Notice 2022-46 Request for Comments on Credits for Clean Vehicles
The Department of the Treasury and Internal Revenue Service
Via Federal eRulemaking Portal

November 4, 2022

The Japan Automobile Manufacturers Association (JAMA) respectfully submits these comments to the Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) in response to the October 5, 2022, request for comments regarding clean vehicle tax credits as part of the energy tax benefits included in the *Inflation Reduction Act* (IRA).

Introduction and Background

JAMA is a nonprofit industry association that comprises Japan's 14 manufacturers of passenger cars, trucks, buses, and motorcycles. JAMA's membership includes Daihatsu Motor Corporation, Hino Motors, Honda Motor Corporation, Isuzu Motors Limited, Kawasaki Motors, Mazda Motor Corporation, Mitsubishi Motors Corporation, Mitsubishi Fuso Truck and Bus Corporation, Nissan Motor Corporation, Subaru Corporation, Suzuki Motor Corporation, Toyota Motor Corporation, UD Trucks Corporation, and Yamaha Motor Corporation.

JAMA members have a shared legacy of over 60 years of operation in the United States. This includes an extensive manufacturing presence that began in 1982 and now encompasses 24 manufacturing facilities and over $57 billion in cumulative manufacturing investment. JAMA members also maintain a large research and development (R&D) presence that spans 45 facilities located across the country. In total, JAMA members directly employ 110,000 U.S. workers, and indirectly employ hundreds of thousands more including through their supplier and dealership networks[1].

[1] Japan Automobile Manufacturers Association report, 40 Years of Manufacturing Excellence in America, (https://www.jama.org/40-years-of-manufacturing-excellence/) (June 20, 2022) (accessed October 24, 2022).

JAMA members play an important role in the growth and sustained success of the U.S. automobile industry, which significantly contributes to the U.S economy. As of 2021, nearly one-third of all vehicles produced in the U.S. were made by American workers employed by Japanese-brand automakers. Additionally, a 2019 report by the Center of Automotive Research notes that Japanese-brand automakers' presence in the U.S. likely provides roughly $250 billion in added value to the U.S. economy every year[2]. This is before accounting for the benefits of R&D spending which only further deepens the extent of JAMA members' impact on U.S. economic growth.

JAMA members' investments and presence in the U.S. have also greatly contributed to the overall U.S.-Japan relationship. The U.S.-Japan alliance is a key partnership that provides security and economic prosperity for both nations. Additionally, JAMA supports the alignment of key environmental, innovation and foreign policy goals to help reinforce and further the U.S.-Japan alliance.

Japanese-brand automakers are deeply committed to the transition to electrified vehicles[3]. They have a long history of leadership in environmentally friendly and electrified vehicle technologies in the U.S. market, strengthening Japanese-brand automakers' ability to design, develop, and sell vehicles that U.S. consumers want. As such, JAMA members are committed to a carbon neutral future that incorporates this ethos and legacy.

Given JAMA members' strong commitment to electrification, JAMA and its members are broadly concerned about the feasibility of the new, clean vehicle tax credits introduced by the IRA. These credits may cause an extraordinary burden to stakeholders involved and reduce the credits' effectiveness in increasing consumer adoption of clean vehicles, defined by the IRA in SEC. 13401(c) as battery electric vehicles (BEV), plug-in hybrid vehicles (PHEV) and fuel cell electric vehicles (FCEV). JAMA believes flexible incentives that offer consumers an array of clean vehicle choices would strengthen momentum toward the ultimate shared goal of carbon reduction.

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[2] Center for Automotive Research, An Assessment of Japanese Automakers' Impact & Activity in the United States, (https://www.cargroup.org/publication/17493/) (July 30, 2020) (accessed October 24, 2022).

[3] JAMA recognizes electrified vehicles as hybrid electric vehicles (HEV), plug-in hybrid electric vehicles (PHEV), battery electric vehicles (BEV) and fuel cell electric vehicles (FCEV).

The Importance of the US-Japan Relationship

The United States and Japan are staunch allies with longstanding common security interests and vibrant economic relations and interdependency. As security concerns have deepened in the Indo-Pacific region, essential cooperation between the two countries has expanded. Japan is a key U.S. partner in addressing rising regional tensions and potential threats as demonstrated by its role in the Quadrilateral Security Dialogue along with the U.S., India, and Australia. Additionally, economic ties remain robust and continue to grow as Japan is the largest foreign investor in the United States, and the U.S.' fourth largest trading partner.

The two countries are notably moving forward on coordinated efforts to address supply chain resiliency through various multilateral and bilateral channels including the Indo-Pacific Economic Framework for Prosperity (IPEF) and the U.S.-Japan Competitiveness and Resilience (CoRe) Partnership, both announced in May 2022. The Joint Statement of the U.S.-Japan Economic Policy Consultative Committee also reinforces both countries' commitments to strengthening economic security and the rules-based order, as well as bolstering supply chain resilience. Further alignment of the U.S. and Japan's goals on the environment, innovation, and foreign policy can only help to strengthen this strategic alliance.

Electrification

Japanese-brand automakers are committed to a carbon neutral future. JAMA members have a long history of leadership in environmentally friendly and electrified vehicle technologies in the U.S. market. This includes the world's first mass-produced hybrid electric vehicles (HEV), the first mass-produced HEVs to be sold in the U.S., the world's first mass-produced 100% BEV, and the first FCEV sold to individual consumers. Currently, Japanese-brand automakers represent 60%[4] of all electrified vehicles on the road in the United States. By 2030, JAMA members are planning to bring 100 different electrified models to market to meet consumers

[4] Based on Wards Automotive Sales Data, calculated using the share of Japanese-brand HEVs, PHEVs, BEVs and FCEVs sold in the U.S. over the last 12 years. 12 years is the average age of vehicles on the road according to Kelly Blue Book (https://www.kbb.com/car-news/americans-driving-older-cars/) (May 24, 2022) (accessed October 24, 2022).

varied needs and provide them with a multitude of ways to contribute to a decarbonized environment[5][6][7].

JAMA members recognize that providing electrified vehicle options is only part of the story in achieving a carbon neutral future. Investments in U.S. battery manufacturing, battery recycling, charging infrastructure and workforce training are critical to support the transition to electrified vehicles. Toyota is investing $3.8 billion in Toyota Battery Manufacturing North Carolina (TBMNC), which is scheduled to begin production in 2025[8]. This facility will produce batteries for HEVs and BEVs and will create 2,100 jobs. Honda and LG Energy Solution recently announced a new joint venture in Ohio to build a battery manufacturing plant for BEVs, with investment projected to reach $4.4 billion and create 2,200 jobs. This facility is also expected to come online at the end of 2025[9]. Nissan, which has been producing the LEAF BEV and its battery since 2013 at its Smyrna, Tennessee manufacturing facility, is focused on upskilling nearly 2,700 jobs at its Canton, Mississippi plant, as part of a $500 million investment to produce two all-new BEVs starting in 2025[10].

In addition to investments in their battery manufacturing and supply chains, JAMA members have partnered with key stakeholders in the charging infrastructure space to ensure

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[5] "Summary of Honda Briefing on Automobile Electrification Business" (https://hondanews.com/en-US/releases/release-3db80816ae3d093c5b3d3122fc06db68-summary-of-honda-briefing-on-automobile-electrification-business) (April 11, 2022) (accessed on October 24, 2022)

[6] "Nissan unveils Ambition 2030 vision to empower mobility and beyond" (https://global.nissannews.com/en/releases/nissan-ambition-2030-vision-to-empower-mobility-beyond) (November 29, 2021) (accessed on October 24, 2022)

[7] "Toyota Charges into Electrified Future in the U.S. with 10-year, $3.4 billion Investment" (https://pressroom .toyota.com/toyota-charges-into-electrified-future-in-the-u-s-with-10-year-3-4-billion-investment/) (October 18, 2021) (accessed on October 24, 2022)

[8] "Toyota Selects North Carolina Greensboro-Randolph Site for New U.S. Automotive Battery Plant" (https://pressroom.toyota.com/toyota-selects-north-carolina-greensboro-randolph-site-for-new-u-s-automotive-battery-plant/) (December 6, 2021) (accessed on October 24, 2022).

[9] "LG Energy Solution and Honda to Form Joint Venture for EV Battery Production in the U.S." (https://global.honda/newsroom/news/2022/c220829eng.html) (August 29, 2022) (accessed October 24, 2022).

[10] Nissan to build two all-new, all-electric models at Mississippi assembly plant" (https://global.nissannews.com/en/releases/release-ea2ada92a067df51a78ce3a3b21acfc6-nissan-to-build-two-all-new-electric-models-at-mississippi-assembly-plant) (February 17, 2022) (accessed on October 24, 2022).

consumers across America have access to charging stations. JAMA members have also intensified efforts to work through their dealership networks to ready consumers for this transition. Finally, JAMA members, and their partners, such as Redwood Materials, are also focused on the full life cycle of electrified vehicle batteries and have been exploring ways to ensure these batteries can be recycled in a responsible and efficient manner[11]. These are just a few examples of the investments large and small that JAMA member companies have made in the United States to realize an electrified future.

Concerns and Requests for Clarification

Despite JAMA members' ongoing investments and efforts to further the transition to electrified vehicles, our members agree with the broad industry consensus that this transition requires "supporting, complementary public policies, such as a tax credit, to lower EV costs for millions of American drivers."[12]

Various areas of the clean vehicle ecosystem are developing at different rates: availability of battery materials, advances in battery technology, access to skilled workers, charging infrastructure deployment, and consumer interest and uptake, which are often affected by broader economic headwinds. These factors, in addition to the long lead time for restructuring battery supply chains, along with the five-year average timeframe it takes for automakers to conceptualize, design, and produce a new vehicle model, are among the many factors that should be considered in the guidance to implement the clean vehicle credits.

Our Concerns:

1. Clean vehicles that are manufactured in Japan and sold in the U.S. help contribute as much to the countries' collective decarbonization goals as clean vehicles manufactured in the U.S. These vehicles also help spur market demand within the U.S., bolstering a clean vehicle ecosystem, that has yet to fully develop in the U.S. Denying the credit to vehicles assembled

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[11] "Toyota to Collaborate with Redwood Materials on a Sustainable, Closed-Loop Electrified Vehicle Battery Ecosystem"(https://pressroom.toyota.com/toyota-to-collaborate-with-redwood-materials-on-a-sustainable-closed-loop-electrified-vehicle-battery-ecosystem/) (June 21, 2022) (accessed on October 24, 2022).

[12] "Auto Innovators: EV Momentum Continues in 2022" (https://www.autosinnovate.org/posts/press-release /get-connected-2022-q1) (June 21, 2022) (accessed October 24, 2022).

in Japan limits the choices available to American consumers and delays efforts to achieve decarbonization. However, only clean vehicles assembled in North America qualify for the Section 30D credit in the IRA.

2. Unless mitigated administratively, the clean vehicle credit would have the counterproductive effect of narrowing consumers' ability to access PHEV and BEV tax credits due to the stringent battery-related sourcing and "Foreign Entity of Concern" (FEOC) requirements/timelines among other factors.
3. Considering Japan's critical role as a stalwart U.S. ally and strategic partner in various bilateral and multilateral forums, such as the IPEF, the IRA's clean vehicle tax provisions undermine bilateral efforts to strengthen economic security ties and combat climate change through resilient vehicle and battery supply chains.

Therefore,

1. JAMA believes broad and flexible incentives that offer more consumer choice would help maintain momentum toward the transition to electrified vehicles to achieve the ultimate goal of carbon reduction.
2. JAMA is strongly concerned the North American final assembly requirement excludes clean vehicles manufactured in Japan. We believe that vehicles manufactured in Japan, should be treated equally with vehicles manufactured in North America.
3. JAMA believes that critical minerals extracted, processed, or recycled in Japan as well as battery components manufactured in Japan, should be included in the calculation to determine eligibility for the clean vehicle credits.
4. JAMA also believes that Japan, an ally partnering with the United States on supply-chain resilience, should be treated on an equal footing with free trade agreement partners.

In addition, to ensure smooth and effective implementation of the clean vehicle tax credit requirements, JAMA asks for a prompt clarification within the forthcoming guidance on the items below covered in "Part 4 – CLEAN VEHICLES" of the IRA. JAMA would welcome another opportunity to comment in detail on the items below once the guidance is developed.

- Definition of "final assembly" (SEC. 13401(b))

- Definition of “extracted” and “processed” for critical minerals, and definition of “manufactured” and “assembled” for battery components (SEC. 13401(e)(1))
- Compliance calculation methods for critical minerals and battery components (SEC. 13401(e)(1))
- Definition of a FEOC and concrete criteria of such an entity, as well as the procedure/timeline of FEOC determination (SEC. 13401(e)(2))

Conclusion

JAMA members have demonstrated a strong commitment toward an electrified and carbon neutral future and have helped strengthen the U.S.-Japan alliance, which provides security and economic prosperity to both nations. JAMA strongly advises the Treasury Department and IRS to provide flexible and clear guidance that enables broad vehicle eligibility for the clean vehicle credit, which will preserve consumer choice and facilitate momentum toward a transition to electrified vehicles and carbon reduction. JAMA supports the U.S.’ aims to be a leader in decarbonization efforts. Further, JAMA hopes the guidance to implement measures introduced by the IRA will help accelerate automakers’ global decarbonization efforts and improve consumer adoption of next-generation, environmentally friendly and electrified vehicles.

We respectfully submit these comments for consideration and review and would also welcome another opportunity to comment in detail on the guidance once it is developed. JAMA stands ready to serve as a resource to the administration on any questions related to the Japanese automotive industry’s historical and current investments, as well as its activities in the United States.