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DETROIT BUSINESS

The Midwest fell behind in the race for EVs. Now, it's mounting a comeback.

By Kurt Nagl, Crain's Detroit Business - Sept. 25, 2023

The electric vehicle arms race is on, and it's still anybody's game.

Southern U.S. states have captured the lion's share of more than $100 billion in North American EV investments announced by automakers in the past three years, data from the Ann Arbor-based Center for Automotive Research shows. At the same time, Midwestern states have regained some ground.

Michigan went on a spending spree to get back in the mix. Ohio and most recently Illinois also opened up their pocketbooks to claim a piece of the automotive future. Even Canada, once predicted to be left behind in the EV transition, is holding its own thanks to a federally funded leveling of the playing field.

In short, the battle for EV supremacy is still in the beginning stages, said Mark Barrott, head of Southfield, Mich.-based Plante Moran's automotive practice.

"We're probably at the end of the first quarter," Barrott said. "We will need two to three times more battery capacity than what we have or what's been announced if we are to meet the projected North American demand."

That means more than a dozen mega projects (at least $1 billion in capital expenditures and $75 million in annual payroll) are still on the table, according to a number of economic development officials around the U.S. and Canada who were interviewed for this story and say they are watching those projects like hawks.

Some are more desperate to land them than others, and not all projects are created equal. While the strategies and prizes may vary, incentives packages in the hundreds of millions of dollars have become table stakes.

Subsidies, incentives and more

Here's why: To compete with China and the rest of the world on EVs, the U.S. flooded the domestic market with subsidies, from the Inflation Reduction Act's $370 billion for clean energy

– including a consumer credit up to $7,500 for eligible vehicles – to tens of billions of dollars in grants and loans from the U.S. Department of Energy. The incentives-fueled, win-at-all-costs attitude is contagious, it seems.

The industry's more than $500 billion transition to battery power over the next few years – as research firm AlixPartners estimates the investment to be – sparked a bidding war across North America for factories representing the future of manufacturing and economic security. Skeptics, though, have criticized the massive taxpayer subsidies and questioned the ROI of the projects, which remains to be seen.

It all started in 2021, or at least that's when many states were put on alert. That year, Ford Motor Co. announced $11 billion of investment in Tennessee and Kentucky, which sent shockwaves through the Dearborn, Mich.-based automaker's home state and made it clear: the Rust Belt wouldn't simply be entitled to the spoils of resurgent domestic manufacturing.

"It was a game changer and a state changer for us. It's the largest project ever in our history, even if you account for inflation," Kentucky Gov. Andy Beshear said in an interview with Crain's. The same could be said for Tennessee.

Ford's electrification overhaul, like other automakers, revealed how much states are willing to pay for a project. The $5.8 billion BlueOval SK Battery Park some 50 miles south of Louisville is expected to launch in 2025 and create 5,000 new jobs with starting annual pay of $55,000. The twin battery factories are being subsidized by $250 million in taxpayer cash, plus $27 million worth of land provided at no cost.

The cost per job works out to $50,000 when factoring in just state cash incentives. The cost of losing the project, though, would have been immeasurable, as Beshear sees it. "For us, this battle wasn't just about having the new jobs of the future. It was about making sure we didn't have displaced workers. … To land these facilities means we will not go through the displacement that we saw in the energy sector."

What's at stake

Losing that Ford project was a major blow to Michigan, and it paid a premium to make sure it didn't happen again. The state approved an incentives package valued at $1.7 billion – the largest subsidy approved by any state this year – to land the Ford-CATL battery plant in Marshall, about 100 miles west of Detroit.

Slated to launch in 2026, the $3.5 billion plant promises 2,500 new jobs with starting annual pay of $45,000. That comes out to $384,000 per job when including just cash in the deal.

Factor in federal incentives, and the math is even more staggering. Ford's plant in Michigan will be eligible for about $6.7 billion in federal tax credits, according to an analysis by Good Jobs First, which tracks corporate subsidizes. That works out to $3.4 million worth of subsidies per job. In

Ohio, the new $3.5 billion Honda-LG plant being constructed east of Dayton is in line for more than $2 million of all-in subsidies for each of 2,200 jobs promised.

Credit: Courtesy of MAEDA
Site work continues in Marshall, Mich., on property where a Ford-CATL battery plant will be built.

Those price tags invite plenty of criticism. "These deals are less about business and more like giant publicly funded campaign advertisements," said John Mozena, president of the Center for Economic Accountability, a Michigan-based think tank. Companies are far more concerned with other factors such as labor availability, energy costs, infrastructure and tax structure than subsidies, he argues.

Josh Hundt, executive vice president and chief projects officer for the Michigan Economic Development Corp., said the state had to inject so much cash into the deal because of how far behind it was in prepping mega sites for development. The subsidy included $750 million for building out infrastructure and utilities on the farmland.

"It was necessary for us to be more competitive with these other states that were securing these projects, frankly, when we were not," Hundt said.

Competition vs. cooperation

After coming up short in a bid to win Chinese battery manufacturer Gotion Inc.'s first plant, which went to Michigan, Illinois followed its neighbor's lead and created a $400 million deal-closing fund to go along with legislation that added new tools to the state's economic-development program specifically tailored to EV and battery projects.

Among the incentives are tax credits of up to 75% of payroll taxes for new or retained jobs for up to 30 years; and 10% to 25% of employee-training costs. Other incentives include tax credits on 0.5% of a company's property investment; income taxes connected to construction wages; exemptions from taxes on building materials and utilities.

Credit: Alamy
Chinese battery manufacturer Gotion Inc.

The efforts paid off. Armed with more than a half-billion in assorted tax breaks, including $125 million from the deal-closing fund, Gov. J.B. Pritzker beat out Ohio and Alabama to land a Gotion battery-assembly plant earlier this month.

It's not quite the bargain deal that Illinois got several years earlier when it lured startup EV maker Rivian to take over a shuttered Mitsubishi assembly plant in Normal for about $50 million.

The EV battery race began in earnest a couple of years ago with the first tranche of investments from Ford, General Motors. Co., Stellantis NV and other foreign and startup automakers looking to cash in on North American incentives. Even if unwittingly, Southern states had a head start before battery electric cars in the mainstream were even a consideration.

Southern states were decades ahead in site readiness, but other factors including market dynamics and business climate also have influenced the auto migration south, Barrott said. It's become more important for automakers to produce batteries and vehicles nearer to where they sell them, for one. Cheaper labor, as facilities are largely nonunionized, lower energy costs and taxes, faster permitting and the lack of UAW influence are all major bonuses too.

"The art of economic development was really perfected in the Sun Belt, the Southeast primarily, to lure industry away from the Rust Belt and the Northeast," said John Boyd, principal of The Boyd Co. Inc., a Florida-based firm that consults on site selection for companies including Honda, Boeing and Dell. "We call economic development in 2023 the second war between the states."

It's a war the South was winning handily on the EV front before the Rust Belt started making moves. It's been a costly one for both sides.

Since 2021, southern states have captured nearly 70 percent of automaker EV investment in the U.S., with Georgia leading the way at $20 billion, according to CAR data. Michigan had the second-largest chunk of $14.7 billion. Deal flow peaked in 2022 with nearly $50 billion committed in the states. Less than half that amount has been announced so far this year.

The southern states that have won the most EV projects in the past three years – Georgia, North Carolina and Tennessee – have netted $38 billion of investment and shelled out $6.7 billion worth of incentives to close those deals. The winningest states in the Midwest – Michigan, Indiana and Ohio – have secured $28.6 billion of EV investment, greased by $5.6 billion in subsidies.

The level of incentives is unlike anything in the 120-year history of the automotive industry, Barrott said. "It's not really coming with many strings. If the OEMs and the supply base weren't driving toward an electric future, it would be a problem, but the OEMs are doing this anyway. What the federal government is doing is speeding it up."

States like Tennessee were regularly investing in the infrastructure of sites they hoped would eventually house some sort of transformational manufacturing project. "Tennessee has been in a position to attract these types of projects for reasons that date back decades," Stuart McWhorter, commissioner of the state's department of economic and community development, said of the $8 billion of recent EV-related investments in that state. "It's organically happening. We've created a business environment that is attractive not only to the automotive industry but a lot of industries."

Tennessee did approve $884 million of incentives for Ford's $5.6 billion, 6,000 job EV investment announced in tandem with its Kentucky plant, but the prize was more valuable than just a battery plant. In addition to battery manufacturing, the project includes an assembly plant and supplier park, making for a far larger job multiplier and economic impact. "What that has meant to that community is generational," McWhorter said. "It'll impact families for generations."

More to come

For now, the industry is calm before another wave of investment, Barrott said. "We always projected a bit of a lull at this point in future announcements of battery facilities," he said. "Just like any manufacturing operation, you have to build your facility in advance of the actual demand."

About 850 gigawatt hours of capacity has been announced, is under construction or is in operation, which is enough to fulfill the market through 2029, by Plante Moran's estimation. If automakers are to meet ambitious EV sales goals – half of all new car sales in the U.S. could be electric by 2035, according to an S&P Global Mobility projection – they will need to build at least twice as many plants.

Thus, the break in announcements is crunch time for economic developers eyeing those projects still out for bid.

In Indiana, site readiness is also top of mind for economic developers. The state lured a $2.5 billion Stellantis-Samsung SDI battery plant last year but is on the prowl for more. "The incentives are still key and king, but the type of incentive is flipped," said Brock Herr, senior vice president of business development for the Indiana Economic Development Corp. "No longer is financial incentive the first priority. Speed is the new best incentive."

The same goes for Ohio, whose automotive manufacturing prowess is second only to the Motor City state. JobsOhio, the state's business attraction arm, has more than doubled annual spending on business attraction and expansion in the past three years. The state has also dedicated $750 million for site readiness, with an eye on EVs, said J.P. Nauseef, president and CEO of Jobs Ohio. "It's one of our highest priorities," he said. "We're sourcing these deals all over the world."

Like Michigan, Ohio's exposure to manufacturing raises the stakes of the EV transition, said Jonathan Bridges, managing director, automotive at JobsOhio. "Being the largest producer of engines and second largest producer of transmissions, particularly as we talk about how the industry is in transition, that puts us at risk. We're actively supporting the transition by diversifying away from ICE (internal combustion engine) technology as well as supporting those investments that are still in that space."

U.S. states are also feeling pressure from their neighbor to the north. Canada has won about $20 billion of EV investment in the past three years, or more than 14 percent of overall investment. The incentive-rich Inflation Reduction Act legislation blindsided Canada and forced the government to open its coffers to stay competitive, said Vic Fedeli, Ontario's minister of economic development, job creation and trade.

"It certainly was not in the spirit of the free trade agreement (USMCA), so the IRA would have certainly come as a complete surprise to everyone else in North America," Fedeli said. "Our federal government announced that we would develop a tax structure that was competitive to the IRA."

That was only after Stellantis forced its hand. In May, the automaker halted construction of its Nextstar battery plant with LG Energy in Ontario, demanding an incentive package as lucrative as those offered up by the U.S. After a monthslong standoff, the Canadian government conceded by approving $7.5 billion in tax incentives to match the provincial government's $3.7 billion.

Fedeli said his government plans to keep the beefed-up tax breaks on the table to win future projects. "This is our go-forward strategy," he said. "We don't think you can make an offer that is competitive without it."

John Pletz and Jay Miller contributed to this report.