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CEA Update on U.S. Battery Policy Developments

Overview

Last week was extraordinarily busy for U.S. clean energy policy, with multiple significant developments. This briefing addresses two recent battery policy developments. Policy changes that affect solar are addressed in a separate briefing which can be accessed here.

The following summaries represent CEA's initial views of these policy developments and our understanding may change over time. For more detailed information, please contact us.

Biden changes Section 301 tariffs on China

Details:
On May 14, 2024, U.S. President Biden and U.S. Trade Representative Katherine Tai announced changes to the Section 301 tariffs on Chinese products. The tariffs affect a range of clean energy imports including EVs, solar PV, battery energy storage, and inputs for these.

This briefing focuses on the tariffs affecting battery energy storage. Policy changes affecting the solar portion of the Section 301 tariffs are addressed in a separate briefing.

President Biden increased the Section 301 tariffs on Chinese lithium-ion batteries for non-EV applications from 7.5% to 25%, effective in 2026. As there is also a 3.4% general tariff on lithium-ion battery imports, the full tariff paid by importers will go from 10.9% to 28.4%.

Lithium-ion battery modules, packs, and container blocks are generally categorized under the import code 8507.6020 if they are used for non-EV applications. As such, we believe that this is the code that this tariff change will apply to.

There is currently a lack of clarity around the correct HTS code for lithium-ion cells, and this has implications for this tariff change. Customs has categorized prismatic lithium-ion cells under this code (8507.6020). However, Customs has categorized pouch-type lithium-ion cells under a different HTS code (8507.9080). The Section 301 tariff on products under 8507.9080 was already 25%.

Biden has also ordered 25% Section 301 tariffs on natural graphite (effective 2026) and on un-specified critical minerals (effective 2024).

Projected market impact:
The increase in the total non-EV lithium-ion battery tariff from 10.9% to 28.4% will raise total costs for U.S. integrators from 11-16%. Cost increases will be higher for those who add less value in the United States (i.e., those who procure containers or racks from China v. modules or cells).

The delay to 2026 for the rate change on non-EV batteries gives the market time to adapt and for more non-China LFP facilities to come online to serve U.S. customers. This includes LG's LFP cell factory which is currently under construction in Arizona.

The cost increases due to the new tariff rates may affect some projects with marginal economics, but overall CEA expects demand contraction due changed Section 301 tariff levels will be limited.

Treasury issues updated guidance for the Domestic Content Bonus

Details:
On May 16, 2024, the U.S. Treasury Department has issued updated guidance for project owners attempting to access the Domestic Content Bonus under Section 48/48E ITC and Section 45/45Y PTC.

The new guidance creates a new optional method for measuring the portion of domestic content in Manufactured Product to reach the minimum percentage required to access the bonus. The new method includes an exhaustive table of Manufactured Products and Manufactured Product Components, as well as relative values for each of these Manufactured Product Components and production labor.

This new method can be used in place of a detailed accounting of the direct cost to suppliers of Manufactured Products. However, project owners must commit either to using this new method and the associated exhaustive list of Manufactured Product Components in the table **or** to using the previous guidance based on direct costs; the two approaches cannot be combined.

The table provided for the new method features a list of Manufactured Product Components for battery packs, battery containers/housing, and inverters. This is the first time that Treasury has spelled out the Manufactured Product Components it expects to consider in inverters. In doing so Treasury greatly simplifies the bill of materials by aggregating a potentially large number of individual inverter components in a Manufactured Product Component described as “Electrical parts”.

Projected market impact:
Many project owners who CEA has spoken with have had difficulty getting direct cost information from their suppliers. Because this new method allows project owners to access the Domestic Content Bonus without this information, it makes the bonus easier to access.

Our Market Intelligence Subscribers will be receiving more detailed information on this topic in the coming days and weeks. For further inquiries, please contact us.