acea

17 AUGUST 2022

US TAX CREDITS FOR ELECTRIC VEHICLES

ACEA STATEMENT

Automobile manufacturers are committed to bringing zero emission technologies to market to assist in the fight against climate change. This is a massive undertaking and a successful roll-out of new technology, including electric vehicles (EVs), needs support. At this early stage of market development, financial incentives are vital for accelerating consumer uptake and in creating a critical mass for change.

ACEA is disappointed that the United States Congress as part of the Inflation Reduction Act has limited application of tax incentives for electric vehicles on the basis of a number of non-climate related criteria. The scope of the measure needs to be far more inclusive in order to achieve the rate of positive environmental change that our sector is committed to and to reach President Biden's goal of 50% EV sales by 2030.

The new rules have restricted eligibility for tax incentives to a relatively small number of vehicles assembled in North America in the short term and, in the medium term, may disqualify any vehicle from obtaining such a benefit due to very high local content rules for batteries.

In particular, ACEA is concerned by the following key elements of the bill:

- Restricting eligibility may limit consumer uptake of electric vehicles and may work against the ultimate goal of delivering a rapid conversion to green technology that can positively affect climate change. Congress should have extended coverage of the assembly requirement beyond North America.
- The local content requirements for batteries are excessively ambitious and do not reflect reasonable expectations in terms of what can be achieved in building a localized battery supply chain in such a short space of time. In any event, financial incentives that link eligibility to domestic content requirements is almost certainly non-compliant with the WTO commitments of the US. Most EU member states have financial incentives for sales of low and zero emission vehicles and none of them apply any similar requirements.
- The credit eligibility requirements are too restrictive. Price thresholds should have been placed higher to ensure that consumers have a wider choice which

will spur their interest in moving to a new technology sooner. These thresholds should also be variable to reflect the impact of inflation on eligibility. Reducing restrictions will also help manufacturers in creating the economies of scale needed to successfully offer electric versions across their entire fleet range as quickly as possible.

- A transition rule to protect consumers with existing EV reservations should be implemented. Thousands of consumers hold reservations for an electric vehicle for which they are awaiting delivery. Consumers placed these reservations with an understanding that the EV tax credit would be available to support their purchase, and a transition rule should account for their legitimate expectations.

An EV incentive scheme should be applied in a fair and equitable manner in order to allow all manufacturers the best possible chance of delivering on their and the US Government's commitments to positively affect climate change.

The EV incentives in their current form work against this ambition at a critical juncture in the long-term evolution of our sector.
