LANDMARK LEGISLATION IS ATTRACTING SIGNIFICANT FOREIGN INTEREST AND INVESTMENT IN US CLEAN ENERGY AND OTHER SECTORS

Over the decades that I have lived or travelled overseas, I have come to expect, and appreciate, the laser-like focus of non-Americans the world over on many things American, including not surprisingly our presidential politics. This summer, I was surprised to be discussing an unexpected topic, particularly with young people considering career and/or start-up options: the draw of opportunities available in the United States by reason of the Inflation Reduction Act.

As I set out in a November 2022 briefing note, the buy-American provisions of the Inflation Reduction Act largely preclude non-US companies from taking advantage of its landmark tax credits and other incentives from abroad, but the work-around for these companies is straight-forward. While the European Union is moving forward with its Green Industrial Plan and the United Kingdom has its Powering-Up Britain set of initiatives, the United States appears to be evolving into a destination of choice for investors seeking to ride the wave renewable energy and industrial decarbonization projects.

Earlier this week, the White House confirmed that the Inflation Reduction Act, the Infrastructure and Jobs Act (better known as the "Bilateral Infrastructure Law") and the CHIPS and Science Act are encouraging foreign direct investment ("FDI") in US manufacturing, particularly in computers and electronics (principally semi-conductors). The White House release notes, among other things, that the scale and pace of US construction spending for manufacturing facilities is unique among the advanced economies (including Germany, Japan, Australia and the United Kingdom), and that foreign investors are contributing to the increase. New FDI in US manufacturing in 2022 was almost double the pre-pandemic average.

A Bureau of Economic Analysis survey (released last month) identifies capacity-expanding transactions that create new US businesses and the building of new physical facilities by existing US affiliates of foreign-owned firms, as well as other transactions from foreign investors for new acquisitions of U.S. businesses. Most of the 2022 FDI is associated with investors based in close trading partner countries; Chinese investment accounted for less than half a percent.

An analysis of Council of Economic Advisers data by the New York Times (published this week) concludes that two-thirds of foreign direct investment, excluding corporate acquisitions and focusing only on first-year project expenditures, was in manufacturing in 2022 – more than double the average share from 2014 to 2021. While this may not represent significant overall increases in FDI, it does represent a noticeable shift as to the types of investment, in line with President Biden's expectations. The New York Times analysis cites a recent estimate by the White House as part of a report on Investing in America (the first pillar of Bidenomics) that over $500 billion in private investments in manufacturing overall have been announced since President Biden assumed office.

Investment is shifting towards semi-conductors and renewable energy technology, with unprecedented upside for the latter due to the Inflation Reduction Act.

Climate Focus

An analysis by the Wall Street Journal ("WSJ") summarized in an article published last month ("The Biggest Winners in America's Climate Law: Foreign Companies") posits, as the title conveys, that the largest beneficiaries of US government subsidies under the Inflation Reduction Act are non-US companies. Incidentally, the article cites third-party estimates that the Inflation Reduction Act could "unleash some $3 trillion in total clean-energy investments over the next decade." The $3 trillion figure likely was sourced from an April Goldman Sachs report ("The US is poised for an energy revolution"), which estimates the amount of incentives under the legislation by 2032 at $1.2 trillion. The report projects "$2.9 trillion of cumulative investment opportunity across sectors for the re-invention of U.S. energy system, or on average $290 billion annually," which "could encourage a $11 trillion of total infrastructure investments by 2050."

The WSJ analysis found that the transformative legislation has driven close to $110 billion in investments in clean energy projects in the United States, over 60% of which have non-US investor involvement, particularly from South Korea, Japan and China. Fifteen of the 20 largest investments, principally in battery factories, involve foreign investment. As the tax credits typically are tied to production volume, the largest investors stand to gain the most.

The WSJ article notes that while the Inflation Reduction Act is intended to build US-based supply chains for the renewable energy sector, the technology for building batteries and renewable-energy equipment is not American. The incentives are driving these non-US companies[1] to invest in the United States, often in parallel with US businesses.[2] The article projects that full domestic supply chains for batteries or solar panels remain years away because non-US companies dominate nearly every step in the process, from raw materials to sophisticated parts.

Concluding Thoughts

The World Resources Institute reports that the Inflation Reduction Act "has already unleashed a manufacturing renaissance by nearly doubling the amount of manufacturing construction in just one year, with forecasts of even higher growth in years to come." Manufacturers of battery components, wind and solar equipment, and electric vehicles

[1] Projects were categorized by the WSJ as either wholly US ventures, or foreign if non-US companies are contributing significant investment or technology.

[2] Reuters (among others) reported in May that Italy's Enel SpA plans to invest more than $1 billion in a solar cell and panel factory in Oklahoma. The facility will be among the largest to produce solar equipment in the United States, where most projects are built with imported panels, and will be one of the first factories in the United States to produce silicon-based solar cells on a large scale. President Biden noted that the "announcement from Enel is just the latest proof that my Investing in America agenda is working, and American manufacturing is back. Good-paying jobs that Americans can raise a family on are being created in towns and communities in every corner of the country."

Reuters reported in June that a venture (VSK Energy LLC) backed by Indian solar panel maker Vikram Solar Ltd plans to invest up to $1.5 billion in the U.S. solar energy supply chain, beginning with a factory in Colorado next year.

have announced tens of billions of dollars of new investments. Since passage of the legislation, 272 new clean energy projects have been announced in 44 states, with Michigan, Georgia, South Carolina, California and Texas at the forefront. Interestingly, most of the new clean energy projects are located in congressional districts represented by Republican House members. Since the passage of the IRA, 96,216 new jobs and over $224.8 billion in investments have been announced across 152 clean energy projects in 92 Republican-held districts.

The American Clean Power Association ("ACP") reports that as of the end of July, over $270 billion in capital investments for utility-scale clean energy projects and manufacturing facilities have been announced in the year since the Inflation Reduction Act became law. This, the ACP says, is equivalent to eight years of clean energy investment, surpassing total investment in US clean power projects commissioned between 2015 and 2022. The ACP report cites 83 new or expanded utility-scale clean energy manufacturing facilities in the past year and projects that, if currently announced manufacturing facilities come on line, there will be a nine-fold increase in solar module production and more than a fifteen-fold increase in grid-scale battery storage, together with "significant increases in production output for solar cells, polysilicon, ingots and wafers, blades, towers, and nacelles."

In January, the Financial Times reported that officials from various US states have intensified efforts to lure clean energy businesses from Europe to take advantage of the tax credits and subsidies available under the Inflation Reduction Act. Delegations from Georgia, Illinois, Michigan and West Virginia descended on Davos in January to pitch investment opportunities. A delegation from Ohio was reported to have met with clean tech companies in Belgium, Italy and Germany. These are just a few examples of the full court press targeting Europeans.

While opinion polls (*see, e.g.*, Navigator and Washington Post-University of Maryland) suggest that American voters know little or nothing about President Biden's legislative accomplishments, and in particular passage of the Inflation Reduction Act (with no GOP support), the smart money understands the significant upsides of the landmark legislation and is moving with alacrity to take advantage of it.

* * *

Mark S. Bergman
7Pillars Global Insights, LLC
Altaussee, Austria
August 25, 2023