The Inflation Reduction Act delivers a mixed bag of successes and failures for EVs and the green economy

written by Melissa (Mel) Sanderson | August 15, 2022

Did anyone besides me hear happy hollering last week? Probably so – the Democrats in the U.S.A. unexpectedly delivered a piece of legislation which, in the current conflicted context, can reasonably be called a win for the so-called green economy.

Also known as Build Back Better's Baby Brother in disguise, the bill does contain some important, and even some surprisingly positive provisions, such as: tax credits to encourage further deployment of wind and solar power, as well as development of geothermal (one of the surprises); tax credits to encourage businesses to source more of their energy needs from renewables; tax credits for carbon capture technology; and tax credits for the nuclear industry, with special reference to the new generation "mini-nukes," but also including older reactors, some of which would have been retired either this year or next (another surprise). So, big wins for the energy industry.

Now, some of the hollerings might not have been as happy as some of the provisions are markedly less positive. Most spectacularly, excluding both Tesla and Lucid Motors' high-value (and pricey) cars from the consumer tax credit. Although not explicitly named, GM's EV division also might find itself in difficulty, since the tax incentives are for cars made using inputs which do NOT come from "unfriendly" countries. Given China's 80% market share, that makes it pretty hard to qualify a made-in-America EV for the credit. This definitely is going to

solidify Elon Musk's conviction that the US government is out to get him, and could throw a spanner into Tesla's reported plan to source its rare earths and other materials from the Democratic Republic of the Congo, a country not on the official "friends" list (at least not yet…?) despite the recent visit by the Secretary of State.

Following along the same line, Congress missed yet again what is arguably the most important link in the green supply chain, and certainly the most fundamental, i.e., actual mining of rare earths and other critical materials such as lithium in the domestic US.

While there are various incentives already in place from prior legislation such as the Defense Production Act to spur research and development in separation and production technologies, and even funding for construction of a full-cycle separation/refining plant in the US, the failure to address the hostile climate toward actually MINING the materials needed for the refining plant continues to undermine the achievability of a viable US green economy. (Yes, those puns are intended).

Obviously, miners – senior as well as junior – would welcome financial incentives and/or government-sponsored assistance in attracting private investment to support development of new mines. But even more, companies would welcome recognition by Washington that without actually producing primary materials such as rare earths and lithium in the US, the separation and production facilities in the US are going mostly to process materials sourced elsewhere. Kind of defeats the purposes of shortening supply chains and securing reliable supply, doesn't it?

Of course, with mid-term elections approaching and seeming more up for grabs than usually is the case, the Democrats don't want

to risk alienating a core constituency (young “greens” and environmentalists) by appearing to promote digging actual holes in the ground. But – and especially if they manage to pull larger majorities out of these midterms (thanks more to errors by the Republicans than any genius on their part) – one has to hope that in the final two years of this Administration someone will courageously decide to tackle streamlining the regulatory process, providing clarity to companies and investors on a reasonably short development timeline and even, perhaps, incentivizing investment into the primary mining production segment of the “green” US economy.

Optimistic, you say? Agreed – but pragmatically speaking, without even such relatively minimal changes, it’s far from clear that the US will arrive where it says it wants to go.