North American Graphite Alliance

April 2, 2024

The Honorable Janet Yellen
Secretary, Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

CC: The Honorable Jennifer Granholm
Secretary, Department of Energy
1000 Independence Ave. SW
Washington, DC 20585

Dear Secretary Yellen,

The Section 30D Clean Vehicle Tax Credit of the Inflation Reduction Act (IRA) is a landmark policy that will boost the adoption of electric vehicles, stimulate American business, and reduce dependence on Foreign Entities of Concern (FEOC) for the critical minerals that are vital to the clean energy transition. We applaud the US Internal Revenue Service (IRS) and the Department of Energy (DOE) for recently issuing its Proposed Rulemaking for the full implementation of this credit. However, we are writing today to voice our concerns regarding which critical minerals will be classified as nontraceable in the final iteration of the rule. We urge you to classify graphite as a *traceable* material, which will help protect the nascent domestic graphite industry and reduce reliance on FEOCs for a critical mineral that is a required component of lithium-ion batteries.

Graphite is the most prevalent mineral in batteries: a standard 60 kilowatt-hour (KWh) EV battery may contain 160 pounds of graphite compared to 20 pounds of lithium. In the United States, demand for battery-grade artificial and natural graphite is expected to surge by 240% over the next five years. However, China dominates global graphite production, accounting for 79% of natural graphite and 97% of artificial graphite for battery anode material in 2023. China has excess graphite processing capacity, allowing it to effectively control pricing in the global graphite market. Because China can flood global markets with cheap, highly subsidized graphite and drive down prices, domestic graphite manufacturers have great difficulty securing the investments necessary to bolster production capacity to the levels needed to meet domestic demand. The IRA's FEOC prohibition provides a critical incentive for investing in this supply chain onshore.

Classifying graphite as a traceable material is crucial to both countering China's malicious trade practices and fulfilling the original intent of the Section 30D tax credit. The Biden Administration has invested billions of dollars in developing the domestic graphite supply chain through the IRA and the Infrastructure and Investment Jobs Act (IIJA), and by encouraging the continued sourcing of graphite from FEOCs, the Administration would be undermining the progress that its historic investments have made possible.

In addition, the argument that graphite should be nontraceable because it is technically unfeasible to trace it is not valid. There is definitive evidence in the industry, including from NAGA's five member companies, that tracing graphite is highly feasible, reliable, and effective – for both the lifecycle of natural graphite, which includes mining and processing, and for artificial graphite, which uses high quality petroleum coke from limited refineries as a feedstock. If necessary, it is even possible to trace back to the extraction of crude oil. The petroleum coke used as a feedstock can be identified by the grade of the oil it was made from and, therefore,

while it may not be traced to a specific oil well, it can indeed be traced to a region of the world for purposes of the FEOC determination.

While we are advocating on behalf of graphite, it is just one of several critical minerals that are components of lithium-ion batteries that are in a similarly vulnerable position, which illustrates the breadth and severity of the issue. Cobalt, lithium, manganese, and nickel, alongside graphite, are critical to the battery industry and have high-risk supply chains. They are also included in all critical minerals and materials lists by the Administration, including those managed by the Departments of Interior, Energy, and Defense.

We urge you to classify graphite as a traceable material to ensure companies aren't openly incentivized to purchase graphite from FEOCs at a critical moment for the industry's progress outside of China. In doing so, the Section 30D tax credit will be closer to achieving its maximum potential impact. It would also help establish a robust domestic graphite industry, which would redress supply chain concerns for electric vehicles, the electric grid, advanced energy storage systems, and military applications while creating thousands of American jobs.

Sincerely,

Erik Olson
North American Graphite Alliance