

SPOTLIGHT REPORT

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Where Do EVs Stand Going into 2024?

What's Happening: Electric vehicles (EVs) are transitioning from an industry in its infancy to a more established one. That's proving to be a bumpy ride.

Why It Matters: The Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act collectively represent big bets on a nascent industry by President Biden. EVs are front and center in the president's economic, energy, and industrial policies. Despite difficulties, it's mostly been paying off (so far). A [Bloomberg](#) analysis predicts US EV sales will be up 50 percent this year and proclaims that "reports of an electric vehicle slowdown have been greatly exaggerated." The same report calculates that these laws have collectively sparked \$100 billion in investment in EV and associated battery manufacturing, with the first IRA-spurred facilities to open fully next year. That also means a lot of jobs and factories for Biden to tout on the campaign trail. **That doesn't mean it's been easy — the truth is that it's been a mixed bag. Despite good topline numbers for the industry as a whole, many individual companies appear to be disappointed, and are [scaling back](#) overzealous [expectations](#).** General Motors (GM) predicts it's on track to make EVs profitable by [2025](#): either an impressive achievement and a notice that EVs will soon be obvious business decisions or an implicit conceit that firms are investing billions in capital on a currently unprofitable and eminently unpredictable industry, depending on your point of view. **Electric vehicles are also beginning to be politicized and thus face political risks that did not exist last year.** Republican candidates are broadly condemning Biden's marquee laws and the products they're meant to promote. This is trickling down to their voter base, who aren't buying. On the whole, this transformation, unparalleled in auto history, is creating an atmosphere of uncertainty that presents new risks and rewards that could upset the established order of carmakers.

What's Next: The future of EVs is highly dependent on the results of the election next year. A Republican sweep would entail the picking apart of the IRA and the environmental regulations that act as the government's forcing mechanism to prod industry along. A Biden re-election would more or less preserve the current highwater mark of federal support at least through 2029. **This support will soon be substantially diminished due to a foreign entity of concern restriction beginning next year that will render many EVs ineligible for federal tax credits, though this credit will be available as cash at the point of sale to consumers**

for those EVs that are still eligible starting in January. Whether or not EVs remain in the cultural milieu will also control if more red states implement [EV fees](#), as some have already done. Outside of government, the United Auto Workers union, fresh off a recent victory against the Detroit Big Three, are trying to simultaneously unionize every other major automaker in the country, carrying implications for EV prices and the power of labor going forward. **The question to be answered is really not whether the EV transition will happen, but how quickly, and on whose terms.**

The Electric Vehicle Rebate (Section 30D)

To refresh your memory, the 2022 Inflation Reduction Act (IRA) created two tax credits that add up to \$7,500 to spur the purchase of new EVs that will last until December 2032 (Section 30D):

- \$3,750 is available to vehicles that meet certain battery production requirements and
- \$3,750 is available to vehicles that meet certain critical mineral production requirements.

It's possible to qualify for one credit and not the other, or both. **A government check decreasing the price of electric vehicles by thousands of dollars has been instrumental in spurring sales.** Sales of electric or hybrid vehicles hit a record [18 percent](#) of US light-duty vehicle sales in the third quarter (15.8 percent year-to-date). In California, that number was over [25 percent](#) in Q3. **There are strings attached, primarily to encourage domestic production.** Some took effect immediately but others are being phased in over time.

Foreign Entity of Concern Restriction

Starting in 2024, a critical foreign entity of concern (FEOC) requirement will take effect. “Any” of the battery components may not be “manufactured or assembled by a foreign entity of concern” in order to receive the battery component rebate. An equivalent rule will apply to the critical mineral half of the credit starting in 2025. The text of the law includes any foreign entity “owned by, controlled by, or subject to the jurisdiction or direction of a government of a covered nation.” Covered nations are currently Russia, North Korea, Iran, and most importantly, China. **At stake is the extent automakers will have to disentangle themselves from the [utterly dominant](#) Chinese supply chain needed for both batteries and critical minerals.**

To get really specific, the important clarification surrounds what an entity “owned” or “subject to the jurisdiction” is. Treasury illuminated these details earlier this month:

- 25 percent or more of voting interest, board seats, or equity held directly or indirectly by the Chinese government,
- all entities formed in China regardless of ownership,
- all entities formed outside of China whose “principal place of business” is there, and

- any licensing agreement where such an entity exercises “effective control” over production.

There are some reprieves for manufacturers spelled out as well:

- firms have until 2026 to start tracking certain low-value minerals whose origins are difficult to trace,
- implementation will be delayed from January 1st, 2024 until 30 days after when the rule is finalized, and
- these definitions will be used to guide [billions](#) in Energy Department funds to spur domestic battery production.

One risk **Ford (F)** took was in entering a licensing deal with Chinese firm **CATL (300750)**, hoping that the agreement would not run afoul of future interpretation. Ford is reviewing the guidance for compliance. **General Motors (GM)** made a statement following the announcement that they were “[well positioned](#) to maintain” the tax credit for “many of their EVs in 2024.”

Instant Electric Vehicle Rebate

[Recent guidance](#) from the Treasury Department allows car dealers to immediately provide the EV credit to consumers as cash at the [point of sale](#) rather than make them wait until they file their annual taxes. This provision will kick in starting in January 2024. One [survey](#) found prospective buyers would value an instant rebate \$1,450 more than an otherwise equivalent credit.

The Leasing Loophole

Car dealers have found a way around many of the strings attached to the consumer credit by opting for the commercial credit instead. **The commercial credit earns the same \$7,500 but is exempt from many of the same requirements:**

- the FEOC provision,
- rising domestic battery component restrictions,
- rising domestic critical mineral restrictions,
- caps on vehicle MSRP prices, and
- caps on eligibility for high-earners.

Interpretation of this provision has been extended to leasing cars to individuals. That means dealers receive the commercial credit for vehicles that would otherwise be ineligible for the consumer credit when leasing them out. The requirements above leave only 20 out of the 103 EV models on the market eligible for the consumer credit (a current list of eligible vehicles is updated [here](#)), and that number is only set to [go down](#) next year as the FEOC and increasing material requirements take effect. The result is a two-tiered system in which many cars only receive the credit on leasing (to be clear, the dealer receives the credit, not the customer, but savings are being passed on). **As a result of these incentives, leasing has exploded in this market segment. Despite a high interest rate environment, [41 percent](#) of all US EV deliveries in April were leases.** The

National Automobile Dealers Association calculated that the number is [over half](#) if Teslas are excluded. **The CEO of Ford Motor Credit expects [60 percent](#) of US EV drivers to lease in the short term.** That is three times higher than the average 20 percent lease rate of gas-powered vehicles.

Federal Loans and Grants

Batteries

The Department of Energy (DOE) released a [\\$3.5 billion](#) funding opportunity for domestic battery production last month. The DOE anticipates making approximately **19-41 awards varying in size between \$50,000,000 and \$300,000,000 each.** The final application is due in March 2024 with winners expected to be announced in August 2024. This comes as battery prices are [falling](#), mostly due to lower raw material costs.

The DOE's Loan Programs Office retains \$222.2 billion in remaining loan authority, per its most recent [monthly update](#).

Chargers

“Range anxiety” remains a top concern for prospective EV buyers. Total ranges remain below that of equivalent gas cars, charging takes longer, and there are many fewer electric charging stations on the road than gas stations. Long-distance journeys pose a particular challenge, requiring planning ahead of time and relying on often unreliable charging stations. These cross-comparisons obviously ignore a lot of nuance. **The ability to charge your car at home overnight makes EVs a [completely different](#) ball game.** The vast majority of EV owners ([83 percent](#)) do most of their charging at home. Most vehicle trips are [short](#) and well within EV range. EV range has been on the [rise](#) and more charging stations are constantly being built. Detroit, MI has even installed the first wireless charger under a street that can charge one's car while [driving](#). **But regardless of the reality, if consumers are still worried about range and not being able to readily find a place to charge their car, they won't buy one.**

To this end, Congress allocated \$7.5 billion in the 2021 Infrastructure Investment and Jobs Act to build EV chargers in all fifty states. The only problem? Two years in, the project is yet to actually install a [single charger](#). Funds required a long list of steps to be disbursed. First, the federal government had to release guidelines; then, because the lion's share of the money is administered by states, they needed to create and submit plans guiding spending. Every state has gotten at least this far, but at this point, paths diverge. Six states have awarded contracts and a further two even broken ground on chargers. But 27 states and DC have not even begun soliciting bids yet. All of these factors have contributed to a slow roll-out; a roll-out so slow, it may have time to be repealed by a potential Republican-controlled Congress and White House after the 2024 presidential election.

New York State last month approved a [\\$1.2 billion](#) budget for utility subsidies of electric chargers — a \$500 million increase from the program first approved in 2020.

The Political Risks EVs Face

Are EVs the New Front of the Culture War?

Conservatives around the world are increasingly pushing back on EVs, faulting their cost, reliance on foreign supply chains, and disruptiveness to traditional carmakers. In a bid to win over rank-and-file members of the striking United Auto Workers, **former President Trump memorably derided electric vehicles as a “[transition to hell](#).”** Governor and GOP presidential primary candidate Ron DeSantis (R-FL) has promised, if elected president, to “reverse the policies of Biden that’s trying to force Americans to buy electric vehicles.” A talking point getting louder in right-wing circles is the argument that the government should not interfere in the market, whether that be through subsidies or bans. Ahead of 2024, prepare to hear how — in addition to your guns, [meat](#), and [gas stoves](#) — Democrats are coming for your gas-powered cars too. **Perhaps the biggest risk to EVs are not the laws red politicians pass but the politicization of the product itself. An April Gallup poll found [71 percent of GOP voters say they would not buy an electric car](#).** There are many reasons to have hope this political association will disappear. After all, in 2000, a [quarter](#) of US adults said they’d never get a smartphone. But with Democrats placing these vehicles at the center of their industrial and climate policies and the 2024 elections approaching, there is also a long way for commercial interest to drop.

2024: An EV Referendum

This culture war stuff may all just be talk now, but automakers have been paying attention. Stellantis (STLA) CEO Carlos Tavarres recently [said](#), “There are two important elections next year — the European Parliament elections in June and the U.S. elections in November. It could be that politics will be different then.” Tavarres added that the company may have to change tack “if political and public opinion tends toward fewer EVs.” He’s right. **To a large extent, the future trajectory of EVs is election-dependent.**

On the federal level, a key priority of a theoretical Republican Congress and president in 2025 would be to repeal the EV tax credits in the IRA, likely to pay for other tax cuts the GOP prefers. Electric vehicles are beginning to become guilty by association with the IRA, which passed with no Republican votes and is Biden’s greatest partisan legislative achievement (and a cornerstone of his pitch for a second term). [Project 2025](#), an influential conservative policy [playbook](#) for what to do if Republicans win in 2025, lays out ending [all federal subsidies](#) for EVs. The Republican-controlled House voted today to block the Environmental Protection Agency’s (EPA) proposed tailpipe rule which would make two-thirds of passenger vehicles electric by 2032. Full Republican control of the federal government wouldn’t necessarily be able to fully repeal the IRA’s tax credits but it would nevertheless face significant risk. **Legislation introduced by Senators Deb Fischer (R-NE) and John Cornyn (R-TX) would institute a one-time [\\$1,000 fee](#) at the**

point of an EV sale to go to the Highway Trust Fund. Bills like Fischer's instituting nationwide EV sales fees might be more likely to pass under a Republican Congress and president than trying to repeal tax credits directly. Such an effort arguably has a better justification to lean on and avoids taking away a benefit the government already provides.

If Democrats retain the White House, any prospective changes to the IRA will be negotiated and minor, at most. A level of government support comparable to the present would be assured through 2029, giving the industry years to get on its feet. It would also remove any political obstacles to the EPA's tailpipe rules (though challenges from the judicial branch would remain). **A full Republican victory, however, would mean the repeal and modification of significant portions of the IRA and shredding of environmental regulations generally. It's important to note that a Republican administration could hamstring implementation of the IRA even under divided government.** A GOP president could severely curtail the impacts of the bill by rewriting tax credit guidance to restrict eligibility. The White House also directly controls bodies like the EPA (and could roll back regulations) or the DOE's Loan Programs Office (and could refuse to grant loans).

Increasing EV Fees on the Horizon

One silent but increasing source of risk is state-imposed EV-specific extra fees. At least [eight](#) states have imposed annual registration fees of \$200 or more (for EVs only), seven of them red. Texas passed a law this session raising the EV registration fee to a one-time \$400 payment with \$200 annual renewals. These fees and taxes selectively target a product that remains comparatively more expensive than its gas-powered competition. **Electric vehicles are getting drawn into the realm of the culture wars, and state legislators are discovering they have broad power to help or hurt the budding industry.** The proliferation of EVs poses a fiscal problem for the federal and state government (and a political opportunity to take advantage of this fact). Much of the country's federal transit infrastructure is funded by a tax on gasoline that goes to the Highway Trust Fund. Every state also charges their own gas tax and all but one are higher than the federal 18.4 cents per gallon. Electric vehicle owners dodge this cost, creating a larger and larger disjunction between who uses and who pays for the roads. For this reason, even deep blue states like California and Illinois impose higher annual EV registration fees to make up for lost gas tax revenue. **Republican state lawmakers are seizing on the problem that EVs don't pay gas taxes to charge vehicle owners extra to make up the difference.** As you might expect, this is partly practical, partly political. Wyoming lawmakers famously introduced a bill in January that would ban all EVs by [2035](#). This was more flippant than serious but serves as a reminder of how far a state could go: the Wyoming bill failed due to political will — *not* because the state lacked the power to do so. Where there is congressional inaction, states can rush in to fill the void (and with the most states currently under [one-party](#) control in modern history, it's never been easier).

The Labor Movement is Just Getting Started

The agreements the United Auto Workers (UAW) union recently secured assure that their union workers won't be rotated out as part of the Big Three's EV future. The bad news for the Big Three is that these deals will significantly raise the price of their cars. Insofar as workers are getting a bigger slice of the pie, that requires somebody else's slice to shrink. General Motors announced that the auto strike had cost the firm \$1.1 billion in EBIT this year, and that the labor deal would increase costs by [\\$9.3 billion](#) over the four-year contract, adding around \$575 to the cost per vehicle over the span. Ford cited an estimated \$850-900 per vehicle figure. **This especially hurts because the [No. 1 reason](#) people aren't buying EVs is the price.** Car companies' current mortal battle is to lower the production cost of electric cars. At the moment, traditional manufacturers are losing money for every EV they sell in the hope that they'll eventually be cheaper to manufacture, even as they engage in price-cutting. Electric vehicles prices have dropped a staggering 22 percent since last year but remain almost [three thousand dollars](#) more expensive than the average gas car. In the wake of lower than predicted demand and high supply, Ford and GM have recently announced they are decreasing investment in their EV divisions.

Non-union carmakers like Tesla (TSLA) or most of the foreign manufacturers aren't getting off easy either. The terms of the UAW deal means they will face stiffer competition for workers, but the longer-term consequences are what will keep auto execs up at night. **The union announced a campaign drive to organize all 13 major non-union automakers simultaneously [last week](#).** Yes, that means pretty much everybody: Tesla, Toyota (TM), Honda (HMC), Nissan (NSANY), Hyundai (HYMTF), Subaru (FUJHY), Mazda (MZDAY), Volkswagen (VWAPY), Mercedes (MBGYY), BMW (BMWYY), Rivian (RIVN), and Lucid (LCID). **Unionization would carry impacts across the industry, potentially raising costs and decreasing any current competitive edge non-union companies might have.** Despite its recent success, the UAW has its work cut out. These firms are old hands at fighting unionization and have defeated prior attempts as recently as this year. Many of their plants are strategically placed in Southern states with laws unfriendly to organized labor.

A Brewing Trade War?

In recent years, China's production and exportation of EVs has exploded. China now exports more such vehicles than any other country; [two-thirds](#) of EVs sold globally last year are Chinese-made. The industry as a whole was subsidized by extensive state subsidies (\$57 billion from 2016-2022 per [one](#) estimate) that have been [extended](#) to 2024 (to the tune of \$72 billion). **This has increased already simmering trade tensions between China and much of the rest of the world.**

The Biden administration is undergoing a mandatory four-year review of the Trump-era Section 301 tariffs that reportedly is to be finished by the end of the year. Included are 25 percent tariffs on Chinese cars which have prevented Chinese firms from entering the US market. US Trade Representative (USTR) Katherine Tai has discretion to increase these tariffs unilaterally. The effective rate is actually 27.5 percent, as

the above tariffs were applied on top of a pre-existing 2.5 percent duty on all cars. **BYD (BYDDY)** has petitioned the Biden administration to reduce the duties, but this is unlikely. During a panel discussion earlier this summer, USTR's chief China enforcement counsel, Brian Janovitz, indicated the Biden administration was unlikely to remove the vehicle duties as the result of that review. Janovitz even suggested the government could take further action to prevent Chinese EVs from flooding the US market. Indeed, a group of congresspeople asked for the tariffs to actually be [increased](#) last month.

China, for its part, is not playing a passive role in the trade critical to keep the EV market flowing. The country imposed export controls on [graphite](#), a necessary component of vehicle batteries, last month.

European carmakers are also beginning to feel threatened by Chinese imports. **The European Commission has launched an [investigation](#) into whether to impose punitive tariffs to protect European Union (EU) producers against cheaper Chinese EV imports it says are benefiting from state subsidies.** It's not clear whether Chinese carmakers are actually engaging in dumping but the larger impetus for the search is a bid to protect domestic brands. Unlike the United States or China, the EU has no comprehensive subsidy across the bloc as a whole; rather, subsidization has come through a patchwork of incentives at the national level. The current EU tariff on Chinese auto imports is 10 percent. Reports indicate that urging by the French government was the largest single reason for the investigation. To understand why, note that **the imposition of tariffs would be sure to incite trade retaliation.** French automakers face little exposure from counter-tariffs blocking the Chinese market, in contrast to their German counterparts, whose potential liability is large — German cars are 17 percent of the Chinese EV market. **A tariff war would thus likely boost French companies at the expense of both German and Chinese ones.** Any provisional tariffs by the European Commission will have to be imposed within [nine months](#) while any definitive tariffs must be set within 13 months. Tariffs put in place following an anti-subsidy investigation generally pass muster before the World Trade Organization. EU countries can in theory push back against that decision, but to block such a step, opponents would need a so-called qualified majority representing 55 percent of EU member countries and 65 percent of the bloc's population.

The EU has raised serious concerns about the IRA, claiming it privileges US industry. **Both sides have come to a [preliminary agreement](#) with respect to a free-trade agreement for the purposes of the IRA, which would allow cars with European-sourced minerals to be eligible for the tax credits. And despite complaints, everyone has been getting on the domestic subsidies train.** The United Kingdom (UK) unveiled a plan including [£2 billion](#) for the automotive industry last month; the EU has offered [€3 billion](#) to domestic battery manufacturers. The EU and UK are also hard at work on a [deal](#) to delay a 10 percent tariff on each other's vehicles that would otherwise begin in January for three years.



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