THIRD WAY INSTITUTE

H. Morgan Griffith
Chairman
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515-6115

June 22, 2023

Dear Chairman Griffith:

This transmittal letter addresses your request for responses to additional questions by a member following my testimony at the May 23rd, 2023 hearing on "Growing the Domestic Energy Sector Supply Chain and Manufacturing Base: Are Federal Efforts Working?"

The Honorable Frank Pallone, Jr., ranking member of the House Energy and Commerce Committee, submitted the following questions:

"You testified that the investments Congress made through the Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA) are helping to bring manufacturing jobs back to the United States and build the domestic clean energy supply chains needed to prevent the worst effects of climate change. However, the American companies that are responding to these investments need to make long-term plans that account for foreseeable uncertainties, such as changes to government policies of investments.

"a. Can a lack of consistency in government policies or investments create uncertainty for manufacturers? If so, how does that affect companies' planning, and their ability to pursue projects that could have the most impact?

"b. Why is consistency in government policy and investments so important to facilitating domestic manufacturing and clean energy supply chains?

"c. How can we in Congress be helpful so that the investments made through IRA and IIJA have the greatest possible impact, create good-paying jobs, and revitalize American manufacturing?"

This transmittal letter will provide my responses to these questions.

Sincerely,

Ellen Hughes-Cromwick

Ellen Hughes-Cromwick, PhD
Senior Resident Fellow
Climate and Energy Program

a. Can a lack of consistency in government policies or investments create uncertainty for manufacturers? If so, how does that affect companies' planning, and their ability to pursue projects that could have the most impact?

My experience as the chief global economist at Ford Motor Company has allowed me to obtain a deep understanding of the way that stable v. volatile government policy impacts business planning and capital allocation.

Stable government policy reduces uncertainty while disruptions to government policy can adversely impact business planning, growth, and employment.

In order to undertake the development of a 10-year business plan, companies that produce a durable good – like a vehicle – must undertake product and financial analysis to determine how much to produce each year, at which plants, and what the cost of such production will be over the course of a ten year period. Moreover, the company leaders must analyze and make projections about the pricing of the products, and what the likely revenue will be now and over the course of the product life.

All these plan "assumptions" take into account regulatory and other government compliance requirements. This must be done in a way that results in a business plan for investment. Since a company has multiple stakeholders, from employees, shareholders, government, and community partners, it is required to disclose much of these business and capital allocation plans in its securities filings.

Public companies like Ford must also report its assessments of risk to its forward-looking statements. In 2023, Ford's proxy statement included the following statement in the section entitled, "Cautionary Note on Forward-Looking Statements:"

"The impact of government incentives on Ford's business could be significant, and Ford's receipt of government incentives could be subject to reduction, termination, or clawback"[1]

b. Why is consistency in government policy and investments so important to facilitating domestic manufacturing and clean energy supply chains?

In order to structure a supply chain for the assembly of an electric vehicle, manufacturers must contract with hundreds of supplier companies. Typically these contracts have a duration of at least three years. Such contracts guarantee the purchase of those components or services necessary to assemble an EV. For high-volume (often called Tier 1) suppliers, these contracts include close collaboration between the companies in order to be certain that components meet the design and engineering requirements for the assembly of the EV.

There are several provisions in the Bipartisan Infrastructure Law and the Inflation Reduction Act that impact these supplier relationships. For example, in order to meet domestic content requirements or limits on imports from "foreign entities of concern," some existing contracts would prevent the EV manufacturer from taking advantage of the new electric vehicle tax credit. Supplier contracts are in place and it would be very costly for a company to amend the contract. Changing a supply chain for many components could take up to five years. Contracts are staggered so that all component or commodity purchasing agreements are not consummated in the same year. This is a way to mitigate risk.

Shifting supply chains cannot be accomplished in a matter of months or even a year or three. A government policy that allows for a judicious glidepath to restructure supply chains is critical. It is important that such restructuring improves US competitiveness, but not jolting or disrupting supply chains quickly. The US government is supporting economic engagement with our EV supplier countries, such as China. The Inflation Reduction Act allows for a period of time before the domestic content requirements become more onerous. This approach will support timely investments in order to shift supply chains.

c. How can we in Congress be helpful so that the investments made through IRA and IIJA have the greatest possible impact, create good-paying jobs, and revitalize American manufacturing?

Congress will play a very important role in ensuring that proper oversight of IRA and IIJA deployment of funding yields the optimal impact of economic growth and good-paying jobs as the US manufacturing industries are rejuvenated. There are four important actions Congress can take in order to maximize the positive impacts from these laws.

Allow the laws to be implemented in a way that sends stable and consistent signals to the American industrial economy – both workers and business leaders.

Such stability reduces uncertainty about the policy backdrop in which workers and businesses operate, encouraging the use of the provisions in these laws, and allowing for Congressional oversight and evidence-based policymaking to adjust based on due diligence around deployment outcomes.

Every worker and business leader knows that planning is a living exercise. So to government policy implementation. If something is not working – when oversight and outcomes evaluations do not produce the desired results (e.g., maximizing positive economic growth and job impacts, both of which will allow for medium-term reductions in CO_2 emissions), then it is up to Congress to understand what is not working and to partner with the private sector to ensure that policy adjustments can be undertaken.

Actively pursue permitting and regulatory reform

In order to drive decarbonization of the electricity sector, as well as promote the production of clean energy across industries like steel, cement, and transportation, ongoing modernization of how we undertake permitting processes and implementation of regulations matter to private sector businesses making investments. Investors will be less willing to make commitments on projects that are held up by permitting approvals that have undertaken the necessary reviews of environmental and labor impact assessments.

Such efforts on permitting and streamlining reforms should be actively addressed for the mining and processing of critical minerals that are essential for electric vehicles, semiconductors and other products vital to the electrification trend that will tamp down on CO_2 emissions. Unless we rebalance these supply chains over the course of this decade, we will find the US economy in an uncompetitive position.

Begin to establish an annual "industrial strategy review" that brings together testimony from experts on the implementation of these laws

Large companies like Ford know how important it is to have a corporate strategy and an annual business plan update. External factors that impact plans can change quickly. It is important to review and update business plans on an annual basis in order to make necessary adjustments in light of changes in economic conditions, as well as geopolitical developments that can affect both demand and supply trends. But this does not mean that a business plan should be "reactive," and change too rapidly.

To avoid "recent bias," companies use medium- and long-term trends as benchmark guideposts. So too should Congress require the US government to report on the outcomes of its industrial strategy. This will allow for a cross-cutting exercise that evaluates outcomes from the laws and assesses what, if any, policy changes need to be made in order to maximize the intent of these laws.

Maintain funding and staff levels for the Department of Energy and other agencies overseeing new and expanded programs

The IRA and IIJA established dozens of new programs and expanded many existing ones. The agencies responsible for implementing these programs need to be sufficiently staffed so they can get funds out the door quickly while doing their due diligence to ensure taxpayer dollars are spent responsibly and that American workers and businesses will see the benefits of this spending. This means Congress needs to continue providing ongoing annual appropriations to these offices to cover the costs of administering these programs.

To give one example, Congress through the IRA and IIJA created two new clean energy financing programs at DOE's Loan Programs Office and made several changes and expansions to its three existing programs.[2] These new and expanded authorities represent a tremendous opportunity to deploy American-made clean energy technologies and create jobs. But to make the most of this opportunity, Congress needs to provide annual appropriations for LPO to cover its administrative expenses.

We are conscious of the spending caps for FY24 and FY25 that Congress and the Administration agreed to as part of the deal to lift the debt limit. However, it remains essential that Congress continue providing annual appropriations to the offices overseeing new and expanded programs: cutting appropriations for these offices just because they received funds through the IRA or IIJA will not set us up for success in implementing these programs effectively and responsibly.

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[1] https://corporate.ford.com/content/dam/corporate/us/en-us/documents/reports/notice-of-the-2023-virtual-annual-meeting-of-shareholders-and-proxy-statement.pdf

[2] https://www.thirdway.org/memo/financing-the-clean-energy-revolution