



Insight

The Failures of “Green Energy” Industrial Policy

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With much fanfare touting the economic benefits of his forthcoming national “green energy” industrial policy, President Obama attended a spring 2009 ground-breaking ceremony in Holland, Michigan to kick off construction of a new lithium ion battery plant that would supply manufacturers of plug-in electric vehicles. From funds allocated to the then-enacted \$787 billion American Recovery and Reinvestment Act (the “stimulus” program), South Korea's LG Chem was awarded a \$151.4 million U.S. Department of Energy (DOE) Section 1603 grant to build the \$303 million manufacturing facility.

In addition, the Michigan state government approved LG Chem for a 15 year, \$25.2 million job creation state tax credit, as well as a “battery cell” state tax credit worth over \$100 million over a four-year period, with both incentive programs predicated on net long-term job creation. Furthermore, since the Holland plant is located in a designated Renewable Energy Renaissance Zone, LG Chem is allowed to operate its facility free of property taxes for 15 years, which translates into \$48.5 million tax savings contingent on the company reaching a level of 300 employees on-site within 5 years from the start of manufacturing operations.

For 2012, LG Chem forecasted that its Holland plant would manufacture 15 million battery cells and employ 300 workers. But with sluggish sales of the General Motors Chevy Volt, a major end-use contractor of its battery technology, the Holland, Michigan facility has only manufactured some test cell batteries. Moreover, since late August 2012, LG Chem has established “rolling furloughs” where the plant's 200 workers take off every fourth week. The company has reported to the U.S. DOE that 100 of its 200 employees are funded by federal government stimulus money. There have been media reports that employees have little to do, and that they spend their time playing card and board games and watching movies. Some employees have reportedly quit and others are seeking new employment. If it

has erroneously billed the agency for any so-called “idle time” for its 100 stimulus-funded employees, LG Chem management has announced that it will repay the U.S. DOE.

The LG Chem saga is emblematic of the Obama administration's “green energy” industrial policy. In her October 18, 2012 column, Ashe Schow, Deputy Communications Director for Heritage Action for America, identified 34 solar and wind power companies that have been laying off workers, have filed for bankruptcy, or are on the verge of bankruptcy. Of these 34 alternative energy companies receiving U.S. DOE stimulus funding grants, loans, or loan guarantees (and this does not include other federal, state, and local tax credits and subsidies), some 55 percent (19) have filed for bankruptcy, including Solyndra (\$535 million) Abound Solar (\$400 million), and most recently A123 Systems (\$249 million); accounting for approximately \$1.6 billion in federal stimulus funding offered (although not all funds offered by U.S. DOE have actually been spent).

In a June 21, 2012 *Investor's Business Daily* (IBD) editorial, IBD staff were able to glean from a May 2012 U.S. DOE National Renewable Energy Laboratory report (Preliminary Analysis of the Jobs and Economic Impacts of Section 1603) that some \$9 billion of federal stimulus grant funds spent on over 23,000 wind and solar voltaic energy projects between 2009-11 have generated 910 new “direct” jobs at a cost of \$9.8 million per long-term job created. If one adds 4,600 new “indirect” jobs supporting the “direct” jobs, the resulting 5,510 long-term jobs created over this three year period would be at a cost of “only” \$1.63 million in federal funding per job. The National Renewable Energy Laboratory report estimated, however, that there were between 52,000 and 75,000 jobs created, with the bulk of these jobs classified as “indirect” positions in manufacturing and supply chains; primarily in limited duration construction, installation, and related work on these wind and solar projects. But as noted by the IDB editors, these employee skills and trades are equally useful in the fossil fuel energy and other manufacturing industries.

Other recently reported data on “green” jobs creation only bolsters this dismal employment picture. In an October 2012 report (Recovery Act: Green Jobs Program Reports Limited Success in Meeting Employment and Retention Goals as of June 30, 2012) issued by the Office of the Inspector General (OIG), OIG analysts found that a \$500 million “green” jobs training program funded by federal stimulus funds fell 83.8 percent short of its planned retention goal of 71,617 workers, with only 11,613 workers retaining employment for at least six month. Near the end of his first year in office, Vice President Joe Biden had promised that 722,000 “green” jobs would be generated through funding from the federal stimulus program.

When President Obama ran for office in 2008 he promised to have 1 million electric vehicles on the road by 2015. Like many of the Administration's promises on an American “green

energy” future, this one is also hyperbole. Based on annual U.S. sales data compiled by the Electric Drive Transportation Association, for the first nine months of 2012 there were 6,696 battery powered electric vehicles sold in the U.S., up slightly from 6,178 battery powered electric vehicles sold through September 2011. Through September 2012, there were a total of 322,515 hybrid electric vehicles sold in the U.S. The total of all plug-in electric vehicles (including plug-in hybrid and extended range) sold in the U.S. through September 2012 is 31,099. The total plug-in electric vehicle market share is 8.8 percent of all U.S. electric drive vehicle sales; the battery powered U.S. market share represents only *0.019 percent of total electric drive vehicle sales*. While 10,863,076 non-electric driven vehicles were sold in the U.S during the first nine months of the year, by comparison, a total of 353,614 electric drive vehicles were sold through September 2012, with this latter figure representing 3.26 percent of total U.S. vehicle market share.

One inexorable conclusion is reached: lithium ion battery powered vehicles are a *tiny niche market of a niche market* for automotive manufacturers competing in the U.S. marketplace. A small percentage of American consumers are willing to purchase hybrid vehicles that are primarily powered by internal combustion engines and supplemented by electric battery power. For the plug-in electric vehicle market, today there are precious few seriously interested consumers. Apparently, the Obama administration's “green energy” industrial policy is not changing the minds of many American consumers. That is a decision they will make for themselves - when the lithium ion battery technology meets their demands at a price they can afford.

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