

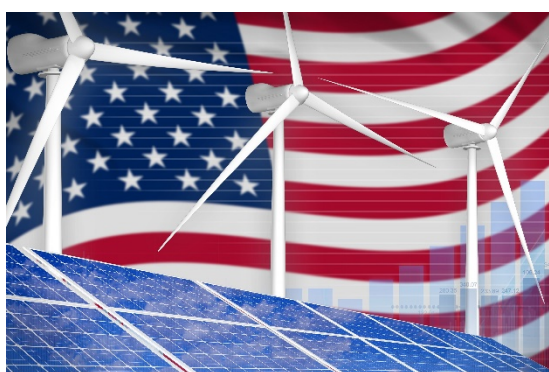
# EU-US climate and energy relations in light of the Inflation Reduction Act

## SUMMARY

The war in Ukraine has put Europe's dependence on energy imports under the spotlight. The United States (US) has stepped in and pledged to increase its exports of liquefied natural gas (LNG) to Europe. While this helps address the shortfall in energy imports from Russia in the short term, it raises the question as to how far the EU wants to build an energy partnership with the US.

Closely intertwined with the energy challenge is the fight against climate change. With the European Union (EU) committing to more ambitious policies within the framework of the Green Deal, it has an interest in international partners also raising their level of ambition. Here, too, the US is a key partner. As one of the world's largest CO<sub>2</sub> emitters, the US also plays a key role in bringing the world closer to reaching the goals of the Paris Agreement.

The US Inflation Reduction Act, a huge investment bill pouring billions of dollars into the American economy by favouring US-made clean energy and technology, brings these considerations together. The EU will have to consider how to integrate its climate, energy and industrial policies, so as to contribute towards climate goals and energy security while at the same time retaining the global competitiveness of its economy. This, in turn, has far-reaching repercussions for related policy areas such as international trade, as well as for the ongoing debate over the future of the EU's budget and its macroeconomic governance framework.



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- Energy policy
- Inflation Reduction Act
- EU reactions to the IRA
- The EU's strategic choices



## US climate policy

Historically, the US has been among the world's [largest](#) emitters of greenhouse gases (GHG). Unlike the EU, which has been championing ambitious GHG emission limits for years, the US has a more chequered policy record, owing to changes in its presidency and shifting majorities in Congress.

While the Clinton administration [signed the Kyoto Protocol](#), the forerunner of today's Paris Agreement, the United States [never ratified it](#), owing to opposition in the US Congress. Clinton's successor, President [George W Bush](#), made his opposition to the Kyoto Protocol clear, arguing that it 'exempts 80 percent of the world, including major population centers such as China and India'.

US policy towards international cooperation on climate change developed new dynamism with the advent of the Obama administration, which signed the Paris Agreement on 3 September 2016 – together with China and within the framework of [US-China climate change cooperation](#). Speaking on [5 October 2016](#), President Obama explained his intention to make the US a 'leader' in the international fight against climate change.

President Trump tried to reverse this policy by announcing an intention to [end US participation in the Paris Agreement](#) in June 2017, calling the agreement a 'massive redistribution of United States wealth to other countries'.

US policy changed again with the election of Joe Biden as President. Within hours of taking office, [Biden opted back into the Paris Agreement](#). Under his presidency, the [US nationally determined contribution](#) (NDC) within the Paris Agreement framework sets a target of reducing US net GHG emissions by 50 to 52 % percent below 2005 levels in 2030. This compares with the EU's commitment to reduce GHG emissions by at least 55 % by 2030, but taking 1990 – and thus a different base year – as the starting point for the calculation.

## US domestic climate policy efforts

On the side of the executive, the Biden White House has identified climate change as one of its top priorities. To steer the policy effort domestically, President Biden [established](#) the White House Office of Domestic Climate Policy, headed by the National Climate Adviser, as well as the [National Climate Task Force](#) bringing together all relevant cabinet-level positions and heads of federal agencies. Besides achieving the headline NDC on greenhouse gas reduction, key objectives include '100% carbon pollution-free' electricity by 2035, net-zero emissions by 2050, and 'delivering 40% of the benefits from federal investments in climate and clean energy to disadvantaged communities'.

In Congress, on the other hand, climate change is one of the most divisive issues. Republicans oppose a transition away from fossil fuels, while Democrats are on the opposite end of the spectrum. Both parties are only [closer aligned](#) on the quest to find technological solutions to climate change.

In terms of policy, two acts stand out under the Biden Presidency,<sup>1</sup> besides the [CHIPS and Science Act](#) and the [use of the Defence Production Act](#) to accelerate domestic manufacturing of clean energy:

- With the Infrastructure Investment and Jobs Act ([IIJA](#)) signed into law on 15 November 2021, the US federal government will provide [US\\$550 billion](#) in funding over 2022-2026 for the transport and energy sectors. The investments will target the infrastructure system, including roads, bridges, water infrastructure, and broadband. Provisions include investment into [transport infrastructure](#) as well as into [energy efficiency; renewable energy; electric grid reliability; carbon capture, utilisation, and storage; hydrogen research; nuclear energy and battery manufacturing](#).
- The Inflation Reduction Act (see also below), signed into [law](#) on 16 August 2022, contains a multitude of climate and energy-related tax breaks and subsidies. These include tax credits for electricity from renewable energy as well as funding for

manufacturing of clean vehicles, carbon removal activities, energy efficiency projects and energy infrastructure.

According to the [US Department of Energy](#), the Infrastructure Investment and Jobs Act, together with the Inflation Reduction Act, 'in combination with past actions', will allow for a 40 % reduction in GHG emissions up to 2030, in comparison with 2005.

## Energy policy

The war in Ukraine has thrust a spotlight on just how different Europe's energy situation is from that of the US. While the EU is shifting successfully away from Russian fossil fuels, it will remain dependent on oil and gas imports for the foreseeable future – unlike the US, which has reduced its energy dependence on third countries thanks to the exploration of domestic resources using the fracking technique. Also known as the 'shale revolution', this drilling method injects fluids at high pressure to extract trapped gas and crude oil from underground rock formations but is controversial because of its environmental impact. It allowed the US to overtake Russia and become the world's top natural gas producer in 2011. In 2018, the US overtook Saudi Arabia, becoming the [largest](#) producer of petroleum. In 2021, the US was responsible for [20 %](#) of the global oil production, followed by Saudi Arabia (11 %) and Russia (11 %). Thanks to the ongoing expansion in liquefied natural gas (LNG) export volumes and the increased ability to reach new markets, US gas production has grown in recent years, in 2021 reaching the highest annual amount ever recorded, 34.5 trillion cubic feet (Tcf). According to the March 2022 US Energy Information Administration outlook, the US will produce approximately [25 % more natural gas](#) than it consumes by 2050.

## EU-US Energy Council

In [2009](#), long before the war in Ukraine, Europe's energy dependence, as well as earlier natural gas disputes between Russia and Ukraine, led to the creation of the EU-US Energy Council. Meeting annually and alternately in the EU and US, this format allows for a structured dialogue on energy security between both sides and reports to the EU-US Summit. Members include the EU Commissioners for External Relations, for Energy, and for Science and Research, as well as the EU Council presidency. Their counterparts on the US side are the Secretaries of State and of Energy. Talks are structured by working groups of senior officials and include discussions over energy security, global markets, as well as energy research cooperation.

During the [most recent meeting](#) on 7 February 2022, prior to Russia's invasion, the parties underlined the necessity of accelerating the just energy transition to reach net-zero emissions by 2050 and reaffirmed their commitment to mitigating energy market instability and ensure access to affordable energy. The Council underlined the willingness of both sides to cooperate both on energy security as well as work towards a net-zero energy transition. The EU and the US furthermore announced their intention to work together in developing a standardised methodology to track methane emissions in the framework of the [global methane pledge](#).

## Task Force on Energy Security

One month after Russia's invasion of Ukraine, on [25 March 2022](#), European Commission President Ursula von der Leyen and US President Biden met in Brussels and agreed to deepen transatlantic energy cooperation. In their [joint statement on European energy security](#), both leaders announced the creation of a Task Force on Energy Security, jointly chaired by a representative of the White House – US Special Presidential Coordinator Amos Hochstein – and a representative of the European Commission – Head of Cabinet of the European Commission President, Björn Seibert. The US agreed to deliver an additional 15 billion cubic metres (bcm) of LNG in 2022, while the European Commission agreed to work towards 'ensuring stable demand for additional U.S. LNG until at least 2030 of approximately 50 bcm/annum, on the understanding that the price formula of LNG supplies

to the EU should reflect long-term market fundamentals, and stability of the cooperation of the demand and supply side'.

Beyond these headline figures, which received significant attention in the media, the US committed to maintaining 'an enabling regulatory environment' regarding additional LNG export capacities to Europe to support the EU's intention to terminate its dependence on Russian fossil fuels by 2027. Mirroring this commitment, the Commission pledged to 'work with the governments of EU Member States to accelerate their regulatory procedures to review and determine approvals for LNG import infrastructure, to include onshore facilities and related pipelines to support imports using floating storage regasification unit vessels, and fixed LNG import terminals'.

Both sides also committed to meeting the Paris Agreement goal of keeping a 1.5 degree Celsius limit on temperature rise 'through a rapid clean energy transition, renewable energy, and energy efficiency' including by 'partnering on technologies and energy efficiency solutions' and collaborating on renewable hydrogen.

In a final paragraph, which did not receive immediate attention at the time, the EU and the US announced themselves 'resolved to negotiate and then implement an ambitious emissions-based Global Arrangement on Steel and Aluminum Trade that incentivises industrial decarbonization and lowers energy demand'.

## European LNG purchases from the United States

Liquefied natural gas (LNG), which can be transported by ships in condensed form, has been a key substitute for Russian pipeline gas. According to the European Commission's [Q3/2022 European gas market report](#), in January-November 2022, the EU imported 52 bcm of LNG from the US, compared to 22 bcm in 2021 as a whole. As a block of 27 countries, the EU remained the world's biggest LNG importer in Q3 2022, ahead of Japan and China. Around half of US LNG exports went to Europe, with the International Group of Liquefied Natural Gas Importers (GIIGNL) putting that figure at [67%](#) for the first 10 months of 2022. The EU benefited from the fact that LNG demand in China was drastically reduced due to COVID lockdowns and weaker growth. The [EPRS energy monitor](#) provides a useful overview.

Although they came with the backing of the White House and in the wake of the 25 March 2022 agreement (see above), US LNG sales to Europe took the form of transactions between private companies. High demand in Europe pushed up prices, and incentivised US exporters to direct their cargoes to the EU. Furthermore, from an American perspective, prices are only one half of the picture. US LNG exporters have an interest in seeking long-term market opportunities while policymakers in the EU will want to evaluate for how long and at what volumes LNG purchases are needed to secure Europe's energy supply.

## Inflation Reduction Act

The [Inflation Reduction Act](#) (IRA) adopted by both houses of Congress and signed into law in August 2022, is considered one of the most consequential bills in recent US history, and subject of fierce debate in the European Union. A US\$739 billion spending bill, it provides for US\$369 billion investment into energy security and combatting climate change. The remainder of the funds will go towards an extension of healthcare spending under the Affordable Care Act – colloquially known as 'Obamacare' – as well as a reduction of the US federal deficit.

On the revenue side, the IRA does not rely on new debt. Instead, it is to be financed by the 15 % corporate minimum tax, stricter tax enforcement, and a reform of prescription drug pricing. The Congressional Budget Office accordingly [estimates](#) that the IRA will result in a net decrease of the federal deficit of just over US\$58 billion over 2022-2031.

Hailed by the [White House](#) as 'the most significant action Congress has taken on clean energy and climate change in the nation's history', it is [portrayed](#) by the Biden administration as leading to lower energy costs for families and small businesses while securing domestic manufacturing jobs in the

US. Regarding expenditure and investment into clean technology, the IRA provides for tax incentives as well as grants and loans.

It is the support for US industry and manufacturing which has attracted most attention on the European side. Key provisions for [manufacturing and industry support](#) include:

- A **tax credit for investments into advanced energy projects** including projects which expand or establish manufacturing facilities for the production of clean energy equipment and vehicles, as well as projects which re-equip manufacturing facilities with equipment reducing GHG emissions by at least 20 % (IRA statutory provision: 13501).
- A **production tax credit for domestic manufacturing of components for solar and wind energy, inverters, battery components, and critical minerals** (IRA statutory provision: 13502). The credit for critical minerals is permanent, starting in 2023. For other items the full credit is available between 2023-2029, phases down over 2030-2032, and varies by technology.
- **US\$250 million in grants for the domestic production of heat pumps** (IRA statutory provision: 30001), to remain available to September 2024.
- **US\$5.8 billion in grant support to energy-intensive industry** for the installation of advanced technology to reduce facilities' GHG emissions (IRA statutory location: 50161).

The IRA places specific emphasis on **zero-emission vehicles** to support the Biden administration's goal of at least half of all new passenger cars and light trucks sold in 2030 being [emission free](#):

- Subject to income requirements (maximum US\$300 000 gross income for couples or US\$150 000 for singles), a **clean vehicle credit** (IRA statutory location: 13401) provides buyers with a tax credit of US\$3 750 for vehicles for which a minimum percentage of critical minerals has been extracted or processed in the US or a country with which the US has a free trade agreement, and an additional US\$3 750 tax credit for vehicles meeting the requirement that a threshold percentage of battery components are manufactured or assembled in North America. Vehicles must meet other requirements to qualify, including final assembly in North America and vehicle retail price limits of US\$55 000 for cars and US\$80 000 for vans, SUVs and pickups.
- The **purchase of second-hand clean vehicles** (IRA statutory location: 13402) is bolstered by a tax credit of US\$4 000 or maximum 30 % of the sales price, subject to household income limits. Businesses are to benefit from a **tax credit for purchases of commercial clean vehicles** (IRA statutory location: 13403) while consumers and business alike can benefit from a **tax credit for alternative fuel vehicle refuelling and charging** property (IRA statutory location: 13404) including electricity, ethanol and biodiesel.
- **Domestic production of clean vehicles is to be bolstered by a US\$2 billion grant programme** for the manufacture of hybrid, plug-in electric hybrid, plug-in electric drive and hydrogen fuel cell electric vehicles (IRA statutory location: 50143).
- A US\$3 billion purchase programme for the federal government to acquire **US Postal Service zero-emission vehicles** (IRA statutory location: 70002)

**Key provisions on clean energy** include:

- **Tax credit for production of electricity from renewable sources**, for projects beginning construction before 1 January 2025 (IRA statutory location: 13101), as well as a tax credit for investment into renewable energy projects (IRA statutory location: 13102). Additional tax credit is granted for small-scale solar and wind facilities in low-income communities (IRA statutory location: 13103, 13702(h)).

- **Tax credit for electricity produced at a qualified nuclear power plant** (IRA statutory location: 13105).
- A 'technology neutral' **tax credit for production of clean electricity** (IRA statutory location: 13701), as well as investment in facilities that generate clean electricity (IRA statutory location: 13702), until at least 2032, or in case US GHG emissions from electricity fall below 25 % of 2022 emissions.
- A **US\$27 billion greenhouse gas reduction fund** providing grants for clean energy and climate projects especially in low-income communities (IRA statutory location: 60103).
- A **US\$3.6 billion loan guarantee programme for innovative clean energy technologies** (IRA statutory location: 50141).
- A **US\$5 billion loan guarantee programme to invest in new energy infrastructure** including carbon capture, utilisation and storage (IRA statutory provision: 50144).
- Loans and loan guarantees for the upgrade and provision of **renewable electricity in rural communities**, including **US\$1.7 billion in grants for agricultural producers** to invest in renewable energy and clean technology (IRA statutory provision: 22002(a)).
- Provisions for the **development and use of transportation fuels** such as tax credits for biodiesel and renewables diesel (IRA statutory location: 13201), tax credits for the domestic production of **sustainable aviation fuels** (IRA statutory location: 13704) and the sale or use of sustainable aviation fuel (IRA statutory location: 13203), grants for biofuel infrastructure (IRA statutory location: 22003),
- A **tax credit for the production of clean hydrogen** (IRA statutory location: 13204).
- **US\$2 billion for energy research.**
- Grants for climate justice and air pollution monitoring and reduction programmes, with an emphasis on low-income and disadvantaged communities.

In terms of **home improvement and household and commercial building support**, the IRA will provide, inter alia:

- Tax credits for **energy-efficient home improvements** (IRA statutory location: 13301), such as insulation or efficient heating and a tax credit for the purchase of residential clean energy equipment such as battery storage (IRA statutory location: 13302), as well as the **construction of new energy efficient homes** (IRA statutory location: 13304).
- Tax deductions for energy efficient commercial buildings (IRA statutory location: 13303).
- Grants to develop energy saving **house retrofits** (IRA statutory location: 50121) and high-efficiency electric home rebates (IRA statutory location: 50122).
- Grants for state and local government to adopt **energy-efficient building codes** (IRA statutory location: 50131).

In addition, the IRA will invest in the US energy grid with:

- A **US\$2 billion loan programme for transmission facilities** (IRA statutory provision: 50151).
- **US\$760 million in grants to speed-up the construction of interstate transmission lines** (IRA statutory provision: 50152). Grants are aimed at the examination of alternative siting corridors in particular, as well as the participation in regulatory proceedings in other jurisdictions.
- **US\$100 million to plan interregional and offshore wind electricity** (IRA statutory provision: 50153).

Furthermore, the IRA will provide billions of dollars to **US agriculture, fisheries and local communities**, for example in the form of:

- US\$8.45 billion in **technical assistance grants** for the conservation of ground water and reduced soil erosion (IRA statutory location: 21001(a)(1)), US\$3.25 billion in grants to agricultural and forest producers who adopt conservation activities (IRA statutory location: 21001(a)(2)), and further grant programmes aimed at environmental protection.
- To support **coastal restoration and marine resources**, a US\$2.6 billion federal spending programme will benefit coastal communities (IRA statutory provision: 40001), while a US\$4 billion **drought mitigation programme** (IRA statutory provision: 50233), coupled with related initiatives is directed at regions in the American South-West and far West suffering from extreme heat and low rainfall.

## EU reactions to the IRA

Though welcoming US investment in clean technologies and the contribution to combating climate change, European Union leaders are concerned that provisions in the Inflation Reduction Act privilege US manufacturers and thereby discriminate against European exporters.

In a first indication of the debate over Europe's response to the IRA, European Commission President von der Leyen, in her September [2022 State of the Union speech](#), advocated the creation of a new European sovereignty fund and a hydrogen bank, without however giving any details at this stage.

Internal Market Commissioner Thierry Breton has emerged as an outspoken advocate of an EU response replicating the IRA on the other side of the Atlantic. Reacting the next day to von der Leyen's proposal in a [blog](#), he advocated 'preserving the integrity of the single market by collectivising investments' via a European sovereignty fund financed by common debt. Speaking on [29 November 2022](#) at a conference on the future of European industry, he called EU measures taken so far, such as a prolongation of the State aid temporary crisis framework, 'necessary but far from sufficient'. Labelling the IRA a 'game-changer' and supporting the proposal for a European sovereignty fund, he advocated an 'Industry Made in Europe policy' and argued for the creation of a 'financial capacity power to ensure investments into projects of interest for European sovereignty across the whole industrial spectrum' with 'the adequate financial firepower'.

Faced with mounting anxiety on the part of Member State governments, the European Commission announced the establishment of an [EU-US Task Force on the Inflation Reduction Act](#) in October 2022 to address these concerns.

The EU-US Trade and Technology Council, meeting on [5 December 2022](#), did not address the issues surrounding the IRA in detail. Nonetheless, its final communiqué stated both sides 'acknowledge the EU's concerns' and 'underline our commitment to address them constructively'.

Speaking at a European Parliament plenary debate in [December 2022](#), European Commission Executive Vice-President Margrethe Vestager, in charge of competition policy, stated that the IRA 'discriminates against EU producers and exports' due to its 'local content, assembly, manufacturing requirements'. Vestager cautioned however against expectations that the act itself would be changed, referring instead to 'political commitments' by the US to adapt the 'implementation of the act to limit the damage as much as possible'.

The next day, European Commission President von der Leyen set out her [reaction](#) to the IRA, identifying three aspects as the most concerning: the 'Buy American' logic, tax breaks which could lead to discrimination, and production subsidies disadvantaging European companies. In response, according to von der Leyen, Europe needs to respond in four ways: Firstly, Europe should widen its own state-aid rules, for example to take global conditions into account, instead of only the European situation. Secondly, 'in the medium term', Europe needs 'a more structural solution' in the form of a common European industrial policy 'with common European funding'. As a third idea, von der Leyen floated the idea of a 'raw materials club' with the US and other partners 'to have

reliability, transparency, fair conditions, value that stays in the country where these raw materials are being extracted'. Finally, and as a fourth response to the IRA, the President of the European Commission insisted on the importance of further accelerating the EU's transition to green energy.

Speaking at the [World Economic Forum in Davos](#) in January 2023, von der Leyen announced the creation of an EU **Green Deal industrial plan**, based on four pillars:

1. a net-zero industry act, modelled on the chips act to identify goals for European clean tech by 2030, accelerate the permitting process, and go hand-in-hand with the proposed critical raw materials act,
2. a temporary adaptation of EU State aid rules, including simple tax break models. To avoid fragmentation of the single market, a European sovereignty fund would be set out as part of the mid-term review of the EU's multiannual budgetary framework (MFF), scheduled for later in 2023,
3. developing skills for the energy transition as priority for the European Year of Skills, and
4. facilitating open and fair trade with an ambitious trade agenda. The EU would seek to conclude agreements with Mexico, Chile, New Zealand and Australia and make progress with India and Indonesia, on top of restarted discussions over the Mercosur agreement.

The European Parliament debated this initial proposal in its plenary session of [18 January 2023](#).

## The EU's strategic choices

The EU is faced with the challenge of setting out a coherent reaction to the US. Early reactions (see above) showed a fear that EU industry would lose in a global race for competitiveness, with the EU's car and clean-tech industries – such as battery manufacturers or producers of solar or wind power equipment – impacted most. These fears are compounded by the prospect of energy prices in Europe remaining higher than in the US and other parts of the world over the medium-term, as a consequence of Russia's war in Ukraine and the shift away from Russian pipeline gas.

These considerations should be assessed against the backdrop of the war in Ukraine and uncertainty over the future EU relationship with China. While not acting on the IRA might have negative consequences on EU industry, a full-blown trade war with the US would undermine transatlantic unity in times of war and send the image of a divided West to both Russia and China. Different views persist however over the precise impact of the IRA on European competitiveness. Holger Goerg, President of Germany's Kiel Institute for the World Economy [warned](#) against European subsidies as a response, saying the impact of the IRA was 'not that dramatic' compared to the EU's NGEU fund, which is larger as a percentage of GDP. A similar sentiment is echoed in a [CEPS comment](#) stating that the EU 'should not be dragged into an intensifying subsidy race'.

Other commentators on the other hand argue for greater investment in green technology over and beyond what the NGEU/RRF already provide, not least to support the European effort to shift energy supply away from Russian pipeline gas and fossil fuels in general. Martin Sandbu, writing in the [Financial Times](#), argues the EU should embrace the green transformation and move towards a low-energy and low-carbon economy while investing more in new technologies: 'Europe's concern should be that it subsidises too little – especially in renewables and grid capacity – not that the US subsidises too much. More EU common spending is needed, and new fiscal rules must coax more investment out of national budgets'.

The EU is therefore required to tread a narrow path, compounded by the Biden administration's limited room for manoeuvre making legislative changes to the IRA highly unlikely. While President Biden announced his willingness to 'coordinate and align' approaches to 'strengthen and secure supply chains, manufacturing and innovation on both sides of the Atlantic', during a press conference with French President Emmanuel Macron on [1 December 2022](#), and hinted at possibly using exemptions for countries benefitting from a free trade agreement,<sup>2</sup> the [White House](#) made clear it would not go back to Congress to seek legislative changes to the IRA. Re-opening the IRA in



Congress to carve out exceptions for Europe has become even more unlikely following the Republican's narrow majority in the House of Representatives, given that all Republicans in both Houses [voted against](#) the original bill.

Easing the implementation of IRA provisions and thus providing back-door exemptions for EU companies also might not be easy. [Observers](#) commented that the IRA does provide room for car manufacturers producing outside the US to fall under the scope of the IRA, provided production takes place in a country with which the US has a free trade agreement. This is however not the case for the EU, and merely reclassifying European allies as IRA-compatible free trade partners may prompt legal challenges.

On 29 December 2022, the US Treasury published [guidance](#) on the relevant IRA provisions. According to a European Commission [reaction](#), commercial clean vehicle credits will be available to EU companies 'without requiring changes to established or foreseen business models of EU producers'. The EU, the statement read, would however continue to 'seek similar, non-discriminatory treatment of EU clean vehicle producers under the Clean Vehicle Credits'.

Beyond implementation on the US side, other ideas considered include a transatlantic grand bargain, for example involving the EU's carbon border adjustment mechanism ([CBAM](#)). Climate think tanks [E3G and adelphi](#) warn however that an IRA-CBAM deal whereby the US and the EU could make carve-outs for one another in the IRA and CBAM respectively is unlikely, as such a move would violate World Trade Organization (WTO) rules and run counter to the European argument that CBAM is a non-discriminatory climate measure.

With short-term fundamental remedies unlikely on the American side, much of the attention has shifted to a European response, as reactions above show. These have essentially centred around two questions for policymakers to consider:

- Is a response, such as additional investment, or other forms of support, sought at the European or the national level alone? Given the EU's lack of competences in tax matters, tax breaks are only possible at national level. However, reacting at national level risks fragmenting the single market due to Member States' varying financial means.
- If a European solution is sought, will it comprise the creation of new funding instruments, and where will these funds come from?

These questions are already and will remain at the centre of the debate. This debate plays out against the backdrop of a possible revision of the [EU's macro-economic governance framework](#), as well as [European Parliament](#) calls for a revision of the MFF, the EU's multi-annual budgetary framework.

It is clear that the debate over the European response to the IRA has invigorated a simmering debate over a more active industrial policy at EU level, with the French and German Ministers for economic affairs, Bruno Le Maire and Robert Habeck [calling](#) for a 'renewed impetus in European industrial policy' and issuing a [Franco-German Declaration](#). This plays out against the background of the prolongation of the [temporary crisis framework](#), which allows for carve-outs from EU State aid rules.

In the medium to long term, it is likely that the IRA will rekindle new interest in a transatlantic trade framework, which stalled after the Transatlantic Trade and Investment Partnership [TTIP](#) was abandoned. Such an agreement would now have to consider new geopolitical realities, such as the rise of China, and have a greater focus on energy sources and green technology, and would have to integrate or at least take account of European measures such as CBAM.

## MAIN REFERENCES

[U.S. Greenhouse Gas Emissions Trends and Projections from the Inflation Reduction Act](#), Congressional Research Service, 12 January 2023.

[Building a clean energy economy: A guidebook to the Inflation Reduction Act's investments in clean energy and climate action](#), Version 2, The White House, January 2023.

## ENDNOTES

<sup>1</sup> For an in-depth overview of US climate change policy prior to 2021, see the Congressional Research Service [briefing](#).

<sup>2</sup> During the press conference with Macron, Biden stated that 'for example, there's a provision in it that says that there is the exception for anyone has a free trade agreement with us. Well, that was added by a member of the United States Congress who acknowledges that he just meant allies; he didn't mean, literally, free trade agreement. So, there's a lot we can work out'.

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