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The United States’ Inflation Reduction Act (IRA) introduces new eligibility requirements for existing USD 7,500 tax-credit provided to electric vehicles. The new requirements condition the credit upon North American final assembly and North American-sourced materials and components. As tensions flare between the US and China, these new local content requirements reflect the US’s effort to establish a supply chain for electric vehicles that circumvents China. The blow, however, is felt elsewhere, namely by South Korean auto makers whose electric vehicle models are no longer eligible for the significant tax-credit necessary to compete in the American market. As South Korea considers submitting a complaint to relevant international bodies, this paper dissects the IRA’s relevant provisions and analyzes the applicability of international trade law rules of the WTO and the Korea-US Free Trade Agreement to the new local content requirements of the IRA.

Keywords
Inflation Reduction Act, Clean Vehicle Subsidy, National Treatment, Local Content Requirement, KORUS FTA

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All the websites cited in this article were last visited on October 30, 2022.
I. Introduction

On August 16, 2022 the US President Joe Biden signed the Inflation Reduction Act (IRA) into law. The IRA include broad measures to reduce the country’s fiscal deficit, health care costs and energy costs while combatting climate change. In achieving these goals, the IRA was specifically designed to “boost American manufacturing and competitiveness” by, among other things, providing targeted tax incentives for onshore manufacturing as well as the use of US-sourced materials. The enactment of the IRA—which embodies such strong prioritization for domestic sourcing and manufacturing-caused great anguish and frustration among US’s trade partners, particularly among South Korean automobile manufacturers across the Pacific. This is because the IRA revised the eligibility requirements for the USD 7,500 tax credits available for electric vehicles (EVs) to require local manufacturing and content, which cut off South Korea’s major automobile manufacturers from receiving the significant tax credits critical to compete in the US market. The enactment of IRA has thus caused much tension in the bilateral relations between South Korea and the US. While South Korea’s Yoon government has yet to launch a legal action against the US, it has expressed the possibility that the IRA may be in violation of international trade rules and warned that the Korean government is willing to submit a complaint to the relevant international bodies if efforts for bilateral talks fail.

In this context, this article aims to provide a preliminary analysis of the international trade rules applicable to the IRA’s provisions on the eligibility requirements for the USD 7,500 tax credit (Clean Vehicle Provisions) to show that these provisions are likely in violation of applicable WTO rules as well as the US-Korea Free Trade Agreement (KORUS FTA). The article begins by dissecting the IRA’s Clean Vehicle Provision, followed by a preliminary legal analysis of the Clean Vehicle Provisions under the WTO’s General Agreement on Tariffs and Trade (GATT), the Agreement on Subsidies and Countervailing Measures (SCM) and the KORUS FTA.

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2 Id.
II. Revisions to the Clean Vehicle Provisions under the Inflation Reduction Act

The Clean Vehicle Provision of the IRA is an amendment to the US Internal Revenue Code Section 30D. Before the IRA’s amendment, Section 30D had already provided a maximum of USD 7,500 of tax credits for all qualifying electronic vehicles; and the final amount of the tax credit had depended simply on the capacity of EV battery. The IRA’s amendment thus does not alter or increase the total amount of credit, but narrows the eligibility criteria by newly introducing: i) critical mineral requirement; ii) battery component requirement; and iii) final assembly requirement, which all contain some form of local content requirement preferencing the US products or the US manufacturing. The IRA’s tax credits may accrue against, among others, the income tax of the purchaser of a new qualifying EV. The IRA also allows car dealers to directly provide the credit to the purchaser “in cash or in the form of partial payment or down payment” for the purchase of a qualifying vehicle at the point of sale.

A. Critical Minerals Requirement

To be eligible for half of the total possible credit (USD 3,750), the IRA now requires that a certain percentage of the value of the “critical minerals” contained in the battery of an EV be extracted or processed in the US or in any country with which the US has a free trade agreement, or is recycled within North America. The “critical minerals” are those needed to manufacture EV batteries including, among others, lithium, cobalt, nickel, copper, graphite, tin and aluminum. For vehicles placed in service in or after 2025, if any of the critical minerals are extracted, processed or recycled from a “Foreign Entity of Concern”-namely China-the vehicle will not be eligible for this credit.

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7 The existing requirement on battery capacity remains after the amendment with adjustment to the minimum wattage (from 4kw/hour to 7 kw/hour).
11 Relevant percentages depend on the date on which the vehicle was placed in service: entry into force until December 31, 2023: 40%; January 1, 2024 until December 31, 2024: 50%; January 1, 2025 until December 31, 2025: 60%; January 1, 2026 until December 31, 2026: 70%; after January 1, 2027: 80%. Id. at § 13401 (e).
13 The term is defined in Section 40207(a)(5) of the Infrastructure Investment and Jobs Act. The definition includes any...
This critical minerals requirement is interpreted to improve the US’s energy security by reducing the country’s dependence on foreign supplies of the minerals needed to support the great transition to low-carbon technologies including electronic vehicles.\(^{14}\) While the rising oil prices have spurred demand for electronic vehicles at an all-time high, the US currently sources most of its critical minerals from abroad, mainly from China.\(^{15}\) The domestic supply of these minerals, on the other hand, are negligible. For instance, the US and Canada together only refines 3% of the world’s lithium compared to 59% for China. For Cobalt, both countries together only refines about 3.5% compared to 75% for China.\(^{16}\)

### B. Battery Components Requirement

To be eligible for the other half of the total possible credit (USD 3,750),\(^{17}\) the IRA requires that a certain percentage of the value of components contained in the EV battery be manufactured or assembled in North America.\(^{18}\) Also, if any vehicle placed in service in or after 2024 includes a battery that contains components manufactured or assembled in a “foreign entity of concern,” such vehicle will not be eligible for this credit.

This battery component requirement is interpreted to further US’s efforts to move electronic vehicle battery production to the US. In 2021, approximately 80% of the world’s production of the major components of electronic vehicle battery cathode, anode, separators and electrolytes were produced in China, South Korea and Japan.\(^{19}\) China, in particular, produced over half of the world’s production of each of the components.\(^{20}\) The US, on the other hand, produced these components in meager entity owned or subject to jurisdiction of a “Covered Nation,” which, under a different statute, includes China, Russia, North Korea and Iran.

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15 Id.  
18 Relevant percentages depend on the date on which the vehicle was placed in service: entry into force until December 31, 2023: 50%; January 1, 2024 until December 31, 2025: 60%; January 1, 2026 until December 31, 2026: 70%; January 1, 2027 until December 31, 2027: 80%; January 1, 2028 until December 31, 2028: 90%; after January 1, 2029: 100%. Id. at § 13401 (e).  
20 Id.
amounts, for instance, producing 1% of world’s cathode and anode components in 2021.

C. Final Assembly in North America Requirement

The amendment further requires that electronic vehicles must be “finally assembled” in North America to be eligible for any tax credit.\(^{21}\) This means that even if a vehicle satisfies the critical mineral or the battery component, it will not be an eligible vehicle unless finally assembled in North America.

Before the amendment, Section 30D had no provision requiring final assembly in any geographic location, allowing all EVs to be qualified for the tax credit.\(^{22}\) After the enactment of the IRA, the US Department of Energy published a list of EVs that meets the domestic final assembly requirement. The list only includes 21 models of EVs that are eligible for the 2022 credit whereas a total of 72 EVs are available for sale in the US.\(^{23}\) The list includes no EV models manufactured by a South Korean automaker, such as Hyundai or Kia.

D. Summary: Local Content Requirements

All of the above requirements-Critical Mineral, Battery Component, Final Assembly-include some form of “local content requirements” (LCR). Local content requirements request that a certain amount of the final value of the good or service are derived domestically, either by using domestic inputs or manufacturing the goods domestically.\(^{24}\) The LCRs in the IRA’s Clean Vehicle Provisions are summarized in Table 1 below.

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\(^{21}\) Inflation Reduction Act of 2022. Final Assembly in North America means that a manufacturer must assemble a vehicle for delivery to dealer or importer with all components parts necessary for the mechanical operation of the vehicle in North America.

\(^{22}\) Id.

\(^{23}\) Steff Chavez, *The problem with Biden’s EV subsidy: hardly any cars will qualify*, Fin. Times (Aug. 23, 2022), https://www.ft.com/content/169d18de-de55-4ae6-99ef-77d221292e03.

\(^{24}\) See e.g., Shiue-Hung Lin & Yungho Weng, *Can Strengthening The Local Content Requirements Meet A Government’s Need To Raise Industrial Productivity And Production?*, 23 J. APPLIED ECON. 316 (2020).
Table 1: Clean Vehicle Provision’s Local Content Requirement

<table>
<thead>
<tr>
<th>Eligibility Criteria</th>
<th>LCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical Minerals</td>
<td>Extracted/processed from US and US FTA Countries</td>
</tr>
<tr>
<td>Battery Components</td>
<td>Manufactured/Assembled in North America</td>
</tr>
<tr>
<td>Final Assembly of EVs</td>
<td>Assembled in North America</td>
</tr>
</tbody>
</table>

These requirements differ from a typical LCR in that the scope goes beyond the US borders to the wider region of North America. A previous version of the bill required American production and manufacturing but was revised allegedly because of concerns raised by Mexico and Canada given the integration of the automotive supply chains in the region. Nonetheless, as will be examined below, these “regional” LCRs present a serious likelihood of violating existing WTO Rules as well as the KORUS FTA.

III. Analysis of Relevant International Trade Rules

A. GATT

1. Article III:4’s National Treatment Principle

Also known as the national treatment principle, Article III:4 of the GATT requires national treatment of imported “like products” with regards to “all laws, regulations and requirements affecting [the products’] internal sale, offering for sale, purchase [...] or use.” Barring the application of any exceptions, laws and regulations that favor domestic products over like imported products would thus be in violation of


26 The IRA also includes the modification and creation of the following tax credits for clean energy: 1) modifying existing tax credit for electricity produced from renewable resources; 2) modifying tax credit for investment in certain energy properties with higher credits for clean energy properties; 3) creating new tax credit for clean electricity produced from facilities with zero carbon emissions; and 4) creating a new tax credit for investment in facilities with zero emissions. For all of these provisions, the IRA provides additional credit (in addition to the base credit) for projects that satisfy the “domestic content” requirement. It requires that “any steel, iron or manufacture product which is a component of such facility ... was produced in the United States.” See Inflation Reduction Act of 2022.


GATT Article III:4.

In *US–Renewable Energy*, India challenged certain environmental subsidies programs of seven different American States, some of which included LCRs similar to those found in the IRA.29 One of the challenged measures included Montana’s laws which provided tax credits for investments made to blend petroleum diesel with biodiesel.30 However, the law conditioned the credit on the requirement that the biodiesel is *made entirely from Montana-produced feedstocks*.31 Like the IRA, Montana’s laws allowed tax credits to accrue against individual income tax or corporate income tax collected under Montana’s tax codes. India challenged this provision to be in violation of GATT III:4’s national treatment principle.32

Based on the past WTO jurisprudence, the panel in *US–Renewable Energy* applied a four-step analysis to determine that Montana’s laws—as well as other measures—violated GATT III:4. First, the Panel found that the imported and domestic products at issue are “like products.” The Panel cited *Argentina–Financial Services* to find that a complainant may establish “likeness” by showing that the measure at issue provide for differential treatment based solely on the origin of the products.33 Concerning the Montana tax credit, the Panel agreed with India that the measure creates a distinction between the biodiesel and feedstock “solely on the basis of origin” and was thus sufficient to establish “likeness.”34

Second, the Panel found that the measures at issues fell within the scope of the phrase “laws, regulations and requirements” under Article III:4 because the phrase “encompasses a variety of governmental measures, from mandatory rules which apply across the board, to government action that merely creates incentives or disincentives for otherwise voluntary action by private persons.”35 In this context, the Panel held that the Montana tax credits embodied in Montana laws (Montana Annotated Code, Section 15-32-703) clearly qualify as laws or regulations resulting from the government that sets out rules “with which compliance is necessary to

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31 *Id.* [Emphasis added]
34 Nonetheless, the Panel argued that the analysis might have been different if the US were able to show that there is a difference between Montana-origin and non-Montana origin feedstock as an input into biodiesel or that the biodiesel made from Montana-origin feedstock is in any way different from non-Montana-origin feedstock. *See id.* at ¶ 7.3.2.4
obtain an advantage from the government.\textsuperscript{36}

Third, the panel found that the measures at issue “affects the sale, purchase, transportation, distribution or use” of the imported like products. The Panel also found that in previous panels, the word “affecting” included not only laws that directly govern the conditions or sales or purchase, but also “measures which create incentives or disincentives with respect to sale, offering for sale, purchase and use” of the like imported products.\textsuperscript{37} The Panel further held that there is no need to examine whether the trade-restrictive measure actually affected the decision to purchase domestic goods over imported goods under current circumstances.\textsuperscript{38} Applying such a rule, the Panel thus found that even if there is evidence that since 2011, no taxpayer has claimed the Montana tax credit, it is sufficient to note that the tax credit involves a “formally different treatment of imported and domestic products” that adversely modify the conditions of competition for the imported like products.\textsuperscript{39}

Fourth, the Panel found that the measures at issue accord “treatment less favorable” to imported products given that the “past [WTO] cases have consistently found that the provision of incentives or advantage for the use of domestic over imported products accord less favorable treatment to such imported products.”\textsuperscript{40} The Panel points to the text, design and structure of the Montana tax credit and held that the law clearly provided discriminatory incentives to purchase and use Montana-origin feedstock. While the US argued that there was no evidence of actual effects of less favorable treatment—in that there was no evidence that the measure actually resulted in disincentives to buy imported goods—the Panel found that Article III:4 applied nonetheless. In other words, the Panel found that Article III:4 applied also to \textit{de jure} as well as \textit{de facto} discrimination of imported like products.\textsuperscript{41}

If the four-step analysis of US-Renewable Energy is applied to the IRA’s Clean Vehicle Provisions, similar conclusions are likely to be drawn given that the IRA also contains LCRs similar to that of the Montana Tax Credit in US-Renewable Energy. First, the IRA will satisfy the “like products” condition given that the Act makes distinctions between critical minerals, battery components as well as assembled EVs solely on the basis of their origin. The IRA’s LCRs appears not to be related to any

\textsuperscript{36} Id. at ¶ 7.152.

\textsuperscript{37} Id. at ¶ 7.157.


\textsuperscript{39} Id. at ¶ 7.190.

\textsuperscript{40} Id. at ¶ 7.272.

other criteria for distinction; for instance, there is no reason to suspect that critical minerals or battery components sourced from or EVs manufactured in North America are of better quality. Thus, the rule allowing the presumption of “like products” for differential treatment based solely on the origin of the products will likely apply to the IRA. It is worth noting that in US-Renewable Energy, the relevant Montana tax provision distinguished Montana-origin feedstock from not US-origin feedstock. In other words, as long as there is a distinction made solely on the origin, the scope of the distinction—whether it is narrower than the US as in Montana or whether it is broader than the US as in IRA’s North America—is not dispositive of satisfying Article III:4’s “likeness” requirement.

Secondly, as Montana’s tax credit was clearly qualified as “laws, regulations and requirements,” there is no reason that similar tax credit provided by the American federal laws (Internal Revenue Code) will fail to satisfy this requirement.42

Thirdly, the IRA will also be found to “affect[t] the sale, purchase, transportation, distribution or use of the imported like products” given that in ways very similar to the Montana tax credit, it adversely modifies the condition of competition for imported products by providing disincentives for the purchase of imported critical minerals, imported battery components and imported EVs.43

Fourthly, the IRA’s tax credit is likely to provide significant incentives to buyers to purchase EVs assembled in the US over imported vehicles. The IRA provides USD 7,500 tax credit which would be at least 13% of the purchase price for qualifying sedans; and such credit may even be applied immediately at the point of sale.44 While not all imported vehicles are affected—given that the scope of the LCRs are such that imported vehicles from Mexico and Canada will not be affected—it is clear that all of the other imported EVs, including those from South Korea, will face disincentives compared to the US manufactured “like products,” with respect to “their sale, offering for sale, purchase and use.”

Additionally, with regards to critical minerals and battery components, similar argument can be made. The significant tax credit provided only to vehicles including critical minerals or battery components sourced from North America (or, in case

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44 The IRA imposes a maximum price limit for different types of vehicles eligible for the credit; for sedans, the limit is USD 55,000. A USD 7,500 credit will thus be at least 13% (7,500/55,000) of a sedan’s purchase price.
of critical minerals FTA-partners) will provide significant disincentives for car manufacturers to purchase or use imported critical minerals or imported battery components other than those imported from Mexico or Canada (or in case of critical minerals, FTA-partners). What is instructive of US-Renewable Energy is that the relevant standard does not concern whether the measure actually affected the decision to purchase domestic goods over imported goods “under current circumstances.”

In other words, even if the American production of crucial minerals or battery components are meager under current circumstances and thus the enactment of the IRA will not result in immediate decisions to substitute imports with domestic critical minerals or battery components, the IRA will still be found to “affect” the purchase or use given that it contains disincentives concerning imported products.

Fourthly, the analysis in *US-Renewable* suggests that LCRs-in so far as they provide incentives for the use of domestic products over like imported products-will be found to provide “less favorable treatment” regardless of the actual market effects of the provision. In other words, IRA’s discriminatory provisions-the LCRs-are in themselves sufficient to find “less favorable treatment” in violation of Article III:4. While the actual market effects of the IRA are still uncertain, it is worth noting that the IRA had already cut off many imported EV models that otherwise would qualify for the USD 7,500 credit.

In short, based on past WTO jurisprudence, it is highly likely that the IRA’s LCRs will be found to violate Article III:4’s national treatment principle as it provides discriminatory preferential incentives for domestic goods over certain imported goods. Additionally, given that the scope of the LCRs in the IRA are broader than the US territory-that is, its scope expands to North America (and in critical mineral requirement, other FTA partners)-one could also argue that the IRA provides discriminatory preferences to Mexican and Canadian “like” products against other WTO members. Hence, IRA arguably is also incompatible with GATT I:1’s Most Favored Nations (MFN).

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46 *Supra* note 16, at 19 and accompanying text.

47 An argument may be made that Article XXIV’s exception for customs union or free-trade area may apply to the IRA’s Clean Vehicle Provisions given that the LCRs include North American imports-subject to the US-Mexico-Canada Free Trade Agreement-and imports of other FTA-partners of the US. Nonetheless, the language of Article XXIV makes quite clear that “the purpose of ... a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.” The IRA’s Clean Vehicle Provision, as examined above, is a trade-restrictive measure that does not facilitate trade among US’s trade partners; rather its newly introduced onerous conditions make it more difficult for FTA-partners—including South Korean firms—to trade with the US; additionally, the IRA most certainly makes trade even more difficult for the non-FTA trading partners of the US. Thus, if an argument were to be made that the IRA violates GATT Article I:1’s Most-Favored Nations provision and that
2. Application of Exceptions to GATT III:4

The GATT provides a number of exceptions to its Article III:4’s national treatment principle. For the IRA, the US may argue that the Clean Vehicle Provisions are subject to the general exceptions under Article XX and the security exception of Article XXI. Applicability of each of these exceptions are analyzed in turn below.

Article XX’s General Exceptions

GATT Article XX provides exceptions to the national treatment obligation when trade-restrictive measures are necessary to achieve certain legitimate policy objectives. Namely, Article XX, subparagraph (b) provides exceptions to measures that are “necessary to protect human, animal, plant life or health,” and subparagraph (j) provides exceptions to measures “essential to the acquisition or distribution of products in general or local short supply.”

Article XX’s general exceptions face a two-tiered test: first, the party invoking the defense must show first that the measure in question is provisionally justified under the relevant subparagraph; and second, the measure is justified under the “chapeau.” Article XX’s chapeau makes clear that the exceptions provided under this Article does not apply to “arbitrary or unjustifiable discrimination” or “disguised restriction on international trade.”

In Brazil-Taxation, the Panel found that a discriminatory measure would be provisionally justified under subparagraph (b) if the measure addresses the particular interest specified in the subparagraph i.e., there is sufficient nexus between the measure and the protection of human, animal and plant life. If the nexus is established, then the measure must also be found “necessary” to achieve the objective. The necessity analysis balances the importance of the interest being protected, the contribution of the discriminatory measure to the protection of the interest, trade-restrictiveness of the measure, and whether there are any WTO-consistent less trade-restrictive alternatives that could achieve the same level of protection. If such necessity is established, the first test-provisional justification for interest in subparagraph-is satisfied; after that, further examination is necessary to determine whether the

the preference granted to Mexico and Canada should be extended to other members of the WTO, the US is unlikely to be able to defend its measure by relying on Article XXIV’s exception.

48 GATT art. XX. [Emphasis added]
50 Id.
51 Id. at ¶ 7.584.
52 Id. at ¶ 7.585.
measure satisfies the chapeau to be able to apply Article XX(b) exception. The Panel reaffirmed that one of the most important factor in determining compatibility with the chapeau is to question whether the “discrimination can be reconciled with, or is rationally related to, the policy objective.”

The US may possibly argue that the IRA’s Clean Vehicle Provision falls under the scope of Article XX(b) exception as Section 30D is designed to combat climate change by providing tax incentives in the form of tax credits to buyers who purchase low-carbon EVs. While the US may succeed in establishing that Section 30D has a nexus to the protection of human, animal and plant life, it is difficult to see how the US may argue that Section 30D-as amended by the IRA-would be “necessary” to achieve that objective, particularly, given that there is clear evidence of a less restrictive, WTO-compliant alternative-the “old” Section 30D. As noted above, the IRA introduces new trade-restrictive LCRs, which, arguably, do not further the goal of protecting the environment; hence, one may easily show that there is indeed a less-trade-restrictive alternative to the current Section 30D-Section 30D before the IRA amendments.

Even if the US somehow succeeds in establishing the necessity requirement, it would be equally difficult to establish satisfaction of the chapeau since Section 30D’s discriminatory provisions—the LCRs—have little relation to the objective of subparagraph (b). In fact, there is widespread industry concern that due to the onerous LCRs in the amended Section 30D, “hardly any cars will qualify” for the tax credits. In short, it is unlikely that the IRA’s Clean Vehicle Provision would fall under the scope of Article XX(b)’s exception.

The US may also argue that given the limited domestic production of critical minerals or battery components, IRA’s LCR measures fall under subparagraph (j)’s exception. Subparagraph (j) allows exceptions for both “general” and “local” shortages of products, and arguably, critical minerals and battery components may be in “short supply” if the US were to be defined as the relevant locality.

To analyze the applicability of Article XX(j)’s exception to the IRA, the same two-tiered analysis from subparagraph (b) above is used: first, “nexus” and “necessity” tests to establish provisional justification under the subparagraph, then examination of the requirements of the chapeau. In analyzing the applicability of subparagraph

53 Id. at ¶ 7.539.
54 Supra note 23 and accompanying texts.
55 Chavez, supra note 23.
56 See analysis of subparagraph (b) above. In India—Solar Cells and Solar, however, the Appellate Body clarified that the “essential” language in subparagraph (j) provides a more stringent legal threshold for the “necessity” test and should be interpreted to mean closer to requiring “indispensability” in achieving the stated purpose. See Appellate Body Report, India - Certain Measures relating to Solar Cells and Solar Module, WTO Doc. WT/DS456/AB/R (adopted Oct. 14,
(j) to the IRA, the following statement of the Appellate Body in *India-Solar Cells and Solar* is particularly instructive:


> [T]he terms ‘products in general or local short supply’ refer to a situation in which the quantity of available supply of a product, from all sources, does not meet demand in a relevant geographical area or market and that they do not refer to products in respect of which there merely is a lack of domestic manufacturing capacity.\(^{57}\)

In other words, the lack of “domestic supply” is not the relevant standard; rather the shortage of supply should be assessed given available imports. India, in that case, tried to defend its discriminatory measures by arguing that India had relied heavily on imported products and had thus been prone to market fluctuations in international supply. India further argued that government intervention was required in order to minimize its dependence on imports and to “ensure domestic resilience in addressing any supply disruptions.”\(^{58}\) The Appellate Body, however, noted that without evidence that there were actual disruptions in the supply, India’s discriminatory measure will not invoke the application of subparagraph (j). In fact, some have interpreted the Panel Report and the Appellate Body Report of the *India-Solar Cells and Solar* case to require that there must be *imminent or actual* risk of supply shortage and that as long as there is supply availability of the product in the *international* market, subparagraph (j) cannot be raised.\(^{59}\)

The US may wish to justify the LCRs in the Clean Vehicle Provision-like India— as measures necessary to secure continued supply of critical minerals and battery components amidst potential international disruptions, particularly given that the US’s supply of critical minerals and battery components have largely relied on China. Nonetheless, such justification will not be available unless the US can show that there is indeed an actual shortage of these products in the overall international market.

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57 Id. at ¶ 5.60.

58 Id. at ¶ 5.75 (reciting and affirming panel’s finding) (quotation marks deleted).

Article XXI’s Security Exception

Article XXI—the Security Exception Provision—of the GATT reads:

Nothing in this Agreement shall be construed

(a) to require any contracting party to furnish any information the disclosure of
which it considers contrary to its essential security interests; or

(b) to prevent any contracting party from taking any action which it considers
necessary for the protection of its essential security interests

(i) relating to fissionable materials or the materials from which they are derived;
(ii) relating to the traffic in arms, ammunition and implements of war and to
such traffic in other goods and materials as is carried on directly or indirectly
for the purpose of supplying a military establishment;
(iii) taken in time of war or other emergency in international relations; or

(c) to prevent any contracting party from taking any action in pursuance of its
obligations under the United Nations Charter for the maintenance of
international peace and security.

Article XXI allows the WTO members to derogate from the GATT principles, including the national treatment principle, to protect their “essential security interests” if any of the following are at stake: (1) strategic security information; (2) ‘fissionable’ nuclear materials; (3) goods and services provisioned for military establishment; (4) war or other emergency in international relations; and (5) UN Charter obligations. [Emphasis added]

The US may argue that the IRA’s Clean Vehicle Provisions are necessary to protect its “essential security interests.” Indeed, commentators have advanced that the IRA’s Clean Vehicle Provisions “improve US energy security, ostensibly by reducing its dependence on foreign supplies of the minerals needed to support the energy transition [from traditional sources to clean energy].”\(^{60}\) As discussed above, China—dubbed by the Biden administration as the “most-serious long-term challenge to the international order”\(^{61}\)—dominates the international supply chain for EV batteries. But

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\(^{60}\) *Supra* note 14. [Emphasis added]

the tensions between the US and China have been flaring on all fronts, not only on trade but notably also on Taiwan. The LCRs indeed reflect the US’s efforts to establish a supply chain for EVs that sidesteps China. The US may thus try to justify the LCRs by invoking that such measures are necessary to protect their “essential security interests” against the growing tension between the two countries.

Meanwhile, the panel in Russia-Traffic in Transit established the legal standard for Article XXI exception. There, Ukraine challenged the legality of certain trade-restrictive measures of Russia, who, in turn, invoked Article XXI’s security exception to justify the measures. Russia advanced that in their view, there was an “emergency in international relations” and the measures against Ukraine were necessary to protect their essential security interests. Russia further argued that it had full and unreviewable discretion in invoking the exception, relying on the “it considers” language in the chapeau of Article XXI (b).\(^{62,63}\)

The panel rejected Russia’s argument that the self-judging language of the chapeau applies to all of Article XXI. Instead, the panel proposed the following two-step analysis. In order to successfully invoke Article XXI, the state party invoking the exception must first objectively establish the requirements of subparagraphs of Article XXI (b), such as the existence of “war or other emergency in international relations.”\(^{64}\) The panel noted that the subjective discretion provided by the self-judging language does not apply at this first stage. It is only in the second stage—after having objectively shown the requirements of Article XXI(b) subparagraphs—that the state party may subjectively apply the chapeau, that is, (i) to define their “essential security interests” and (ii) to impose measures that they deem are necessary to protect those interests.\(^{65}\)

The panel added that even in this second stage where discretion is provided, however, the state invoking the exception must do so in “good faith.”\(^{66}\) This obligation requires member states to not use Article XXI’s exception as a means to circumvent their obligation under the GATT. To assess whether Russia met its good-faith obligation, the panel provided some important principles. First, the panel clarified that “essential security interests” [are] not any security interests but those that may generally be understood to refer to those interests relating to the quintessential


\(^{63}\) It is worth noting that in this case, the US, as an observer, sided with Russia on the issue of reviewability. Id. at ¶ 7.51.

\(^{64}\) Id. at ¶ 7.103. [Emphasis added]

\(^{65}\) Id. at ¶ 7.131.

functions of the state, namely, the protection of its territory and its population from external threats, and the maintenance of law and public order internally.  

Second, the panel held that while the “emergency in international relations” (the condition of the subparagraph) may be interpreted broadly, the invoking-state has the burden of articulating their essential security interests with greater specificity if the emergency is further removed from war or government failure. The panel found that the less characteristic is the “emergency in international relations” invoked by the Member, i.e. the further it is removed from armed conflict, or a situation of breakdown of law and public order (whether in the invoking Member or in its immediate surroundings), the less obvious are the defence or military interests, or maintenance of law and public order interests, that can be generally expected to arise. In such cases, a Member would need to articulate its essential security interests with greater specificity than would be required when the emergency in international relations involved, for example, armed conflict.

Third, the panel found that the good faith obligation requires that the invoking state show a plausible nexus between the essential security interests and the measure taken by the invoking state. Specifically, the measure at issue must “meet a minimum requirement of plausibility in relation to the proffered essential security interests.”

The panel’s findings in Russia-Traffic in Transit sheds light on how IRA’s Clean Vehicle Provision would be analyzed under existing Article XXI laws. First, the US would be required to objectively show that there is an “emergency in international relations” with regards to its relationship with China. While this term may be interpreted broadly to include circumstances that are removed from an actual armed conflict or government failure, it is uncertain whether the current tensions between the US and China are comparable to the tensions between Russia and Ukraine at the time of the trade-restrictive measures in Russia-Traffic in Transit, which, although in hindsight, was really the beginning of an all-out armed conflict.

Second, even if the US succeeds in objectively establishing an “emergency under international relations,” it must still articulate an “essential” security interests that is protected by the IRA’s Clean Vehicle Provision—an interest that relates to the protection of its territory or maintenance of public order. Because the current tensions

67  Russia-Traffic in Transit, supra note 63, at ¶ 7.130.
68  Id. at ¶ 7.135.
69  Id.
70  Id. at ¶ 7.138.
71  Id. at ¶ 7.136 (finding that “in the case at hand, the emergency in international relations is very close to the ‘hard core’ of war or armed conflict”).
between the US and China are considerably removed from an actual armed conflict, the interests must be articulated with greater specificity. It is uncertain whether there is indeed a sufficiently specific “essential” security interest—distinguished from an economic interest—related to the IRA’s Clean Vehicle Provision.\(^{72}\)

Most importantly, the US will face the burden of showing that the IRA’s Clean Vehicle Provision plausibly protects the said essential security interest; in other words, the US would have to show that the IRA’s Clean Vehicle Provision—whose target is not restricted to Chinese imports but disadvantages important trade partners such as South Korea—to be plausibly related to the articulated security goal concerning China. In short, the US will not be able to successfully raise an Article XXI defense unless they successfully show that there is an “emergency in international relations,” and that the IRA’s Clean Vehicle Provision is plausibly related to protecting a specifically-articulated essential security interest.

**B. Potential Violation of the Agreement on Subsidies and Countervailing Measures**

IRA’s Clean Vehicle Provisions may also be analyzed under the WTO’s Agreement on Subsidies and Countervailing Measures (SCM). The SCM’s definition of subsidies include tax credits, such as those provided under the IRA’s Clean Vehicle Provision.\(^{73}\) In particular, Article 3.1(b) prohibits the so-called “import-substitution subsidies.” It reads:

3.1 [T]he following subsidies ... shall be prohibited:

...  
(b) Subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods\(^{74}\)

These subsidies are deemed *per se* illegal and does not depend on the actual effects of the subsidy on the complaining Member’s industry or economy.

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\(^{72}\) In *India-Solar Cells and Solar*, India argued that the trade-restrictive measures in question were necessary to achieve India’s “energy security,” but did not invoke Article XXI’s security exception. See *India-Solar Cells and Solar, supra* note 42.

\(^{73}\) Agreement on Subsidies and Countervailing Measures, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, annex 1A, 1869 U.N.T.S. 14. [hereinafter SCM] Article 1.1 (a)(1)(ii). The SCM has been interpreted to cover subsidies provided to purchasers, such as the IRA’s Clean Vehicle Provision, under the assumption that the benefit of the tax-credit provided to the purchaser of a product is deemed, without proof to the contrary, to have been provided to the producer. See e.g., Panel Report, *Canada-Export Credits and Loan Guarantees for Regional Aircraft*, WTO Doc. WT/DS222/R (adopted Feb. 19, 2002) at ¶ 7.229.

\(^{74}\) SCM art. 3.1 (b).
The IRA’s Clean Vehicle Provisions arguably fall under the scope of the prohibited import-substitution subsidy of the SCM. The jurisprudence on Article 3.1 (b) of the SCM has expanded the scope of the provision to include not only de jure contingency upon the use of domestic over imported goods, but also on de facto contingency upon the use of domestic over imported goods. In other words, even if the IRA’s Clean Vehicle Provisions facially does not condition the tax-credit on the use of “domestic” American goods—because the scope of the IRA’s LCRs is inclusive of North America or other FTA-partners—it may be argued that there is a de facto condition that requires the use American goods over imported goods. While the facts surrounding the Clean Vehicle Provisions including their actual effects on the market must be further investigated, it is likely that for at least some EVs, the eligibility for the USD 7,500 tax credit would depend on substituting imported critical minerals, imported battery components and imported EVs with domestic products or assembly. If the Clean Vehicle Provisions are found to fall under the scope of Article 3.1(b), they will then be found to be per se illegal without having to prove whether the subsidies actually produced adverse effects to the interests of the complaining state.

The SCM regime presents a number of advantages than the GATT against LCRs because when a panel finds a prohibited subsidy, Article 4.7 of the SCM allows the panel to demand withdrawal of the subsidy without delay, which, in past cases, has been within 90 days. Additionally, unlike the GATT, the SCM does not provide for any exceptions.

C. Analysis under the Korea-US Free Trade Agreement

Article 2.2, Paragraph 1 of the KORUS FTA provides:

Each Party shall accord national treatment to the goods of the other Party in accordance with Article III of GATT 1994, including its interpretive notes, and to this end Article III of GATT 1994 and its interpretive notes are incorporated into and made part of this Agreement, mutatis mutandis.

76 The SCM also prohibits “actionable subsidies”—subsidies that are “specific” and those that cause an “adverse effect” to the interests of another Member including by causing injury to the domestic industry of another Member. Even if the Clean Vehicle Provisions are found to fall outside the scope of Article 3.1(b), they are likely to be condemned as actionable subsidy.
In other words, the legal analysis conducted above on the US’s potential violation of the national treatment principle under GATT’s Article III:4 is equally applicable to the national treatment obligation imposed upon the US and South Korea under the KORUS FTA. While the KORUS FTA exempts the parties from national treatment if any of the specific circumstances enumerated in Annex 2-A are satisfied, none are likely present for IRA’s Clean Vehicle Provision. Hence, a separate analysis of a potential violation of the KORUS FTA’s national treatment principle would be unnecessary.

Similarly, the KORUS FTA’s Article 23.1 states that “[f]or purposes of [KORUS FTA’s national treatment provision], Article XX of GATT 1994 and its interpretive notes are incorporated into and made part of this Agreement, mutatis mutandis.”\(^{79}\) Thus, a separate analysis of the applicability of GATT Article XX’s general exceptions under the KORUS FTA would be unnecessary. However, the KORUS FTA notably adopts its own security exception provision. Unlike GATT Article XXI, KORUS FTA’s Article 23.2 provides:

Nothing in this Agreement shall be construed:

... 
(b) to preclude a Party from applying measures that it considers necessary for the fulfillment of its obligations with respect to the maintenance or restoration of international peace or security or the protection of its own essential security interests.

More importantly, the footnote to Article 23.2(b) states that “[f]or greater certainty, if a Party invokes Article 23.2 in an arbitral proceeding initiated under ... Chapter Twenty-Two [KORUS FTA’s own dispute resolution procedures], the tribunal or panel hearing the matter shall find that the exception applies.”\(^{80}\) The footnote appears to have been included in light of the controversy surrounding the scope of the “it considers” language of the GATT Article XXI and may reflect the parties’ effort to clarify the level of subjective discretion provided under this exception. The US indeed has so far maintained that Article 23.2 should be interpreted to allow full and unfettered discretion to the parties to invoke the exception.\(^{81}\) The provision has not yet been interpreted by a panel or a court; and it is uncertain whether a general

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79 KORUS FTA Chapter Twenty-Three Exceptions, art. 23.1.
80 Id. fn. 2.

“good faith” requirement—one similar to GATT Article XXI—also applies to Article 23.2 to qualify the scope of discretion provided. Nonetheless, without a good-faith requirement, Article 23.1—as interpreted to give absolute discretion to parties—would undermine the object and purpose of the KORUS FTA as it would allow parties to circumvent the trade-promoting measures of the treaty simply by invoking the exception. Also, if anything and everything is potentially a valid security exception, Article 23.1 would become the blackhole that sucks in the rest of the agreement and renders all other provisions ineffective. Under such interpretation—as maintained by the US—if the US invokes Article 23.2 and determines that the IRA’s Clean Vehicle Provision is a necessary security measure, Korea would have no recourse under the KORUS FTA.

The KORUS FTA provides an independent dispute resolution mechanism that calls for, first, consultation between the parties, second, referral to the joint committee—consisting of officials from both states—to resolve the dispute if the consultations fail, and lastly, the establishment of a three-person panel if the efforts of the joint committee fail. However, for any disputes concerning automotive products—which would include any potential dispute concerning the IRA’s Clean Vehicle Provision—the KORUS FTA provides an elective fast-track dispute resolution procedure that does not require consultation and provides a much-abbreviated timelines for the rest of the process. Nonetheless, the uncertainties surrounding the scope of Article 23.1’s security exception raises serious concerns as to the effectiveness of the KORUS FTA’s dispute resolution mechanism in constraining the US’s potential violation of the KORUS FTA’s national treatment principle.

IV. Conclusion

The IRA’s Clean Vehicle Provisions include various local content requirements that are likely to violate the GATT and the SCM, as well as the KORUS FTA. Nonetheless, it would be misleading to conclude this article without discussing the on-going crisis of the WTO system. The WTO’s dispute settlement system is now toothless, without an appellate body that has the enforcement authority. The legal arguments analyzed above concerning the IRA’s Clean Vehicle Provisions may thus be of little use in actually getting the US to change its behavior through the usual WTO dispute procedures.

82 KORUS FTA Chapter Twenty-Two Institutional Provisions and Dispute Settlement, art. 22.2-22.10.
83 Id. at annex 22-A.
resolution mechanism. Some predict that “in the absence of a binding WTO system, Members will be free to impose LCRs indiscreetly” and the US seems to be in the lead. While the main multilateral system is on a limbo, injured states such as South Korea are left to rely on dispute resolution mechanisms provided under the bilateral FTA, whose effectiveness in ensuring compliance is questionable given the broad security exception. The implications of the legal analysis provided above must be situated in this broader global context of increasing protectionism and rejection of multilateral regulatory oversight. Thus, for states such as South Korea, it would be prudent to adapt to the IRA’s trade-restrictive measures—for instance, by increasing North American EV assembly plants, or by developing South Korean critical mineral processing industry to take advantage of the preference granted to FTA-partners—all the while pursuing redress under international trade rules.

Received: August 1, 2022
Modified: September 30, 2022
Accepted: November 1, 2022
