The US Inflation Reduction Act from the perspective of the steel industry in Germany

Position paper

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With the Inflation Reduction Act (IRA), the USA has introduced a comprehensive legislative package that is intended not only to combat inflation, but also to reduce greenhouse gas emissions, sustainably lower energy prices and establish new green value chains. On the one hand, the steel industry in Germany welcomes the climate policy ambitions associated with the programme. On the other hand, the shifts in international competitive conditions that are arising from the IRA pose major challenges for Europe as an industrial location, which are considerably intensified by the protectionist orientation of the IRA in parts. Germany and the EU are now called upon to provide an industrial and trade policy response.

Situation

With the signing of the IRA by US President Biden in August 2022 in the US Congress, a package of laws was initiated that will have far-reaching effects on climate protection and investments in renewable energies and the hydrogen economy.

In the area of climate protection alone, $369 billion in funding is earmarked for the next ten years. This includes spending on climate-friendly energy (169 billion), transport (23 billion), "clean" technologies (17 billion) and financing for new industrial plants (71 billion). In many cases, the availability of these benefits is conditional on, among other things, the use of domestic steel and other US-made materials or components ("Buy American").

The IRA is intended to combat current US inflation, reduce greenhouse gas emissions, and build and establish value chains for future technologies in the US. According to initial forecasts, with the help of the IRA, US CO2 emissions could be reduced by 40 percent by 2030 compared to 2005 (in comparison: Germany's climate target for 2030 minus 65 percent compared to 1990 and minus 56 percent compared to 2005). The climate and industrial policy push comes at a time when the EU is in a deep energy crisis and it can be assumed that energy prices will remain at elevated levels even after they have been overcome as part of a new "New Normal".

Positions of the steel industry in Germany

Urgency to create competitive energy prices intensifies

› German and European policy-makers must step up their efforts to enable industry to obtain energy supplies at competitive prices. Already today, German industry is no longer competitive as a result of skyrocketing energy prices.

› The IRA brings with it the danger that the disadvantages will become structurally entrenched. Germany and the EU must provide an industrial policy response on how competitive energy costs can be achieved in the medium term.

› The competitiveness problems do not only relate to the energy-intensive industries, but affect the entire range of steel-based value chains. There is a danger that companies will increasingly focus their investments on the USA in the future, with negative consequences for Germany and the EU as industrial locations (poor relocation of value creation).

The hydrogen ramp-up must be accelerated against the background of the IRA.

› The US plans for the domestic hydrogen industry pose a considerable risk for Germany. For example, the build-up is so ambitious in terms of scope and speed that in the next few months large parts of the plant manufacturers qualified to build electrolysis capacity will be tied up in the USA.

- For Germany and the EU, this could result in a significant delay in their own hydrogen ramp-up. There is also a risk that investment projects in the EU will be reconsidered and shifted towards the USA.

- The primary goal must now be to set the framework conditions in such a way that the hydrogen ramp-up in the EU is significantly accelerated. This includes, among other things, technology-neutral promotion of hydrogen, a sufficient supply of green electricity and a hydrogen supply infrastructure geared to industry.

Access to the US market must remain open for European products

- The IRA aims to promote domestic production through local content requirements ("Buy American"), especially steel products. It must be a core concern for German and European policymakers to ensure that the US market remains open for EU products in negotiations with the US.

- With regard to the steel industry, the planned sectoral agreement in the steel sector could also play an important role. The aim should be to guarantee both alliance partners reciprocal market access to the green lead markets and to strengthen international cooperation. This also includes the opening ofpublic procurement for climate-friendly raw materials.

The EU must provide an industrial policy response to the IRA.

- Funding instruments in the EU and Germany are mostly narrowly defined, not available at short notice and hardly combinable, which leads to uncertain framework conditions and often time-critical investment decisions.

- The IRA should be understood as a wake-up call to quickly develop a coherent industrial policy concept to support companies in an uncomplicated and comprehensive way on their way to decarbonisation. In this context, it is important to recognise the central role of the primary industry for the transformation and to map it in industrial policy, as the IRA does.

- The IRA threatens to make the USA the first steel-producing region to offer green products on a large scale and thus establish lead markets. It is now important for Germany and the EU to create a demand pull by creating their own lead markets.

Background: Important contents of the IRA from the steel industry's point of view

- With the IRA, the USA has embarked on an ambitious transformation course. With the help of tax credits as an easy-to-use incentive instrument, the domestic industry is put in a position to make investment decisions in the short term with a high degree of predictability.

- The US legislative package is therefore unique in terms of the scope of support, speed of implementation, practicality of applying for support, and predictability for US companies.

Promotion of renewable energies

- The IRA provides large-scale funding, especially in the area of national clean energy generation. The main instrument is tax credits for investments in clean energy facilities, including solar, wind and energy storage.

- According to BCG calculations, the tax credits for renewable energy production can reimburse up to one third of the investment costs. Analyses show that the production costs for green electricity could be massively reduced in the future (e.g. around 50 percent in the solar sector, 40-60 percent in the wind energy sector).

- This will considerably accelerate the expansion of renewable energies in the USA. Analyses assume that this share of electricity generation will increase to a share of up to 80 percent in 2030 (share approx. 40 percent in 2020). The US steel industry will be able to offer large quantities of low-carbon steel at competitive prices due to the growing supply of low-cost green electricity.

Promoting the production of climate-friendly hydrogen

- The production of climate-friendly hydrogen plays an important role in setting the US on the path to a decarbonised future. The IRA aims to massively reduce production costs by introducing tax credits for production (up to $3/kg). There are to be no restrictions on the use of hydrogen. This openness of technology should lead to the greatest possible supply in a short time.

- It is thus to be expected that the IRA will greatly accelerate the hydrogen ramp-up in the USA. This will create the conditions for lead markets for hydrogen applications to establish themselves in the individual sectors.

Preferential treatment of domestic industry through local content regulations

- Besides the ambitious decarbonisation course, the IRA also reflects clear economic, industrial and geopolitical goals. For example, it reflects a desire to reduce dependence on China to ensure that the transition to a carbon-neutral economy creates millions of domestic manufacturing jobs and is driven by US-made clean technologies.

- In an effort to encourage domestic production of inputs for renewable energy projects, the granting of tax credits is linked to local content requirements for steel products, for example. For example, a "Domestic Content Bonus" in tax credits for energy projects is only granted if the share of US steel reaches a certain domestic content threshold.

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