New Private Markets

By: Guest Writer
PUBLISHED: 21 October, 2022

NEWS & ANALYSIS

The benefits of the Inflation Reduction Act will 'far outweigh the bumps'

Measures in the US to incentivise investment in the energy transition will benefit the clean tech industry, the US economy and the average American, writes Joe Blair of Bay Bridge Ventures.

Following the success of Climate Week in New York and the approach of this fall's COP27 conference in Egypt, there is palpable momentum in the public and private sectors in the US around combating climate change. Part of this is undoubtedly attributable to the passage of the historic Inflation Reduction Act (IRA), which will provide billions in tax credits for a range of clean technologies, driving both a figurative and likely a literal shift in the environment.

The venture capital community has an unprecedented opportunity to generate outsized returns through investments in the climate technology space, while also positioning the US as the industrial leader of what is predicted to be a $100 trillion market opportunity over the next 100 years.

Following are five key takeaways from this landmark legislation.

Joe Blair, Bay Bridge Ventures

A leg up, not a handout

Those who believe the climate tech industry is dependent on government support to succeed are misguided. The Climate Tech 1.0 companies of the early 2000s that relied too heavily on government subsidies went out of business, leading to a new breed of Climate Tech 2.0 companies built over the past decade that wisely leverage modern technology and proven business models to create clear win-wins for both customers and external stakeholders. These companies may benefit from legislative tailwinds, such as the Inflation Reduction Act, but importantly are not dependent on them.

Transportation is a main 'driver' for success

According to Earthjustice.org, the Inflation Reduction Act will provide $3 billion to mitigate air pollution at ports through the installation of zero-emissions equipment and technology. These initiatives will have game-changing implications for electric mobility, hybrid and sustainably fuelled vehicles as well as emissions monitoring technology. For example, even before the IRA was passed, SailPlan signed a contract with Port Fourchon, through which it will become the world's first port facility with a precise 360-degree view of its emissions.

Moreover, the recent ground-breaking legislation in California and New York banning fossil-fuelled car sales by 2035 will help other states see the benefits of these regulations (eg, cleaner air, quieter neighbourhoods and new US manufacturing jobs). Several companies are already racing ahead to provide the best clean mobility solutions, whether by land (GM, Mercedes-Benz and Toyota have all pledged to go fully electric), by air (Lilium, Joby and Beta are building the new electric aviation industry), or by sea (GM invests in Pure Watercraft).

The most vulnerable are not forgotten

The IRA, which clearly recognises the link between climate technology and inclusive capitalism, will have a significant impact on our most vulnerable minority and low-income communities. The fact that people of colour and those living at the lowest economic levels continue to face the highest risk can no longer be ignored.

With the Act prioritising more than 50 percent of its investments for disadvantaged communities, these challenges will begin to be addressed through the deployment of zero-emission technologies such as heat pumps, community solar and EV charging.

Venture capital has a key role to play

The IRA will result in the launch of hundreds of new climate tech start-ups that otherwise would not have existed, with some estimates predicting an increase of 5-10x. These companies will gain access to sizable low-interest government loans, much like those that helped Tesla evolve into the massive company it is today. This debt will provide critical leverage for venture capital investors while substantially decreasing balance sheet risk for their portfolio companies. Moreover, the overall benefits to the supply chain will lower the cost of inputs (including energy, materials and manufactured components) for many of these companies, thus increasing margins and working capital.

Experienced climate tech venture investors who know how to navigate government incentives and regulations will benefit disproportionally. Newer venture investors seeking to "jump on the climate tech bandwagon" will risk making the same mistakes we saw during Climate Tech 1.0.

The investment opportunity of a lifetime

Foundational technology advancements have accumulated across a wide range of industries, thereby unlocking new applications in climate tech never before possible. For example, we've seen incredible breakthroughs in performance-cost metrics across AI-based control algorithms, energy storage, next-gen computation, robotics and automation, 5G communication and advanced sensor technology, providing massive investment opportunities for founders and investors who understand how these technologies can be uniquely configured to create extraordinary value for customers.
The Inflation Reduction Act will only accelerate these powerful market forces already underway.

Despite misinformation around the IRA or the disappointing concessions necessary to ensure passage – and considering the innumerable and immeasurable benefits to the climate tech industry, to our economy and to the average American – the benefits of this historic legislation will far outweigh the bumps we may experience along the way.
Joe Blair, co-founder and general partner of Bay Bridge Ventures.