The US Inflation Reduction Act pales in comparison to State Aid within the EU

The US Inflation Reduction Act (IRA), and the extensive and partly discriminatory subsidies that it includes, have provoked heated political discussion within Europe. Some believe that the Act risks creating an uneven playing field, and that the EU now needs to increase the level of subsidies it provides and further dilute its existing State Aid rules. However, if you look at the numbers, the reality is that EU Member States grant significantly more in State Aid than is included within the IRA.

On 4 December, European Commission President Ursula von der Leyen - in her speech at the College of Europe in Bruges – placed considerable focus on the IRA. However, she provided a very mixed message. On one hand, she felt it was welcome that the US - through the IRA - is investing in the fight against climate change. She pointed out that there was a "striking symmetry between the Inflation Reduction Act and the European Green Deal". Yet at the same time, she suggested that "the IRA can lead to unfair competition, could close markets and fragment the very same critical supply chains that have already been tested by COVID-19." President von der Leyen outlined three main ways of addressing the IRA, or rather ways to "do our homework in Europe and at the same time work with the US to mitigate competitive disadvantages". These were to:

- adjust our own rules to facilitate public investments into the green transition
- reassess the need for further European funding of the transition
- work with the United States to address some of the most concerning aspects of the law.

In reality, the first two points are about the same issue – State subsidies. And while the President warned against "production subsidies that could lead to a subsidies race" in her speech, she then suggested that the EU State Aid rules might be too detailed, too rigid and too restrictive. In so saying, she implied that State Aid rules should be made more flexible and perhaps should also be made available for mass production. Furthermore, she suggested that additional EU funding should be created to complement that coming from the EU Member States.

The background to these radical ideas is a perception that the subsidies and tax credits included in IRA are a gamechanger when it comes to the competitive relationship between the EU and the US. However, this is not necessarily the case. The reality is that the estimated US$369 billion in the IRA is being outstripped by the support provided by EU Member States. Let's look at the figures.

The US$369 billion figure - the majority of which are benefiting companies through subsidies or tax breaks for consumers who buy the companies' goods - will cover the period 2023–2030. If, for the sake of argument, we distribute this evenly over the eight years of the IRA, it comes to around US$46 billion USD for each year.

By way of comparison, according to the latest State Aid Scoreboard, the funding being provided in State Aid by the EU Member States with climate, environment and energy as objectives amounted to

€77 billion for 2020. The amount of State Aid for these objectives has increased considerably, on average by around 10% year-on-year from 2015-2020. Should this trend continue, the EU Member States will be providing Aid of around €200 billion for the year of 2030 for that same objective. This would be equivalent to an annual average amount of some €146 billion during the years 2023–2030.

In other words, the EU Member States will more or less outspend the US IRA, with funding of around €100 billion per year on average during this period. This makes it clear that the IRA is not really the gamechanger it is being made out to be, and that the argument for increasing the level of distortive subsidies within the EU is built on unsound foundations.

However, it is the case that the local content requirements in the IRA are discriminatory and will place EU companies at a disadvantage. They also have very little to do with climate-related criteria. We believe that we should wait for the work in the EU-US task force to be concluded, with the hope that it will lead to a constructive solution to this emerging problem. There is little doubt that the competitiveness of companies within the EU is coming under severe pressure, but this is mainly due to high energy costs. The EU therefore needs to continue working with broad measures to manage both the price of energy and access to it. It also needs to take long-term measures to strengthen the EU's competitiveness, rather than pursue misdirected measures that risk distorting competition in the market and further fuelling a subsidy race.

Stefan Sagebro
Director, Competition and State Aid
+46 8 553 43 101
stefan.sagebro@svensktnaringsliv.se