

Controversial Electric Vehicle Policy

By: Rapid Access International, Inc.

August 2022

With midterm elections nearing, the Biden Administration is doing its best to tout its accomplishments amidst decades-high inflation and a range of concerns relating to the economy. One key area of focus has been the auto industry. Specifically, electric vehicles.

To that end, U.S. Treasury Secretary Janet Yellen highlighted two key accomplishments of the Biden Administration in a recent speech at Ford Motor Co's Rouge Electric Vehicle Center in Dearborn, Michigan.¹:

First, the Inflation Reduction Act includes a potential tax credit of up to \$7,500 for buyers of electric vehicles made in North America. It also includes \$10 billion in funding for clean energy plants and \$2 billion to transition existing auto plants to manufacture electric vehicles.

Second, the CHIPS and Science Act includes \$53.7 billion in grants over 5 years to support increased production of semiconductor chips. The auto industry has struggled in recent years due to a chips shortage that led to layoffs and production halts. This legislation is characterized by the Administration as a lifeline for the industry.

Electric vehicles have been a key topic of focus lately, not just because of the Administration's efforts. State governments have been taking significant actions of their own. The most noteworthy of those was the historic vote in August, leading California regulators to announce a ban on the sale of new gasoline-fueled cars in the state by 2035. Although the rule will need EPA approval, the Biden Administration has already indicated that it will likely be granted.²

California is not only the largest auto market in the U.S. The state's vehicle emission standards are followed by 17 states, comprising 40 percent of U.S. car sales. The implication is that this latest action will have broad implications for the growth of the electric vehicle market nationwide.

Possible Trade and Environmental Issues

Since the Inflation Reduction Act was passed, just last month, Honda and Toyota have announced that they will build electric vehicle batteries in Ohio and North Carolina. General Motors has announced three similar plants and indicated that a fourth will soon be announced. Ford and other vehicle manufacturers have announced the creation of many new EV manufacturing jobs. Tesla, of course, also stands to benefit greatly from the law.

¹ Hendrickson, Clara and Todd Spangler. "Treasury Secretary Yellen celebrates legislative achievements, looks to future at Ford plant". Detroit Free Press. September 8, 2022. Available at: <https://www.freep.com/story/news/politics/2022/09/08/yellen-defense-biden-administrations-economic-plan/65742660007/> Accessed on September 9, 2022.

² Nawaz, Amna and Maea Lenei Buhre. "California's move to ban sales of new gasoline-fueled cars could spread to other states". PBS NewsHour. September 5, 2022. Available at: <https://www.pbs.org/newshour/show/californias-move-to-ban-sales-of-new-gasoline-fueled-cars-could-spread-to-other-states> Accessed on September 9, 2022.

The potential benefits for U.S. job creation, the economy, and the environment are significant. But, it's not lost on the leadership of foreign countries, that onshoring of chip manufacturing and the requirements for electric vehicles and parts to be manufactured in North America. In one way or another, the approach may constitute a violation of the U.S.'s World Trade Organization obligations.

The European Commission, South Korean officials, think tanks such as the Peterson Institute for International Economics, and industry groups including The Alliance for Automotive Innovation have all separately spoken out against this approach as 'clearly discriminatory'.³

To be sure, many foreign vehicle manufacturers operate within the United States. But, there are parts and entire vehicles that could be subject to exclusion from the benefits of these laws and funding. As we move forward and these laws are implemented, there will be much at stake. What may appear to many as a step forward for the economy and the environment, will very likely be challenged.

As economic policy, this approach may be a non-starter that will need to be modified to meet trade rules and commitments. But, outside of the potential for legal battles, there is a more pragmatic view that might be considered with regard to U.S. environmental policy. Miriam García Ferrer, a spokesperson for the European Commission, noted that "[t]he EU and the U.S. share the objective to reduce greenhouse gas emissions and to make the transport sector more sustainable, and we should work hand-in-hand to achieve this goal."⁴

Ms. García Ferrer is chastising the U.S. for its economic policy in this case, for sure. But, she also has a point about the environment. If we are to effectively tackle climate change, the approach must be global and coordinated.

³ Jordan, David. "EV tax credit may be out of reach for most consumers". Roll Call. September 6, 2022. Available at: <https://rollcall.com/2022/09/06/ev-tax-credit-may-be-out-of-reach-for-most-consumers/> Accessed on September 9, 2022.

⁴ *Ibid.*