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The Climate Bill Could Short-circuit Ev Tax Credits, Making Qualifying for Them Nearly Impossible

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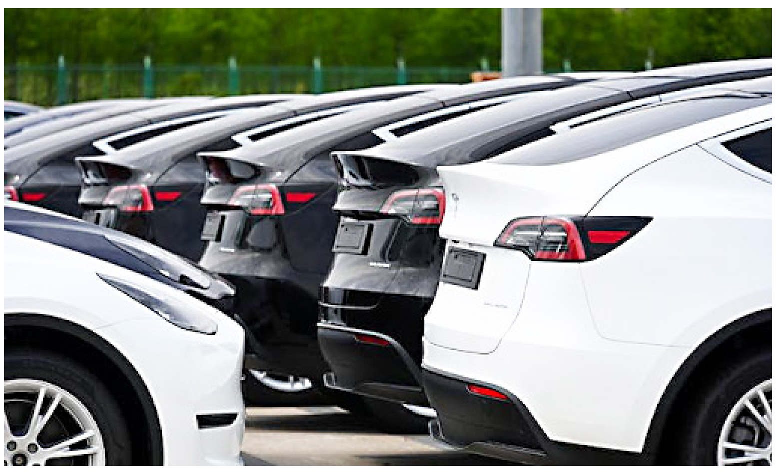

The U.S. Senate passed a far-reaching climate, energy and health care bill on Aug. 7, 2022, that invests an unprecedented US$370 billion in energy and climate programs over the next 10 years – including incentives to expand renewable energy and electric vehicles.

Rapid and widespread adoption of electric vehicles will be essential for the United States to meet its climate goals. And the new bill, which includes a host of other health and tax-related provisions, aims to encourage people to trade their gasoline-fueled cars for electrics by offering a tax credit of up to $7,500 for new electric vehicles and up to $4,000 for used electric vehicles through 2032.

But there's a catch, and it could end up making it difficult for most EVs to qualify for the new incentive.

The bill, which needs House approval, requires that new electric vehicles meet stringent sourcing requirements for critical materials, the components of the battery, and final assembly to qualify for the tax credits. While some automakers, like Tesla and GM, have well-developed domestic supply chains, no electric vehicle manufacturer currently meets all the bill's requirements.

Building a domestic EV supply chain

At first glance, the revised EV tax credits seem like a smart move.

Existing U.S. policy allows credits for the first 200,000 electric vehicles a manufacturer sells. Those credits helped jump-start demand for EVs. But industry leaders, including Tesla and GM, have already hit that cap, while most foreign automakers' vehicles are still eligible. The bill would eliminate the cap for individual automakers and extend the tax credits through 2032 – for any vehicle that meets the sourcing requirements.

Right now, China dominates the global supply chain for materials and lithium-ion batteries used in electric vehicles. This is no accident. Since the early 2000s, Chinese policymakers have adopted aggressive policies that have supported advanced battery technologies, including investments in mines, materials processing and manufacturing. I discuss how China got a head start in the race toward a clean energy future in my new book, Charged: A History of Batteries and Lessons for a Clean Energy Future.

Sen. Joe Manchin, the West Virginia Democrat who stalled earlier efforts to get these measures through the sharply divided Senate, said he hopes the requirements will help scale up the U.S. domestic critical minerals supply chain.

The EV incentives would complement other U.S. policies aimed at jump-starting domestic EV manufacturing capacity. Those include $7 billion in grants to accelerate the development of the battery supply chain allocated in the Infrastructure Investment and Jobs Act of 2021 and a $3 billion expansion of the Advanced Vehicle Manufacturing Loan Program included in the current bill, formally known as the Inflation Reduction Act.

The problem is that the Inflation Reduction Act's sourcing requirements come online so quickly, starting in 2023, and ratchet upward so rapidly, that the plan could backfire. Instead of expanding electric vehicle adoption, the policy could make almost all electric vehicles ineligible for the tax incentives.

Even Tesla's Gigafactory relies on China

The bill excludes incentives for

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