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Market View

China vs Europe: the race for electric vehicle dominance

Date 22 February 2024

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At a glance

- China's dominance in the global electric vehicle (EV) market threatens Europe's own EV sector.

- The EU has launched an anti-subsidy investigation into Chinese EV imports amid concerns about unfair competition.
- Europe's dependency on Chinese materials complicates its ability to retaliate against China's EV market dominance.

While many remain focused on geopolitical tensions in the Middle East, Russia and Ukraine and Taiwan, the relationship between long-time trading partners China and Europe warrants highlighting. China and Europe's deep economic ties deteriorated when Russia invaded Ukraine in early 2022, and relations face further pressure as China strengthens its foothold in the global electric vehicle (EV) market, which is cannibalising Europe's own EV sector.

The European Union (EU) has big ambitions for EVs as it strikes to phase out sales of new petrol and diesel-powered cars by 2035¹. The EU's EV industry is crucial for the clean economy and holds "huge potential for Europe's future competitiveness and green industrial leadership," according to European Commission President Ursula von der Leyen.²

China floods Europe with cheap EVs

However, European automakers have expressed growing concern they face unfair competition against Chinese models, since China can sell models significantly cheaper than European counterparts due to subsidies from Beijing. President von der Leyen voiced these concerns at her annual speech to the European Parliament last September, when she said, "Global markets are now flooded with cheaper Chinese electric cars and their price is kept artificially low by huge state subsidies."³

This led the European Commission in October to formally launch an anti-subsidy investigation into Chinese battery-operated electric vehicle imports,⁴ an investigation which will determine if EV value chains in China benefit from illegal subsidisation which causes or threatens to cause injury to European EV producers. It will also examine the consequences and impact of importers and consumers.

How far will the probe go?

The EU's probe into the fairness of Chinese EV-production could spur EU trade protectionist actions and retaliation from China. But ultimately, how far can the EU probe go when Europe EV producers rely so heavily on lithium and rare earths from China?

For now, Europe remains dependent on materials from China as it establishes greater control of the electric vehicle supply chain. While Europe is striving to create more battery makers on the continent, until it can create an entire ecosystem of mining, refining and chemical engineering, it will remain reliant on China for materials for the foreseeable future.

Take rare earths, a group of 17 chemical elements found in the earth's crust, which are used in electric motors. China dominates rare earth production, with an estimated 80% of the global market share.⁵ China also has a huge lead in battery manufacturing, as it is forecast to produce 76% of global lithium-ion battery cells this year, compared to just 7% for the EU, according to Benchmark Mineral Intelligence data.⁶

Europe has almost no lithium and graphite operations, with just one of the world's 15 battery-grade manganese sulphate producers, and accounts for only 9% of global cobalt chemical supply, according to consultancy Protect Blue.⁷

Fitch Ratings forecasts European EV manufacturers' supply chains will continue to depend on batteries procured mainly from China and South Korea until they are able to secure sourcing from other regions, which will not likely happen until 2030 at the earliest. Furthermore, many luxury European EV brands, including Mercedes, BMW and Volkswagen, sell about a third of their EVs in China.⁸ All this raises questions about the investigation and what the European Commission can feasibly achieve. What would the ramifications be if Europe slapped higher tariffs on Chinese EVs and materials? Would China stop sending raw materials to Europe?

It is clear China aims to harness demand for the EV market in emerging markets and the west. Western frustration is rising, as evidenced by the EU's investigation. However, is imposing these barriers the best response? Some suggest a more prudent approach would be for Europe - and the US - to focus on their own green sectors by offering incentives, speeding up planning permissions and boosting infrastructure investment. Even though China's green ambitions are positive for the planet, it is a road paved with potholes.

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