Unlocking the Inflation Reduction Act

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In the summer of 2022, the most significant action to fight climate change in the nation's history was taken by the US government. The future of US industrial manufacturing was forever altered as clean energy and climate change were thrust to the fore. The Inflation Reduction Act, (August,2022) signed into law by the Biden administration, is an ambitious investment in domestic energy production and manufacturing with the intention of fighting inflation and reducing carbon emissions in the US by 40% by the end of 2030.
As executive search consultants operating across the US market, Beaumont Bailey are uniquely placed to listen and understand how this new legislation will affect industry leaders. Unprecedented in scale, the Inflation Reduction Act will create a paradigm shift within the US Building Materials Manufacturing industry. We understand the significance of this legislation and would like to support our clients, contacts and wider industry navigate the change and take advantage of this momentous turning point.

What is the Inflation Reduction Act?

The Inflation Reduction Act (IRA22) is a 728 page document, signed into law on August the 16th 2022 detailing the direction of over $738 billion of public funding and investment to fight climate change and inflation in the US. IRA22 seeks to raise revenue from a numerous sources (detailed in the table below), to invest in both deficit reduction, energy security and climate change programs over the next ten years in the United States.

Source of funding

15% Corporate Minimum Tax::	$313billion
Prescription Drug Pricing Reform:	$288billion
IRS Tax Enforcement:	$124billion
Carried Interest Loophole:	$124billion
Total:	**$739billion**

Distribution of funds

Energy Security & Climate Change	$369billion
Affordable Care Act Extension:	$288billion
Total:	**$433billion**

Total Deficit Reduction

$300+billion

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Fundamentally, this investment seeks to lower energy costs and create cleaner production incentives by allowing organisations to receive ‘tax credits’ when products are manufactured using clean energy, or when their infrastructure and facilities are used to help progress the US’s ability to meet decarbonisation goals. These credits allow organisations who prioritise clean energy production or utilisation in their manufacturing process to reduce their tax liabilities and increase their net income.

What are the incentives to building materials?

It is no secret that the building materials industry is a major contributor to carbon emissions. Cement production alone accounts for over 8% of Global human carbon emissions, and is the highest consumed commodity on earth after water. A large part of the fight on climate change is therefore unsurprisingly focused on the cleaner production of building materials.

European manufacturers have had a green focus for some time now and IRA22 seeks to catch the US up to Europe in this area. By enhancing existing incentives for environmentally cleaner production through renewable energy and carbon capture, and introducing new credits which encourage manufacturing and logistics system with a reduced environmental impact, IRA22 will help significantly improve US manufacturers’ environmental credentials.

Manufacturers can also receive tax credits when investing in new projects which either produce energy to help run their facilities, or upgrade parts of production to make equipment or components which are used in renewable energy production.

Put simply, there is now a tangible and significant tax relief offered to organisations that either contribute to clean energy infrastructure, or produce and transport their products with the use of sustainable fuel sources. For building materials manufacturers, there is now a competitive advantage to reduce their carbon footprint and invest in multi-million dollar projects which decrease their environmental impact whilst increasing their profit margins simultaneously.

How do Building Materials Organisations Capture Value from IRA22?

Beaumont Bailey has spoken with senior executives from within the industry, to identify the 3 Core Questions being asked of existing business operations, in order to maximise the impact of IRA22 on their organisations.

1.What are we making?

In the US, the lack of environmental consideration was once seen as a competitive advantage compared to European made building products. Some US-based senior leaders we spoke to before the legislation was passed were open in saying that environmental impact was not a priority when committing resources to new product development. Within just a few months, perspective has changed rapidly and now the materials, methods of production and carbon capture ability of products are being heavily reviewed, prompting mass manufacturing changes and heavy investment into more sustainable product development. Common approaches include using waste product to bring down the NET c02 impact of the final product, and in some cases store further co2 through processes like mineral carbonisation. These approaches are not completely novel and have been developed by other international markets for many years, however with the sheer industrial might and resource of the US now faced with this problem, we should see a substantial increase in the innovation of new sustainable and environmentally considerate product portfolios as a result.

2.How are we making it?

The best way businesses can benefit from the new IRA22 regulations is to switch to renewable or sustainable fuel sources in production. Energy creation methods such as hydrogen, biofuels, wind or solar power, can now contribute to a growing renewable energy infrastructure ecosystem, which has become common across historically dirty manufacturing plants. Significant capital investments are now being made across the major manufacturer's portfolios to retrofit energy production with new renewable sources, and to capture and reuse more carbon across the plant's activities. This has also led to an explosion in demand for key strategic talent such as specialist project managers capable of implementing change with minimal disruption.

3.Where are we making it?

With production being constantly refined to improve profit margins, some US-based facilities have been designed with the sole intention of reducing cost and maximising output. Facilities and production lines with historically high output and margins, but have favoured 'dirty' production methods to do so, now run the risk of losing huge value if they do not adapt and modernise. Strategic portfolio management has become an imperative across the industry, with organisations reviewing their assets and seeking to modernise, or in some cases move entire facilities, in an effort to move away from non-IRA-compliant facilities and reputations. Since additional credits are granted to organisations producing sustainably in low-income areas, the cost involved in strategic relocation is now being considered by some businesses given the potential tax benefits.

What can be done to react effectively to this change?

The race is now on for organisations to become the greenest and most sustainable across the building materials industry. Those able to act quickly, decisively and invest in the appropriate resources will be best placed to benefit from the opportunities IRA22 presents over the coming years. Key leadership and executive talent capable of delivering on this new strategy will play a significant role in how businesses react and capitalise on IRA22's potential.

Expanding production capacity of a manufacturing facility would typically cost many millions of dollars and would require strategic project managers capable of delivering complex projects to tight budgets and timeframes. Changing and modernising the energy infrastructure of a plant is an entirely new challenge and one which countless organisations are already planning for. This has led to a sudden increase in demand for senior project delivery and sustainability talent across the industry.

Beaumont Bailey is well positioned to support industrial and manufacturing businesses to navigate and capitalise on the realities IRA22 brings with it. After years of meeting with, and working alongside senior leaders across the US, our consultants understand the career objectives and desires for executives across the industry, as well the motivations that make many of them seek new opportunities. As a result, we have built a network of high performing talent, capable of maximising the potential benefit from the IRA22 within manufacturing organisations. If you are assessing your organisations capabilities on this topic, or wish to discuss any of the topics within this article, please get in touch with Cobi Busst: cobi.busst@beaumontbailey.com

About the authors

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Cobi supports the research and delivery of search assignments across the building materials sector. His role includes identifying and engaging with senior leadership for specific search mandates, market mapping and supporting clients with senior talent needs.
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