

Fight over subsidies amid \$200tn energy transition narrative



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The global energy transition is estimated to bring close to \$200tn in opportunities and its own series of challenges. Now a global green trade and subsidy war is accelerating

US President Joe Biden's \$370bn plan to support businesses, leading the transition to a low-carbon economy has riled some of America's largest trading partners, who say the measures unfairly benefit US companies and harm free trade.

Now the European Union is striking back with state support for industries that could generate as much as \$1tn in green investments by 2030.

Asian allies are following suit, too.

Last August, Biden signed into law the US Inflation Reduction Act (IRA) to finance projects over the current decade and relies entirely on higher tax revenues, to the tune of \$739bn.

The IRA offers tax credits and other incentives for the production of electric vehicles, renewable energy, sustainable aviation fuel and hydrogen.

European nations are upset at the IRA's raw protectionism. The biggest flash point is the consumer tax credit of up to \$7,500 that is available only for electric vehicles assembled in North America.

Policymakers in Europe, Japan and South Korea worry that the law could lure investment to the US that might otherwise flow to their regions.

German carmaker Volkswagen, for example, opted in March to build a \$2bn factory for its new electric Scout brand in South Carolina and picked a site in Canada for its first battery plant outside of Europe, describing the incentives on offer as akin to "a gold rush."

Japan's government initially complained that the US measures were "discriminatory" but Washington and Tokyo ultimately struck a deal to allow critical minerals sourced in Japan to qualify for the US subsidies.

South Korea's Hyundai Motor Co and its affiliate Kia Corp said the law puts them at a disadvantage because they don't have any EV plants in the US yet, though they soon will.

South Korea has announced its intention to jump into the fray with a 550tn won (\$413bn) investment plan focused on public-private partnerships in chips, batteries, robots, EVs, displays, biotechnology and other areas.

Europe is advancing its own subsidies and tax breaks. The

proposed Net Zero Industry Act aims to spur the investments required to meet at least 40% of the EU's "clean technology" needs from within the bloc's own borders by the end of the decade.

The hope is that companies will prioritize manufacturing in Europe and resist the lure of Biden's tax breaks. The EU also passed a €43bn (\$47.5bn) subsidy programme in April called the Chips Act to support advanced semiconductor manufacturing in the bloc.

When deep-pocketed governments attempt to outspend each other to produce national champions, companies in small and developing economies are usually impacted the most because their governments can't muster the same scale of funding.

Despite the global outcries, the chances of the current tensions evolving into a full-fledged trade war are seen less likely.

Biden has sought to dial down the tension, acknowledging the US law has some "glitches" and that there's room for tweaks to make it easier for European countries to participate.

He has said he wanted the legislation to be a "win-win" and that it had not been "designed to hurt China."

But Biden's law and the EU's initiatives are partially seen as a response to China. Their aim is to redirect global supply chains for clean-energy products away from China so that Beijing can't abuse its dominant position in some key raw materials.

This would be a radical shift for the EU especially, as it relies on China for 98% of its rare-earth minerals and magnets.

While greater funding for clean energy production and green technologies is essential, a fight over subsidies runs the

risk of focusing too much on geography and not enough on the bigger picture.