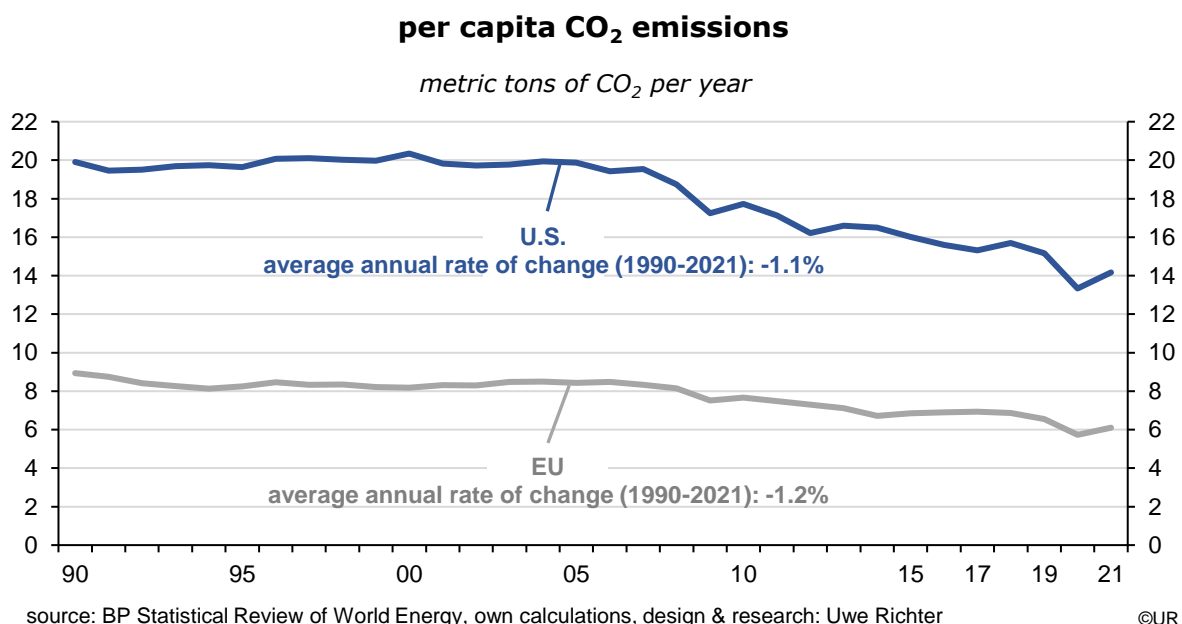


## The fight for green market shares

Mainz, February 8, 2023 | Dieter Wermuth

In August, the US administration had passed its Inflation Reduction Act (IRA). It includes about \$400bn for climate projects. Last week, partly in response, the EU Commission has presented its own €660bn Green Deal Industrial Plan which consists of green subsidies and spending by the public and private sectors; some of the money comes from unused funds of the Covid-19 emergency program. America's \$400bn are about 1.7% of GDP while the EU's 660bn euros are the equivalent of 4.1% of its nominal GDP. In both cases, spending and tax incentives will be spread over a period of about ten years – the additional annual burden on public and private budgets is thus fairly modest and manageable, especially in view of the huge effort that is necessary to mitigate the deterioration of the environment.

Over the course of the next decade, both plans aim to reduce CO<sub>2</sub> emissions by about half compared to 1990, and to strengthen and improve the competitiveness of green industries. The US needs to do a lot more than Europe. While CO<sub>2</sub> emissions there are declining at an average annual rate of 1.1% per capita since the early nineties (the EU's rate is almost identical), in absolute terms the difference is still huge. The average American emits about 14 tons of CO<sub>2</sub> a year, or 130 percent more than the average European (6 tons).



The relatively modest IRA will not be enough to close the gap. I also suspect that the US administration will also not reach its 2030 climate targets. I had shown last week that America's per capita registrations of electric vehicles were just 23% of Germany's, in spite of Tesla's success. Another factor is the low price of fossil fuels which is an incentive to burn oil and gas. Even so, policies seem to change for the better, and climate issues have moved up on the political agenda. The main motivation for America's change of mind seems to be the challenge posed by China in a large and very promising market. Robust industrial policies are

supposedly needed to succeed in global EV and other green markets and reduce the dependence on Chinese imports. It is also an attempt to stop the country's de-industrialization of the past decades.

Regrettably, America's new climate policies have a protectionist bias. To some extent, the same can be said of the EU's green project – but it is less explicit and of a smaller order of magnitude. In the US, only those products will get financial support which are manufactured there, not, however, imported green stuff. This provision is mainly directed against China, but also against the EU where politicians, business associations and the media are worried that firms will shift a significant part of their green investments to the US, with negative effects on the number of well-paid jobs and the skills basis. Especially France has rediscovered its protectionist instincts and calls for European countermeasures. There is the risk of an expensive subsidy war.

I think all this is a storm in a teapot. First of all, everybody should be glad that the US wants to do more for the climate, and also that American, not European taxpayers will foot the bill. In terms of CO<sub>2</sub> emissions, America is the second largest evildoer (4,700 million tons annually). China is number one (10,500 million tons), but its population is four times larger. This means that, from a global perspective, US actions against climate change are significantly more effective than those of almost all other countries. We also have to accept that America's green industry is a so-called infant industry which, in the beginning, may be protected by trade or other barriers against mature and powerful foreign competition. This is almost consensus among economists and can look back on a long tradition, not least in continental Europe.

The fact that competition in the green segment is about to intensify is not necessarily negative. It accelerates technical progress, leads to more capital spending in the sector, improves productivity and is good for almost everybody, everywhere. In the past years, the EU has benefited from an undervalued euro but has, perhaps, not fully made use of this opportunity. A stronger headwind, combined with the huge Green Deal Industrial Plan, will be a wake-up call and incentive for Europe's green economy. The world's climate will be a winner.