

The Government of Japan submits to the Department of the Treasury and the Internal Revenue Service of the United States of America the following comments responding to the Department's request for comments on Credits for Clean Vehicles.

I. General Comments

1. In order to achieve carbon neutrality in the road sector, it is vital to expand the introduction of electrified vehicles. The EV tax incentive stipulated in the Inflation Reduction Act of 2022 (hereinafter "IRA") is therefore important to achieve the ambitious goal of the U.S. administration aiming to raise the market share of zero-emission vehicles in annual new passenger cars and light commercial trucks sales in the U.S. to 50 percent by 2030.
2. It is also crucial for the U.S. and Japan to build resilient supply chains for electric vehicles and their batteries due to the rapid increase in demand for those vehicles and batteries. Japan shares the purpose of the IRA to minimize the risk of supply disruption by addressing bottleneck in supply chains of batteries.
3. However, the requirements of the EV tax credit, conditioning that the extraction, processing, manufacture, or assembly of critical minerals or battery components should be done in North America or countries with which the U.S. has a free trade agreement in effect, are not consistent with the U.S. and Japanese governments' shared policy to work with allies and like-minded partners to build resilient supply chains, and they in fact preclude Japanese businesses from enjoying the benefit.
4. In addition, a limitation on the range of vehicles that benefit from the EV tax credit will narrow the options available to U.S. consumers at affordable costs. It may interfere with the efforts to achieve the ambitious climate goals of the Biden administration. Japan believes that a fair and non-discriminatory tax incentive would contribute to CO2 emission reduction in the U.S. and around the globe through providing consumers with a range of options and expanding the EV market in the U.S.
5. Japanese automakers have been investing in the U.S. for more than 40 years, creating well-paid jobs in the U.S. and contributing to the U.S. society as good American corporate citizens. Japanese battery makers have also been investing in the U.S. to support EV makers in the U.S. Japan is afraid that if such contributions were not taken into consideration and the IRA would be implemented as it is to provide discriminatory incentives, it would be possible that Japanese automakers hesitate to make further

investments towards electrification of vehicles. This could cause negative impacts on the expansion of investment and employment in the U.S.

6. Against the abovementioned backdrop, Japan has serious concerns on the IRA EV tax credit, particularly on its three requirements. First, vehicles imported from outside North America are not eligible for the credit. Second, a certain percentage of critical minerals contained in the battery of the vehicle has to be extracted or processed in the U.S or in the limited number of countries with which the U.S. has a free trade agreement in effect. Lastly, a certain percentage of battery components has to be manufactured or assembled within North America.
7. Japan expects the U.S. to continue to ensure opportunities for the industries and other relevant stakeholders to be adequately heard and considered. Japan also hopes that a guidance which sufficiently reflects the opinions of industry will be issued in a timely manner so that the industry will be provided with a sufficient period of preparation before the full implementation of the EV tax credit.

II. Specific Comments to the specific questions in the Section3 (Request for Comments) of the notice

1. **【01 Clean Vehicles (9) Final Assembly Requirement】**
Regarding the final assembly requirement, taking into consideration the objectives to work with allies and like-minded partners to build resilient supply chains, appropriate measures should be taken, including flexible interpretation of the definitions of both “final assembly” and “North America” to ensure that EVs produced by allies such as Japan are accorded treatment no less favorable than countries in the North America region.
2. **【01 Clean Vehicles (2) Critical Minerals (a),(c)】**
Regarding the critical minerals requirement, the definition of “extracted or processed in the United States or in any country with which the United States has a free trade agreement in effect” should be interpreted in a flexible manner so that the EV tax credit can be applicable to a vehicle with critical minerals extracted or processed in allied countries such as Japan. Taking into consideration the objective to work with allies and like-minded partners to build resilient supply chains, allies including Japan, which are closely working with the U.S. to this end, should be accorded treatment no less favorable than the United States or countries with which the United States has a free trade agreement in effect. Thus, Japan should be granted equal treatment.
Japan also requests that the scope of “any country with which the United States has a free trade agreement in effect” be clarified.

Moreover, the definition of the phrase “extracted or processed” should be articulated to clearly indicate which steps for extraction or processing are actually covered, and appropriate measures should be taken, including flexible interpretation to ensure that this phrase shall be interpreted in a flexible manner so that allies such as Japan are accorded treatment no less favorable than United States or countries with which the United States has a free trade agreement in effect. In addition, any formula for calculating the value and percentage of critical minerals contained in a battery for this requirement should be shared in detail so that stakeholders can submit further comments based on it.

3. **【01 Clean Vehicles (3) Battery Components (a), (b), (c)】**

Regarding the battery components requirement, the phrase “manufactured or assembled in North America” should be interpreted in a flexible manner so that the EV tax credit can be applicable to a vehicle with battery components manufactured or assembled in allied countries such as Japan. Taking into consideration the objective to work with allies and like-minded partners to establish resilient supply chains, allies including Japan should be accorded treatment no less favorable than countries in the North America region, because such resilient supply chains should not be closed within North America.

Japan therefore requests that the definition of “battery components” be clarified, specifically clarifying the boundaries between critical minerals and battery components. Japan also requests that the definition of “manufactured or assembled” be clarified to clearly indicate which actual processes and steps for manufacturing or assembly are covered, and appropriate measures should be taken, including flexible interpretation to ensure allies such as Japan are accorded treatment no less favorable than countries in the North America region.

In addition, a formula for the calculation of value and percentage of battery components contained in a battery for this requirement should be shared in detail so that stakeholders can submit further comments based on it.

4. **【01 Clean Vehicles (5) Foreign Entity of Concern】**

Japan understands that the intention behind the IRA is to address bottlenecks in building resilient supply chains by reducing dependency on particular countries. However, considering the reality of battery supply chains, almost all vehicles including ones planned to be produced in the U.S. will be ineligible for the credit, should the “foreign entity of concern” provision exclude any companies located in certain countries or into which an entity of a particular country has made investments. To ensure effective implementation of the EV tax credit, the scope of “foreign entity of concern” and its verification procedure should be clarified so that stakeholders can submit further comments based on the clarification