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Congress Passes the CHIPS Act, Subsidizing U.S. Chip Manufacturers with \$52 Billion with Special Provisions for the Automotive Industry

Client Alert

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For the past two years, there has been a shortage in the global supply of integrated circuits and semiconductors, referred to as “chips.” Chips are integral to manufacturing computerized products, including smartphones, trucks, and even refrigerators. The automotive industry is also a major user of chips, particularly older technology sometimes referred to as “legacy” or “mature” chips. The United States has been falling behind in production, and manufacturers were threatening to move facilities overseas.

However, in a rare moment on bipartisanship, the U.S. Senate affirmatively voted 64–33 to fund the Chips and Science (CHIPS) Act and subsidize the U.S. microchip manufacturing industry with \$52 billion for U.S. semiconductor research, design, and production. The legislation passed the House by a narrower margin of 243 to 187 on July 29th shortly before August recess. Of chief relevance to the auto industry, \$2 billion of the total will be earmarked for legacy chips used by automakers and parts suppliers.

The chip shortage began in 2020, in part caused by the COVID-19 pandemic, increased demand, and weakening U.S.–China trade relations. Many countries, including China, Taiwan, and the European Union, lavished chip manufacturers with subsidies to increase their position in the global market.

The United States was slow to respond. Several U.S. chip manufacturers threatened to move their manufacturing overseas if Congress failed to act before their August recess. Intel, for example, which is planning on building a \$10 billion manufacturing facility in Ohio had stated that “the scope and pace of our expansion in Ohio will depend heavily on funding from the CHIPS Act.”

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As one of President Biden's earliest executive orders on February 24, 2021 he indicated he was undertaking a 100-day supply chain review that included semiconductors. Congress recognized that not only is the semiconductor industry critical to the long-term economic competitiveness of the U.S., but it is also important in maintaining national security. Today, about half the world's chip-making occurs in Taiwan. Given recent Chinese geopolitical conduct, real concern exists over a scenario of a China takeover of Taiwan, leaving China, a U.S. adversary, with the largest share of the global chip manufacturing power. As Commerce Secretary Gina Raimondo and Defense Secretary Lloyd Austin stressed, "Weapon systems employed on the battlefields of today and emerging technologies of tomorrow depend on our access to a steady, secure supply of microelectronics." The U.S. worldwide share of chips has declined from 37% in the 1990's to 12% now. Therefore, it was imperative for the United States to invest at home and become less dependent on foreign chip-making.

Although the new law may provide long-term benefits for the automotive industry, it is not expected to have a shorter-term effect on the current shortage, because it will be at least several years before the new funding becomes new capacity.

If you have any questions or concerns or need any assistance in understanding how this or other legislation might affect your business, please contact the authors of this alert or any of the attorneys in Butzel's Automotive Group.

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