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European
Commission

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The Honorable Charles Schumer
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

The Honorable Ron Wyden,
Chairman, Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Mike Crapo,
Ranking Member, Committee on Finance
United States Senate
Washington, DC 20510

Brussels 03 DEC. 2021

Dear Senators,

The European Union (the "EU") is following with concern the current discussions in Congress on possible changes to tax credits available for the purchase of electric vehicles[1].

This matter will now be taken up by the Senate as part of the budget reconciliation package, following the vote in the House of Representatives on the Build Back Better Act on Friday 19 November. I understand the Senate could adopt this package imminently.

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[1] Cf. the Build Back Better Act (H.R. 5376), Sec. 136401 - Refundable new qualified plug-in electric drive motor vehicle credit for individuals and Senate Committee on Finance, Clean Energy for America Act https://www.finance.senate.gov/imo/media/doc/Clean_Energy_for_America_Act_Chairmans_Modified_Mark.pdf, (p. 10)

While recognizing its potential importance for U.S. citizens and the U.S. economy, I very much hope that it will not lead to unnecessary friction or create new barriers in the transatlantic relationship, the single biggest trade and investment relationship in the world. The EU and U.S. have taken important steps this year to deepen our cooperation, notably through the creation of the new Trade and Technology Council, and to reduce trade tensions in a number of areas, including in the civil aircraft sector and as a result of U.S. steel and aluminum tariffs.

I truly believe that the EU and the U.S. must lead the way in the green transition of our economies. We very much welcomed the U.S. decision to re-join the Paris Agreement. At the EU-U.S. summit this year, both sides have agreed to cooperate closely to fight climate change, to promote green growth and to accelerate a climate-neutral future, including through the promotion of low greenhouse gas emission technologies.

Accordingly, we share a common objective and obligation to improve the sustainability of the transport sector to contribute to both climate change mitigation and improved energy security. The electrification of vehicles plays an important role and we applaud President Biden's goal to ensure that electric vehicles represent at least 50 percent of U.S. vehicle sales by 2030. On the EU side, the European Commission has proposed legislation that would require that all new cars sold in the EU be emissions-free by 2035.

European car manufacturers are at the forefront of this transition, with a global presence, including a significant presence in the U.S., which directly and indirectly sustains some 420,000 U.S. jobs. EU car manufacturers have made significant investment in new U.S. production lines, including for electric vehicles.

In this context, we agree that tax credits can constitute important incentives to drive demand for electric vehicles. Many EU Member States also make use of such incentives.

However, we also believe that these tax incentives should be fair and avoid discriminating between car manufacturers. In that sense, the EU has a number of concerns with regard to the design of the incentives that are currently under discussion, which would, in their current state, result in unjustified discrimination against EU car and car component manufacturers, whether imported or manufactured in the US. In particular, the bills proposed in Congress include language that would make parts of the tax credit for the purchase of electric vehicles dependent on the assembly of the vehicle in the U.S. and on the unionization of the plant assembling the car. In addition, the proposal adopted by the House on 19 November includes a "Made in America" credit dependent on domestic content. These elements raise strong concerns.

First, the proposed conditions linking the tax credit to U.S. assembly, U.S. "local content" and workers' unionization would effectively reduce the options for consumers to take advantage of the tax credits, thereby reducing also the effectiveness of the incentives in terms of emissions reduction and improved energy security.

Second, the proposed conditions would discriminate against EU cars and car components and would be fundamentally inconsistent with core rules of the World Trade Organization (WTO) that both the EU and the U.S. adhere to, and that we want others in the world to abide by.

Third, beyond the uncertainty these incentives would create in the U.S. market, by establishing a discriminatory environment between manufacturers, such measures would also risk significantly disrupting the highly interconnected transatlantic supply chains.

Our unmatched investment partnership (worth around 4 trillion U.S. dollars annually) supports millions of jobs in the EU and U.S. and drives our mutual prosperity. The automotive sector is a key part of this, with both U.S. and EU companies trading and heavily investing in each other's markets. We have nothing to gain on either side of the Atlantic from jeopardizing this beneficial relationship by discriminating against each other's products and investors. Measures like the ones currently being considered would also go against our recent efforts to rebuild this relationship by solving our problems of the past and avoiding new points of tension.

Fourth, the unionization condition effectively discriminates against EU car companies' assembly plants in the U.S, harming the tens of thousands of American workers they employ and the communities that have benefitted from their investment, as well as their extended supply and distribution chains (which include unionized workplaces).

The EU does not question the interest in fostering unionized labour. The EU itself has a longstanding history of supporting workers' rights and labour unions and we share the U.S. ambition to ensure that international trade benefits workers. The right to organize is fully protected in EU law and in the laws of all EU Member States. However, the proposed consumer tax credits seem unlikely to be effective tools to achieve further labour unionization in the U.S., and could instead provide a discriminatory incentive to purchase cars from manufacturers where workers are *already* unionized.

For these reasons, I would like to invite you to remove all elements of the tax credit that would discriminate against imports of EU electrical vehicles, EU companies and the American workers they employ, and to ensure full compliance of the proposed bills with the international obligations of the U.S., including under the WTO.

We look forward to positive cooperation and exchanges with you.

Yours sincerely,

V. Dl

Valdis Dombrovskis

c.c.: The Honorable Nancy Pelosi, Speaker, U.S. House of Representatives

The Honorable Kevin McCarthy, Minority Leader, U.S. House of Representatives

The Honorable Richard Neal, Chairman, Committee on Ways & Means, U.S. House of Representatives

The Honorable Kevin Brady, Ranking Member, Committee on Ways & Means, U.S. House of Representatives

The Honorable Ambassador Katherine Tai, United States Trade Representative

The Honorable Janet Yellen, United States Secretary of the Treasury

The Honorable Gina Raimondo, United States Secretary of Commerce

The Honorable Antony Blinken, United States Secretary of State

The Honorable Jake Sullivan, National Security Advisor

The Honorable Brian Deese, Director National Economic Council