Issues Note

The US Inflation Reduction Act and its main elements: How much do Europeans have to worry?

The European Commission presented the European Green Deal as the key policy to transform the EU into a modern, resource-efficient and competitive economy in 2019. The Commission employs green budgeting support for climate and environmental objectives in various headings such as climate adaptation, skills and research. In addition, the Recovery and Resilience Facility made available EUR 250 billion for green measures from 2021. At least 30% of the EU multiannual financial framework and NextGenerationEU are thus climate-relevant expenditure, which comes on top of support in individual EU Member States. On 1 February 2023, the **Green Deal Industrial Plan for the Net-Zero Age** was unveiled, aiming to support the competitiveness of Europe's net-zero industry and to accelerate the transition to climate neutrality. The plan consists of four main pillars: creation of a more supportive environment for scaling up the EU's manufacturing capacity, provision of faster access to funding, enhancement of the necessary skills and support for open trade. The March 2023 European Council highlighted consensus on climate neutrality by 2050.

Immediately after taking office, President of the United States Joe Biden brought the US back into the Paris Agreement. The 2022 **Inflation Reduction Act** (IRA) legislative package is a milestone in US climate policy and is expected to help reach the US climate target to greatly reduce emissions by 2030. Besides a tax and a healthcare reform, the IRA includes energy and climate legislation including climate-related support estimated in the order of USD 400 billion over 10 years. The energy and climate subsidies encompass electric vehicle purchases by both consumers and business, production and investment subsidies for manufacturers of clean-tech products, and support for producers of carbon-neutral electricity, as well as hydrogen and other 'clean' fuels.

Both the EU and the US want the clean-tech industries to help reach the common net-zero target. The fourth Ministerial meeting of the EU-US Trade and Technology Council (TTC) concluded on 31 May 2023, noting that both are placing decarbonisation efforts at the heart of trade policy to accelerate the transition towards a sustainable net-zero economy. Both also agreed to deepen joint work on economic security, including approaches to non-market economies. Expected US green subsidies are of similar size to those available in the EU, but they differ in nature. Some issues therefore remain to be discussed.

Questions for discussion

1. *How much do you think Europeans have to worry about the Inflation Reduction Act? Does the US have reason to worry about EU measures?*

2. *What steps can both take to improve their alignment on climate goals? How should we jointly engage with other global actors?*

3. *How can each support sectors needed to reach climate neutrality, but prevent harmful subsidy races?*

Table 1: Illustrative projected US and EU green subsidy levels, 2022-2031

Category	IRA	EU
Electric car purchases	$7,500/car	€6,000 /car
Clean-tech manufacturing	$37 billion	€35 billion
Renewable energy subsidies	$208 billion	€800 billion

Sources: Bruegel; see notes to table in Annex III, and CBO (2022). Note. For comparability reasons, the table focuses on aid (grant, grant-equivalents and tax credits); EIB loans are excluded. For the EU, the category 'clean-tech manufacturing' refers only to non-EIB EU-level programmes, ie state aid is excluded, except for the IPCEIs. EU figures are based on the extrapolation of recent annual figures (see table in Annex III).

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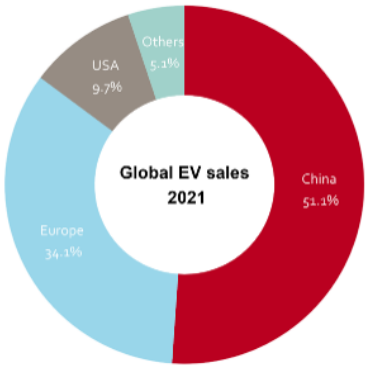
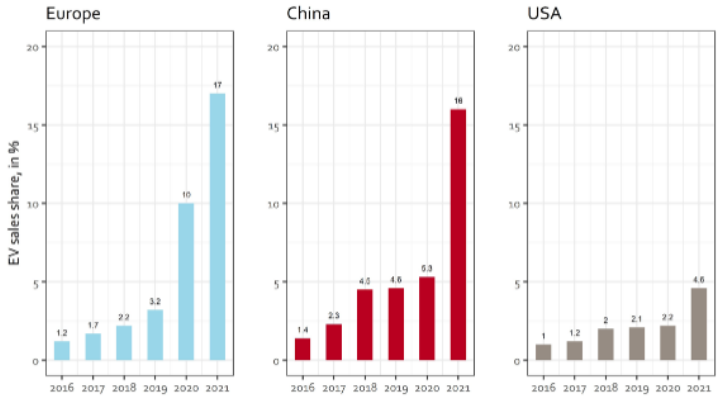
Figure 2: Contributions of China, Europe, and the United States to 2021 global electric vehicle sales.



Source: ICCT, 2022

Figure 3: Electric car sales share in Europe, China, and the United States, 2016-2021



Source: IEA, 2020

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