starting mid-2027—will depend on a Franco-German compromise between strict local-content and CO_2 flexibility. The real test for both European and Chinese OEMs will be their ability to localize production, secure battery supply, and form strategic partnerships to maintain market access and profitability. We detail the call highlights in this report and our recommendations.
- **First key highlight- Policy process & timeline**: The IAA is part of a broader EU package (CO_2 standards, fleet regulation, "Made in Europe" rules). Parliament and European Council are reviewing these in parallel, with a joint draft expected by September (at the earliest) and trilogue negotiations between EU members likely extending into 2027.
- **Second key highlight- Be mindful of internal EU dynamics**: The final outcome hinges on a Franco-German compromise: France is pushing for strict local-content and battery sourcing, while Germany seeks more flexibility and longer phase-ins, especially for PHEVs, based on our discussions with the expert. Three Parliament committees- 1) Industry/Research/Energy, 2) International Trade and 3) Internal Market & Consumer Protection are reviewing the proposal, with committee and plenary votes required before Council and Commission trilogue. All these legislative and administrative procedures could easily take >5-6 months. We believe any new measures will only likely be implemented by mid-2027 at the earliest.
- **Third key highlight- EU vs. China negotiation**: The EU is not seeking to exclude Chinese OEMs but aims to incentivize local investment, partnerships and technology transfer. Negotiations are focused on how minimum price mechanisms, FDI rules, and potential sales quotas will be structured. Key unresolved issues include how compliance will be monitored and whether production in third-country FTA regions will remain eligible for incentives in Europe.
- **Fourth key highlight- Industry impact & risks**: European automakers face challenges ramping up battery production and managing higher procurement costs, while Chinese OEMs are under pressure to accelerate local manufacturing and navigate complex regulatory requirements. The outlook for Chinese OEMs will depend on how quickly their new European factories come online, the ability to secure local supply chains, the formation of cross-border partnerships and mitigation of local administrative hurdles, such as labor union, all of which will be critical for maintaining competitiveness for Chinese OEMs as the new rules take effect. All else equal, **BYD** among all Chinese OEMs is the best positioned strategically and operationally to continue expanding its footprint in Europe, although the company needs to demonstrate its ability to weather all the regulatory and operational challenges discussed above.

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Summary of EU IAA Policy and "4 steps" to proceed- 1) Legislative process, 2) Negotiations within EU, 3) Negotiation with China and 4) Industry implications

Aspect	Key Details & Takeaways
Legal Framework	Parallel tracks: Parliament (3 committees)+ Council; joint draft by Sep-2026, amendments through Nov 2026, trilogue to follow toward the year-end. Implementation of any measures or policy likely by mid-2027 at the earliest in our view
Franco-German Negotiation	France: strict local-content, Germany: flexibility, compromise likely
EU-China Negotiation	Localization, partnerships, knowledge transfer; scenario analysis for geographic scope
Industry Implications	European OEMs: battery ramp-up risk; Chinese OEMs: localization, capex, partnerships; market share rising

Source: J.P. Morgan summary based on discussions in our expert call on Aug 21, 2026.

1. EU Policy & Legal Framework

Overview

The EU's Industrial Accelerator Act (IAA) is a central pillar in a broader automotive policy package, which also includes CO_2 standards, corporate-fleet regulation, and "Made in Europe" requirements. The IAA's primary mechanism is not to restrict market access, but to tie eligibility for public support (consumer subsidies, corporate-fleet incentives, public procurement, state aid) to compliance with local-content rules. Non-compliant vehicles can still be sold in the EU, but without public support (e.g. govt subsidy), thus reducing their competitiveness. This approach is designed to be WTO-compliant, as it does not directly block imports but instead aims to encourage localization, investment, partnership and technology transfer.

Key Policy Features:

- **Local-content threshold**: The IAA proposes a 70% European value-added threshold for finished vehicles, including the battery. This threshold applies immediately upon implementation (expected mid-2027), with phased-in requirements for battery cells, BMS or battery management system (2028), and cathodes/upstream components (post-2030)- should all these be passed by the European parliament.

- **Scope**: The rules apply to vehicles seeking public support. Private-consumer EVs are subject to broader FTA-based criteria, while corporate-fleet vehicles may face stricter European battery and local-content requirements.

- **Battery sourcing**: EU-produced cells qualify regardless of manufacturer nationality, including Chinese and Korean suppliers. This is intended to encourage localization and partnerships rather than exclusion.

- **FDI conditions**: New foreign direct investment (FDI) rules would apply mainly to future large-scale projects, focusing on labor standards, local workforce development, and technology transfer.

Legal Procedure:

- **Parliamentary process:**
  - Three committees: (1) Industry/Research/Energy or ITRE, (2) International Trade or INTA and (3) Internal Market & Consumer Protection or IMCO are reviewing the proposal in parallel.
  - The ITRE Committee supports stricter local-content rules and a narrower regional definition.
  - The INTA Committee is divided, but is inclined to support tighter requirements.
  - The IMCO Committee is mixed, but its lead legislator also supports stricter rules.
- **Timeline:**

  - Joint committee draft report by end-September 2026.
  - Amendments and negotiations through November 2026.
  - Parliament plenary vote after committee agreement- likely around end-2026 to early 2027, should all go smoothly.
- **Council of the EU:**
  - Member-state negotiations are critical, with France and Germany leading.
  - Even if Parliament and Council positions are established by year-end, trilogue negotiations with the Commission will likely add 1–2 months.
  - Translation of final documents into 22 official EU languages adds administrative complexity.

Policy Timeline:

- IAA implementation: mid-2027 at the earliest based on anticipated timeline above.
- Battery-cell and BMS requirements: 2028
- Cathode and upstream requirements: post-2030
- National elections in Spain and France in early 2027 could add further uncertainty according to the expert.

2. Franco-German Negotiations

Based on the discussion with the expert, we summarize below:

France's Position:

- Advocates for strict "Made in Europe" requirements and European battery sourcing.
- Favors a narrower definition of eligible regions, aiming to limit the use of third-country FTA production for EU subsidies.
- Seeks to restrict the eligibility of vehicles produced outside Europe, the UK, or an EEA region.

Germany's Position:

- More cautious on strict-local-content mandates, prioritizing flexibility in CO_2 compliance.
- Seeks more favorable treatment for PHEVs and may accept local-content rules with longer phase-in periods.
- Focuses on maintaining competitiveness for German OEMs, which are heavily invested in PHEVs and have complex supply chains.

Negotiation Dynamics:

- The final outcome will likely depend on a Franco-German compromise.
- Germany may accept selected local-content provisions in exchange for weaker emissions targets or more favorable PHEV treatment.
- Our expert does not expect France's strictest proposal to pass in full, given likely German opposition.
- The September–October period is key for monitoring negotiations, with a year-end agreement seen as unlikely, leading to further trilogue talks to extend into 2027.

3. EU-China Negotiations

EU's Approach:

- The EU is not seeking to exclude Chinese companies but aims to encourage localization, partnerships, and knowledge transfer.
- EU-produced battery cells can qualify for incentives, regardless of manufacturer nationality, including Chinese and Korean suppliers.
- The policy direction is to support local investment and partnership rather than continued reliance on direct imports.

Trade defense & overcapacity:

- The IAA and related mechanisms are designed to be WTO-compliant, affecting subsidy eligibility rather than market access.
- The EU is expanding its toolkit from BEV-specific tariffs (~30%) to minimum price/volume caps and broader anti-dumping safeguards, targeting market-distorting excess capacity in third countries, especially China.
- The EU is also considering a mechanism to address overcapacity in sectors such as EVs and steel, with the Commission empowered to introduce unilateral trade remedies if market distortion is found.

Negotiation points:

- The EU guideline on minimum selling price (MSP) for BEVs is still at a high level and will require further negotiation with China.
- Chinese exporters may be asked to commit to annual sales volume quotas to reduce EU concerns about cross-compensation.
- Ongoing monitoring will require Chinese exporters to provide sufficient data to demonstrate compliance with the MSP scheme.

Scenario analysis (from China's perspective):

- **Best-case:** Broad FTA-based geographic scope is retained, allowing Chinese companies to manufacture in other markets outside Europe such as Asia or Latin America and export to the EU. The special FTA restriction for corporate-fleet vehicles is removed.
- **Worst-case:** France's stricter position is adopted, limiting eligible local production to Europe, the UK, Turkey, or an EEA- region, and imposing strict FDI, technology-transfer, and labor requirements. Our expert does not expect the full worst-case scenario though due to German opposition discussed above.
- **We think a likely outcome will come in between the above two scenarios.**

4. Industry Implications

European OEMs:

- **Battery ramp-up & procurement challenge:** European OEMs face significant risks in battery ramp-up and procurement costs. Northvolt's bankruptcy in 2025 and delays at the production facility of ACC (Automotive Cell Company) in France earlier this year highlight execution challenges. Volkswagen and Stellantis are better positioned due to investments in PowerCo, ACC, and CATL-related projects, but execution risk remains high, according to the expert.
- **Contract renegotiation:** Other OEMs may need to renegotiate battery supply contracts, source from EU-based Chinese or Korean battery plants, and absorb higher local procurement costs.

Chinese OEMs:

- **Localization drive:** Chinese OEMs must accelerate European localization to mitigate both tariff and non-tariff barrier- nonetheless, this would also mean higher capex, longer ramp-up periods, skilled labor shortages, higher energy costs, complex regulatory approvals as well as labor union pressure. Since the Sep-2024 EV tariff announcement, several Chinese OEMs have announced over ten European factory or LT localization plans.
- **Partnerships:** Partnerships with European or global OEMs can monetize idle capacity and accelerate compliance with subsidy and local-content requirements (e.g. Leapmotor partnership with Stellantis and Geely with Ford). These partnerships provide access to existing facilities, improve local brand recognition, and support compliance.

Market dynamics:

- **Shift in export mix:** Direct imports of China-produced BEVs have declined, but Chinese-brand EV market share continues to rise. PHEVs remain outside the current tariff scope, and Chinese OEMs are shifting exports toward PHEVs and HEVs to mitigate tariff exposure. Nonetheless, as EU now aims to curb Chinese PHEV, we believe a similar anti-subsidy tariff on China-made PHEVs into Europe could be imposed sometime in (early) 2027.
- **Policy escalation:** The EU's policy escalation is incentivizing local production and partnerships, with the winners being those with localization optionality, brand credibility, and ecosystem differentiation. We forecast Chinese OEMs' market share in Western Europe will reach 20% by 2028 (~2.5mn units), up from 1mn last year.

Risks & uncertainties:

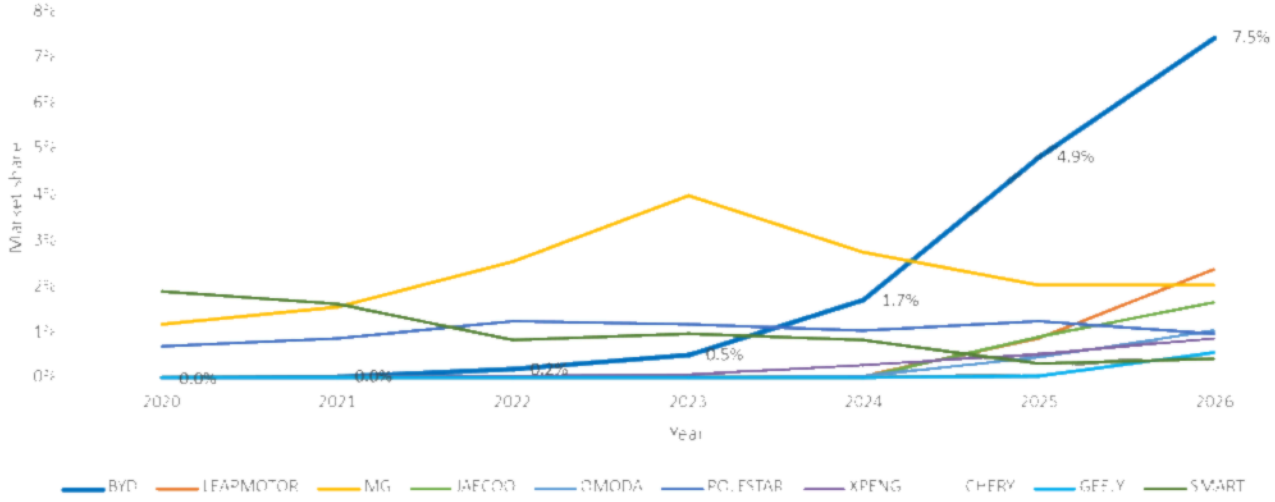
- **Key uncertainties:** The final geographic scope, corporate-fleet battery rules, calculation of the 70% localization threshold, battery-component definitions, and treatment of previously announced Chinese investments remain unresolved.
- **Battery production bottleneck:** Battery production remains a bottleneck, with actual output dependent on ramp-up, yields, and project execution. Europe's battery industry faces significant challenges, and domestic capacity is being prioritized although this may require oversea suppliers' investments- from China, Korea and Japan.

5. Conclusion

The EU's IAA policy is a nuanced, multi-stage process balancing industrial policy, trade defense, and climate goals. The outcome will depend on a **Franco-German compromise, EU-China negotiations, and industry adaptation**. The policy incentivizes local production and partnerships, with significant implications for both European and Chinese OEMs. Investors should monitor legislative progress, partnership announcements, and battery ramp-up as key catalysts for sector re-rating.
All else equal, for Chinese OEMs whom we expect to deliver solid growth profile and localization strategy, we believe **BYD** will be a leading one, followed by **Leapmotor** and then **Geely**.

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Figure 1: BYD brand and other key Chinese brands' NEV Market Share in Europe from 2020 to YTD2026



Source: Marklines and Bloomberg Finance L.P. as of August 28, 2026, J.P. Morgan calculations as of August 28, 2026. Note: YTD26 refers to 7M26.