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European Competitiveness: Lessons from the IRA

On 29 January 2025, the European Commission published its Competitiveness Compass, a blueprint to make the EU market more resilient, secure and globally competitive. Its three core pillars—closing the innovation gap, aligning decarbonization with industrial growth, and reducing strategic dependencies—echo the ambition behind Joe Biden's Inflation Reduction Act (IRA). With Donald Trump's return to the White House, the trajectory of US clean tech investment faces uncertainty. Meanwhile, the EU's Clean Industrial Deal, published on 26 February, represents its most recent effort to combine decarbonization with economic growth. The EU now has a window of opportunity to assert greater leadership in green industrial policy. However, success requires hard choices and a clear vision for green growth.

BIDEN'S AMBITIONS

- **The 2022 Inflation Reduction Act (IRA) was celebrated as a cornerstone of Joe Biden's plan to rebuild a greener America**. It sought to use green technology as a driver of economic growth and unprecedented industrial expansion. It provided roughly $400 billion worth of tax breaks and subsidies for electric vehicles, solar panels and batteries, and approximately $40 billion for carbon capture and clean hydrogen. It was part of Biden's economic power strategy and followed two other significant spending and investment commitments: the 2022 CHIPS and Science Act (worth $39 billion) and the 2021 Bipartisan Infrastructure Deal (worth $1.2 trillion).

- **The IRA was about climate, growth and securing supply**. Unlike traditional climate policies, the IRA was a geopolitical and economic tool, aimed at: reducing America's CO_2 emissions by 40% by 2030; reducing reliance on foreign supply chains; and boosting domestic growth, manufacturing and strengthening social security guarantees. By August 2024, it had created over 330,000 jobs and delivered $8.4 billion in consumer savings on energy efficiency and electrification.

- **The scale of the IRA made the difference: it represents the most generous assistance awarded by any economy, second only to China**. Total IRA support amounts to around 0.5% of US GDP. At the time, the international corporate response was broadly positive, with some arguing that the IRA could spur between $1.7 trillion and $2.9 trillion in investment in US green tech over a decade. Beyond its size, it was the speed with which it delivered subsidies and support that made it effective.

- **The IRA's appeal was hard to resist**. The scale of the IRA package actively shaped and expanded the market, offering uncapped subsidies for manufacturing and R&D. With a strong dollar, lower energy costs, and a better startup ecosystem (23,000 U.S. scale-ups vs. 7,000 in Europe in 2019), the U.S. became a top destination for clean tech investment. By March 2023, there were 20 new or expanded green manufacturing plants in the US, of which 50% were foreign. The Biden administration also enlisted clean tech experts to oversee IRA implementation, streamline bureaucracy, and reform permitting laws to speed up clean energy projects. While permitting delays persisted, tax credits enabled swift investment decisions.

- **Framing the bill around inflation cost the Biden administration politically**. Hoping to gain Democratic support in Republican strongholds, Biden saw the IRA direct 82% of its investments to GOP-led states—but this did not translate into political gains. While inflation dropped to 2.9%, economists credit monetary policy and supply chain recovery, not the IRA. On the campaign trail, Biden admitted he regretted the bill's name, acknowledging it was more about growth than reducing inflation. Many Republicans also criticized the size of government borrowing, which the IMF estimated at $700 billion through 2030.

- **Despite the IRA, China remains the dominant player in clean tech**. While the IRA did contribute to making most clean technologies cheaper than polluting technologies, US technology is still more expensive for solar, wind power and electric vehicles. Efforts to friendshore boosted domestic manufacturing but did little to reduce reliance on foreign suppliers for critical raw materials.

- **The EU's initial reaction to the IRA was a mix of support and panic**—welcoming U.S. climate action while fearing its impact on Europe's green tech industry. Some European sectors benefitted: German heavy industry saw exports to the United States increase by more than 40% in September 2022 compared to the previous year. However, the IRA still diverted investment, particularly in EVs and batteries. **The EU is also concerned about the U.S.' growing protectionism**, as IRA subsidies prioritized local production and strict supply chains, despite conflicting with global trade rules.

THE TRUMP STORM

- **President Trump cannot easily dismantle the IRA**. While he criticized the law and has sought to reverse Biden's green policies, two factors make this nearly impossible: dismantling it would be legally complex, requiring either congressional action or prolonged court battles. In the last weeks of the presidency, the Biden-Harris administration rushed out to allocate $50 billion in loan commitments to developers. Second, it is difficult to revoke tax credits that have already been claimed or transferred. IRA tax credits work through a post-audit system, meaning that companies can claim them upfront. They are also transferable, which means that businesses that qualify can sell them to other companies looking to lower their tax liabilities. The IRA has also been largely popular, with 75% of investments benefiting Republican states. Some GOP lawmakers are pushing for targeted changes rather than a complete reversal. Given Donald Trump is keen to hold onto his Congress and Senate majorities in 2026, he may be more willing to listen to them.

- **However, the new Trump Administration could slow down investment in US clean tech in three ways**. First, by revising tax credit guidelines, it could make claims harder to access without fully repealing the IRA, though companies could challenge this in court. Second, by delaying approval of pending tax credit regulations, the administration could discourage new investments and slow clean energy project rollouts. Third, Congress could scrap the IRA tax credits as part of the renegotiation of the 2017 Tax Cuts and Jobs Act, which is due to expire later this year.

- **President Trump views oil and gas as a strategic U.S. advantage**. He will prioritize fossil fuel exploration, calling it "liquid gold" for industry, competitiveness, and the AI-driven economy. While acknowledging that clean tech investments will persist, his administration believes they should not come at the expense of clean tech.

IRA LESSONS FOR EU COMPETITIVENESS

- **The EU often spends more time debating how to mirror or respond to the U.S. rather than focusing on crafting a growth strategy tailored to its own needs**. Although the EU has taken steps to bolster its green industrial policies in reaction to the IRA, these efforts remain fragmented and less predictable compared to the IRA's straightforward, focused tax credit system. Compared to the $400 billion of IRA investments over 10 years, the EU investment is less ambitious: €40 billion for the Innovation Fund over the same period of time, and only €93.5 billion for Horizon Europe.

- **Since taking office in September 2024, the new European Commission has prioritized the green agenda as a core driver of EU growth**. The EU's goal should not be to replicate the IRA, as it lacks a federal tax system and must comply with Single Market competition rules. But it can draw inspiration from it. It should use the Clean Industrial Deal to develop a comprehensive strategy that supports faster permitting, streamlines national-level tax credit approvals, ensures more effective subsidy distribution, guarantees demand-side and supply-side incentives, and enhances supply chain diversification.

- **The EU should have a "Made in Europe" strategy**, not a "Made by Europe" strategy. The IRA's "Made in America" incentives prioritized domestic production and encouraged reshoring, but these were criticized by allies for protectionism and unfair trade practices. The EU's approach should aim to attract investment and clean tech production through foreign direct investment while continuing to forge strategic global partnerships to safeguard its supply chains. In 2023, 94% of EU imports of rare earth elements came from China, Malaysia and Russia combined.

- **The EU should also highlight where it has a competitive advantage over the US**. Unlike the IRA, which faces potential rollbacks under Trump, a well-designed EU funding mechanism would offer job and manufacturing opportunities, along with long-term stability—making it a more reliable and attractive investment option. The EU should **highlight how its consistent regulatory framework constitutes a key advantage for businesses, by protecting investments from political fluctuations**.

- **The EU should invest more time in building relations with key economic actors in the field of clean tech**. Just as U.S. leaders frequently meet with industry executives and foreign investors to promote the IRA, the EU should adopt an effective communications strategy to highlight the market opportunities and job creation linked to investments in renewable energy and low-carbon industries. This should target not only large corporations but also SMEs and clean tech startups. Clean tech carries real job creation possibilities in Europe: in 2022, solar, wind energy and heat pump sectors created more than 1 million jobs inside the EU.