

Power, Politics and Cars

A Conversation With Mitch Bainwol

By **Stephen Power** and **Stephanie Heise**

Brunswick Regulation & Public Affairs

Brunswick Energy & Resources

September 2022



Power, Politics and Cars: A Conversation With Mitch Bainwol

For much of the past decade, when the world's biggest auto makers needed political help in Washington, they turned to one person: **Mitch Bainwol**. As CEO of the Alliance of Automobile Manufacturers from 2011 until 2019, Bainwol was the chief advocate in Washington for the interests of carmakers from the US, Europe and Japan. He later served as chief government relations officer for Ford Motor Co. There, he advised the company on state site selection for its EV manufacturing and brokered a landmark deal with California over climate-change policy that triggered threats of an antitrust investigation by the Trump administration.

Now a Brunswick senior advisor for Regulation & Public Affairs, Bainwol sat down with Brunswick Partner and Head of US Energy & Resources Group **Stephen Power** and Director **Stephanie Heise** to discuss what he learned from those experiences; how he thinks the giant climate and tax legislation signed into law by President Biden will change American politics; and why the rise of China's electric vehicle (EV) industry poses a challenge not just to American carmakers but the US economic model.

Brunswick Group: President Biden has just signed into law the Inflation Reduction Act, expanding cash incentives for buyers of EVs and providing enticements to automakers, battery manufacturers and suppliers to build or retool factories in the US. How do you see this legislation potentially affecting American politics?

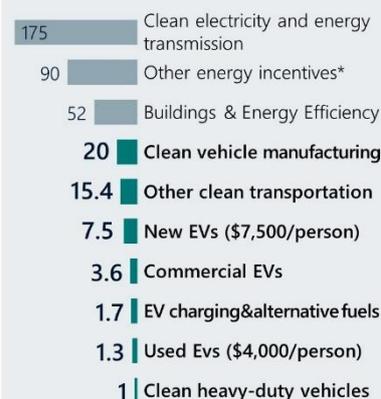
Mitch Bainwol: Over time, you're going to have more red-state Republicans who have a stake in electrification. Already, Republicans are speaking favorably about electrification, and proud of the investment of these companies in their home states, but not willing to support EV tax credits and other policies designed to support electrification. That's gradually going to change.

BG: Why is that important?

MB: One of the challenges facing the industry in the US is that electrification became a political issue. When President Obama stipulated his electrification goals, the reaction from Republicans was reflexively: "If he's for it, we're against it." It set in motion a pattern where Republicans were resistant to electrification. So, as an industry, we became political pawns in a partisan fight. Yet as the auto makers invest in the South, and outside the Midwest, there will be a deeper bench of policymakers who better grasp the evolution to electrification and the value of that evolution, because it means jobs in their state.

The Inflation Reduction Act includes billions for electric vehicles...

Climate related IRA initiatives in \$bn



Source: Committee for a Responsible Federal Budget; *Clean manufacturing and clean agriculture incentives.

... but comes with some strings attached

EV tax credit conditions (selection)

- Retail price thresholds for EVs**
 - \$25,000 for used EV
 - \$55,000 for new EV
 - \$80,000 for van/truck/SUV
- Income thresholds/person**
 - \$75,000 for used EV
 - \$150,000 for new EV
 - \$80,000 for van/truck/ SUV
- Manufacturing & domestic sourcing requirements**
 - Final vehicle assembly in North America
 - Domestic battery: 1/2 of tax credit is provided if EV's battery is domestic
 - Critical mineral: 1/2 of tax credit is provided if certain levels of EV's minerals are domestic (threshold levels increase over time)

Source: Electrification Coalition, 16/08/2022

BG: Some in the auto industry say most EVs on the market today won't actually qualify for the tax credit, because the law ties the credit to various conditions. What do you think of that criticism?

MB: The point about qualification is a factual statement. This policy is not a pure shot in the arm for EV adoption because of the range of conditions imposed. Most of these provisions don't kick in until 2023 or later. But immediately, in order to qualify, EVs must be made in the United States, Canada or Mexico. That eliminates imports outside of USMCA. The president campaigned on electrification built in America by union workers. This law is less restrictive but reflects that spirit. Then, of course, down the road, the income, MSRP and sourcing requirements kick in, which will force the market – and government – to adjust manufacturing strategy and public policy. While Trump and Biden agree on little, both have favored policies to incentivize domestic manufacturing. But make no mistake, the government will have to engage on a bipartisan basis to facilitate achievement of the component and mineral battery requirements.

BG: Will this law have an impact on the midterm elections in November?

MB: Probably not. While the law is substantively significant, its political impact will be less than secondary to the bigger issues in play: attitudes about inflation, the direction of the country, abortion, Joe Biden's leadership and the former president. Recent polls suggest the bill is favored modestly, but with little intensity and cross-cutting views about whether it will make life better or not.

BG: The state of California has announced it will ban sales of new internal-combustion engine-powered automobiles by 2035. Is that achievable?

MB: The zero-emission vehicle targets in California have always been aspirational, designed to push the industry to move faster than the market on its own. This new 2035 ban is no different. But it has a shot to work. To California's credit, the state puts money behind its policies. And the market there obviously is robust. But it sure would help if the federal government backs up the new EV credit with policies to facilitate workable sourcing requirements.

BG: At Ford, you helped broker an agreement between California and four carmakers that called for tougher emissions standards on the industry than those favored by Trump. The administration responded by threatening an antitrust investigation. What was the most challenging aspect of that experience?

MB: Having the political will to take on the administration and to put principle over political convenience. It was risky.

BG: How so?

MB: A company like Ford has varied interactions with the US government. If you separate that conspicuously from a presidential administration, you put yourself in jeopardy of being less effective on other issues.

BG: So why did Ford do it?

MB: [Executive Chairman] Bill Ford has a very firm anchor in terms of his view of the auto industry's environmental responsibility. And he was prepared to make that step. It took courage for him as an individual, because it's his name on the company. And it took courage for the company because of the implications in terms of its ability to work with the administration.

BG: Was there ever a moment when you thought, “maybe we shouldn’t do this”?

MB: We were always nervous about the challenge of taking on the administration. I remember asking Bill, when we were going out to California, "If we're by ourselves, do you want to do this?" And he said yes.

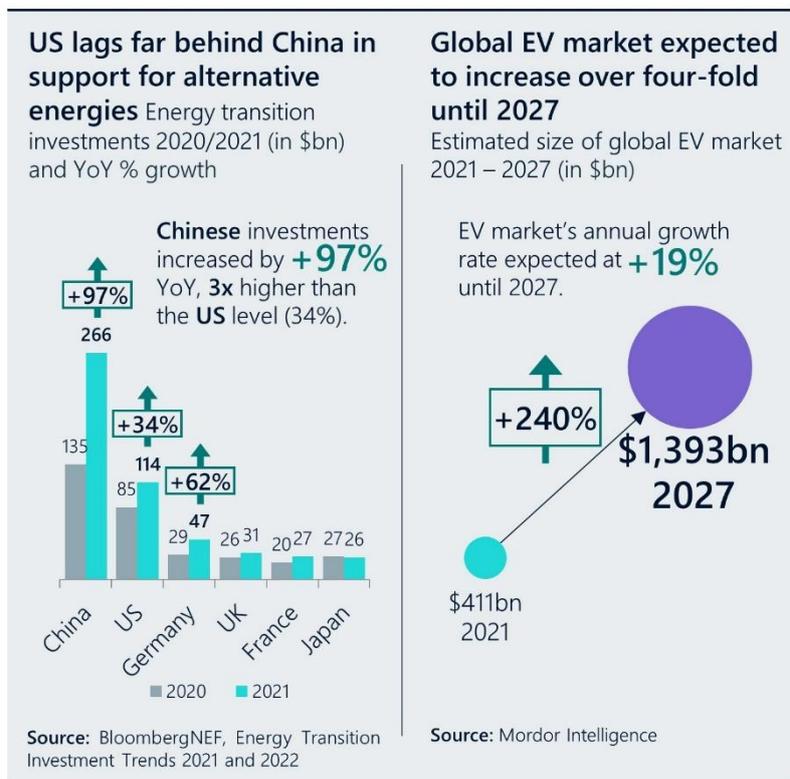
BG: What’s the lesson from that experience?

MB: That when you’re torn between your own principles and what might work in terms of the politics of the day, you’ve got to go with what you believe. Because what you believe is what you can most easily defend.

BG: What’s something that’s widely misunderstood in Washington about the auto industry?

MB: I'm not sure American policymakers grasp the enormity of the market. There’s going to be a billion cars put on the roads of the world over the next ten years. That's a mammoth amount of investment in production and employment. And most of it's not going to happen in the US. The question is, as the market moves from gasoline-powered cars to EVs, will the US shore up its capacity? Or will the evolution away from the US continue as it has over the last 30 years?

Another thing many policymakers do not understand is that the industry is actually in favor of an increase in emissions standards. I remember [Trump] basically saying to us, “You don't really want this [deal with California]. What are you doing?” And, in fact, the companies really did want it, both because we exist in a global industry and because a patchwork of different rules in the US is highly problematic. We didn’t want to have a system where you had this asymmetry at the state or international levels [in which US regulations on emissions are so different from the rest of the world’s]. Because that would just make compliance really awkward and inefficient.



BG: What’s your advice for companies on how to most effectively advocate in Washington for policies to accelerate the transition to electric vehicles?

MB: The question they need to put to policymakers is, “Should the US be a leader in automobiles? Or should we let others drive innovation and production in this space?” I think the answer, whether you’re talking to someone on the right or left, is always going to be, “The US needs to be a leader.”

BG: Why is that a more effective argument than, say, “EVs are better for the climate” or, “EVs will save consumers money?”

MB: You have to start by asking yourself, where do the parties agree? The only thing that Joe Biden and Donald Trump agreed on was that we should strengthen the American industrial base. They have different ways of talking about it – “America First” versus “Build Back Better” – but both were about the idea that government has to invest in the capacity to manufacture things. And they’re both signals to the Midwest that “we care about you. We’re not going to have ghost towns that were once manufacturing centers.”

BG: There’s a lot of discussion in Washington about what the US needs to do to catch up to China in developing a domestic EV industry. Does the US need a different economic model, involving more industrial policy and central planning?

MB: This is a really critical question. Democracy is wonderful, at many levels, but it’s also clunky. Other countries say, “This is our policy, let’s go,” and they pivot. In the US, we spent a decade essentially fighting over what the pivot’s going to be, or when to pivot, or whether to stick with the pivot. And we’re just talking about electrification. We haven’t talked about autonomous vehicles. So, there is a question about whether this US democracy is capable of executing in the current period of political polarization. I believe it can, but we have to work out some kinks and find bipartisan solutions to be successful.

To continue the conversation:

Mitch Bainwol,
Senior Advisor, Washington, D.C.
mbainwol@brunswickgroup.com

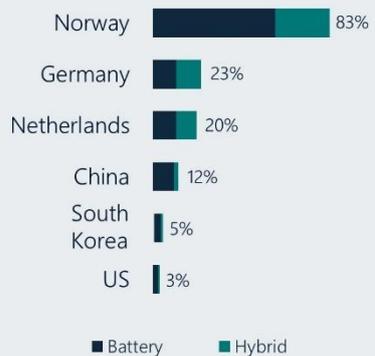
Stephen Power,
Partner and Head of US Energy & Resources Group, Dallas
spower@brunswickgroup.com

Stephanie Heise,
Director, New York
sheise@brunswickgroup.com

Market share of EVs in the US far lower than in other countries

EV market share as share of new cars in selected markets, H1, 2021

Size of US EV market share **1/6** of Germany
1/4 of China



Source: CAAM, Statista

The North American EV market is 1/5 the size of the Chinese EV market

EV sales (in million units) and YoY % growth

Chinese EV sales units jumped by **+2000** units, more than all other regions combined



Source: EV volumes