

THE MESSAGE



BACK AND FORTH

The IR Act EU vs US

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The US Inflation Reduction Act, approved last August and providing 369 USD bn at the disposal of green policies, has called for an EU response with Von der Leyen announcing “our European IR Act”.

Even though at the beginning the US bill has been seen favourably by the European Commission, with the same Von der Leyen congratulating the strong intervention towards climate change, the following scrutiny of its protectionist implications worried the EU members, that requested a joint EU-US task force to make them disappear. In the US IR Act, in fact, the tax credits benefit the products built predominantly within the US or countries that have specific commercial

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treaties with them, such as Canada or Mexico. One solution could be for European companies to move a substantial part of their business to the US, but that would jeopardize Europe's attempt to regain the spotlight in the financial markets, missing the opportunity just on that one issue (the energy transformation) that it's building its credibility upon.

Germany and France have not lost time in demanding more flexibility for state aid, something that would create resentment among countries financially more fragile, as pointed out by De Croo, Belgian Prime Minister, and Margrethe Vestager, European Commissioner for Competition.

As the joint task force proved to be ineffective, Von der Leyen announced at Davos the **Green Deal Industrial Plan**, intended to promote the development of net-zero technologies that are rapidly growing: a plan to re-assert its global leadership in this field.

Among the four pillars of the plan, investors focus on the first two: **simplified and fast authorizations** to accelerate the approval of objectives such as wind and solar farms, and a **faster credit availability** for strategic projects. The latter concerns the deregulation of **state aid**, that will have to be carefully balanced to avoid internal conflicts within EU member states, as well as a new **sovereign fund**, immediately criticized by the German Finance Minister who pointed out that loans within the Next Generation EU are still

available but remain unused by many member states (Italy's not one of them).

Among the net-zero technologies supported by the plan, we find **batteries, solar panels, wind turbines, heat pumps, green electrolyzers, and carbon capture and storage facilities**, in addition to the commodities necessary for their production.

The back-and-forth between US and EU on the development of green technologies will give a push to the companies involved in the sector. If the US IR Act provided a boost to their "renewable" companies, leaving the European ones a little behind, hopefully the EU answer will close the gap. Indeed, since the beginning of the year the sector has been performing very well: companies involved in building renovation and automation jumped by over 15% on average, the hydrogen pure plays by more than 25%, some companies active in the carbon capture by 30%, those producing power inverters and solar panels by 20%. However, wind companies remained behind, as well as big utilities that in this sparkling beginning of year have been mostly negative.

And so Europe, after the Russian invasion of Ukraine and the need for energy independence, responds with new impetus to the latest green challenge. Perhaps some compromise will be needed given the disparities between some member states, but when facing new difficulties the answer is always the same: promote and support with stronger urgency the energy transformation.

