



Europe Threatens New Tariffs Over Biden's 'Buy American' Tax Credits

Addie Mae Villas

November 17, 2022

A tax credit encouraging American manufacturing contained in President Joe Biden's Inflation Reduction Act (IRA) has raised the ire of European policy makers, who say the credit is protectionist and will hurt European exporters.

European Union (E.U.) leaders expressed frustration with the electric vehicle (E.V.) component of the Buy American tax credits last month, with the E.U. Commissioner for Competition Margrethe Vestager saying, "As a matter of principle, you should not put this up against friends," and French President Emmanuel Macron calling for a Buy European program. Now, the bloc says it will possibly target nine other American tax credits included in the IRA for protectionist retaliation.

While signaling his openness to a new trade agreement with the U.S., German Finance Minister Christian Lindner told CNBC, "We should be open for it, if both sides agree but at the moment we have to analyze the Inflation Reduction Act with its consequences for our industries."

Biden appears to have no intention of scaling back the IRA's protectionism. Speaking to the 27th Conference of the Parties in Egypt, Biden said, "This summer, the United States Congress passed and I signed into law my proposal for the biggest, most important climate bill in the history of our country, the Inflation Reduction Act. It includes...\$368 billion to support clean electricity, everything from offshore wind, to distributed solar, zero-emission vehicles, and sustainable aviation fuels; more efficient electrified buildings; cleaner industrial processes and manufacturing; climate-smart agriculture and forestry; and more." Many of these sectors are eligible for tax credits and some of the potential targets for the E.U. retaliations.

There are several trade problems with pushing made-in-America tax credits for the green energy sector. While the credits disadvantage clean energy exporters in Europe, they also incentivize European policy makers to retaliate against other sectors of the American economy.

When asked about the Buy American E.V. tax credits and policies, Scott Lincicome, director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies, says there may be spillover into other American markets. Europeans are "far more concerned about the political blowback they're going to get by their exporting industries. So, they have to exact some sort of revenge," he says. "You can end up with a much larger trade conflict than what the original action targeted."

Tit-for-tat tariffs have happened before. In 2019, tariffs created by the Trump administration to target European airplane maker Airbus led to a spillover targeting food and beverage markets. Baylen Linnekin, a senior fellow for the Reason Foundation (the nonprofit that publishes this site), wrote that, "Those tariffs harmed foreign and domestic food producers and consumers alike. Their predictable negative impact has been widespread."

Plus, U.S. infrastructure is lacking the mineral mining and processing needed to develop the clean energy technology to qualify for the 'Buy American' tax credits in the IRA. Without proper deregulation, developing these technologies will require further government spending, raising taxes and prices for the American people, all the while raising the potential for a repeat European trade war.