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“Same goals – different paths: Towards a resilient transatlantic economy”

TPN Virtual Conversation on the US Inflation Reduction Act

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I would like to start by recognizing the importance of the US embarking on an ambitious program to prevent unmanageable levels of global climate change.

The IRA is a climate, industry and trade policies framework with a strong security dimension.

Its aim is to revitalize the American economy, make the reindustrialization feasible and in doing so position the economy to prevail in the geo-economic and technological global race.

The IRA is many things, but it is mostly about the US designing a domestic strategy for the technological race against China.

How effective on climate objective it will be is hard to say.

It will be spent over 10 years and it amounts to 0.2% of US GDP.

In the EU, green investment funding reaches up to 0.5% of GDP.

The IRA sends a clear signal to industry that the future is climate neutral. It aims at its objectives mostly through tax breaks and “made in America” requirements.

The EU seemed to have taken note of the act only when it was passed by the House on a 220 to 207 vote and signed into law by the President.

In October 2022 our Joint Task Force started to work.

For the European Union, the main issue is whether we are ready to share or follow the American global design, linking economy, well-being, sustainability and security in the emerging geopolitical reality.

Europe used to see economy and security more separately.

The recently proposed by the European Commission "Green Deal Industrial Plan" is about expanding our industrial policy and protect our economy against deindustrialization by improving its competitiveness globally, based on sustainable or if you wish green investment.

On the means of financing, it is about choosing between a temporary state aid framework and new funding instruments. I also think the intention is to see the new Green Deal Industrial Plan within the open strategic autonomy framework.

The Plan builds on previous initiatives and relies on the strength of the EU Single Market, complementing ongoing efforts under the European Green Deal and REPowerEU which are climate and energy focused programs.

It is based on four pillars: a predictable and simplified regulatory environment, on speeding up access to finance, enhancing skills, and securing open trade for resilient supply chains.

In the first pillar, the Commission will propose a Net-Zero Industry Act to provide a regulatory framework for net-zero industrial capacity suited for its quick deployment, ensuring simplified and fast-track permitting, promoting European strategic projects, and developing standards to support the scale-up of technologies across the Single Market.

The regulatory framework will be complemented by the Critical Raw Materials Act, to ensure sufficient access to those materials, like rare earths that are vital for manufacturing key technologies, and the reform of the electricity market design to make consumers benefit from the lower costs of renewables.

The second pillar of the Plan is supposed to provide and speed financing for clean tech investment and production in Europe.

To that end, the Commission will consult Member States on an amended Temporary State aid Crisis and Transition Framework and it will revise the General Block

Exemption Regulation in light of the Green Deal, increasing notification thresholds for support for green investments.

The Commission also wants to further streamline and simplify the approval of the Important Projects of Common European Interest (IPCEI).

For the mid-term, the Commission intends to give a structural answer to the investment needs, by proposing a European Sovereignty Fund in the context of the review of the Multi-annual financial framework before summer 2023.

In the third pillar focused on enhancing skills, the Commission will propose new and strengthen existing instruments to roll out up-skilling and re-skilling programmes in strategic industries.

Finally, the fourth pillar is about global cooperation and making trade work for the green transition, under the principles of fair competition and open trade, building on the engagements with the EU's partners and the work of the WTO.

The Commission will explore the creation of a Critical Raw Materials Club, which should be published mid-March.

Going back to our hard look at the IRA, let me say that currently we are waiting for the EU-US Task Force to report on the progress in addressing EU's concerns about the IRA. They seem to make good progress as President von der Leyen will meet with President Biden this coming Friday in Washington to discuss the IRA.

I hope that the agreement will grant "FTA partner" status to the EU for the purposes of the IRA, and will focus on cooperation on raw materials, including on provisions on sustainability and labor rights. This would be a good first step forward.

Still, we are worrying about the cumulative effects of tax credits in the Act. This risks creating heavily subsidized products that would damage the level playing field globally in the context of international trade.

For the EU – as a fervent defender of the multilateral trading rules system and of the WTO – ensuring that we operate in a fair and levelled playing field globally is crucial.

At first glance, the Commission's Plan missed the elephant in the room I mentioned before: building a strategic response to the threat posed by China.

On China, let me say, the EU should be strategic.

We still see the challenges brought by China less as a security threat and more an economic one. We will have to define rather soon whether we want to pursue the US's security approach.

Some say that the health of the transatlantic relationship will hinge on the EU's willingness to work with the US to confront China's geo-economic challenge (The TTC certainly is a good platform, bringing us closer).

But there is also the question whether US policy on China will yield the desired outcomes without a close alignment with Europe.

As it stands, the IRA makes it more costly, so, I would say, less likely for EU Member States to align with the US on China. An alignment could be facilitated if the US refrained from protectionist measures towards allies.

I am among those who believe that transatlantic cooperation is the only way for either side to end its reliance or dependency on China and to face it successfully globally. In particular, when it seems that a new target for China's global race seems to be the financial sector.

On clean energy, we know that today China dominates the clean energy value chain: it controls 75% of global production of battery cells and 85% of all solar photovoltaic cells. Seven out of the top ten wind turbine producers are Chinese companies.

The European clean energy supply chains are already dangerously dependent on China. We should be weary of not replacing the current EU's dependencies on Russian fossil fuels with a dependency on China's rare earths or semiconductors that will be needed to develop our green energy network. Some analysts already suggest that China could become the biggest battery manufacturer in Europe within a decade.

The US cannot afford to lose Europe if it wants to prevail in its economic rivalry with China.

The EU and the US have to be strategic and talk on how they can jointly face the global challenge posed by China. This may require a repositioning of the EU's security approach on the US model.

Let me finish with three questions to the audience:

- Is there a risk that the currently promoted business model taking investment decisions away from costs and efficiency toward security and resilience might not be cast in stone for the future and investors might again relocate to where it is less costly?
- Can a public expenditure driven strategic investment model be a long term strategic priority on both sides of the Atlantic?
- Can it give our economies a comparative advantage globally against China?