Electric vehicles

Chinese battery makers set to dominate Europe’s car industry

Growth driven by deals with western auto brands

Workers adjust robots at a manufacturer of smart equipment in Wuhan, China © Shepherd Zhou/Feature China/Future Publishing/Getty Images

Peter Campbell in London and **Harry Dempsey** in Singapore 9 HOURS AGO

For decades, Europe has been a global hub of combustion engine production but as the industry shifts to electric vehicles, China is turning itself into the battery workshop of the world.

By 2031 it is projected to have more production capacity in Europe, the second biggest market for EVs, than any other country, according to an analysis of public announcements by data provider Benchmark Minerals. Industry executives and policymakers are worried.

While China was relatively late to develop a car industry that can compete with Europe and the US on engine technology, the shift to electric gives it the chance to overtake traditional automotive heartlands.

Some 40 per cent of the value of an electric vehicle is in its battery, so the country that supplies that battery wins a huge chunk of the market. “The new world, the electric vehicle world, will be defined clearly by battery costs,” said Thomas Schmall, head of technology at Volkswagen.

According to Benchmark Minerals, China will have 322 gigawatt hours of production capacity in Europe by 2031, with South Korea the second largest at 192GWh, followed by France and Sweden.

The US is fifth, thanks to Tesla's plant in Berlin, followed by Germany and Norway. The UK is eighth with just 20GWh.

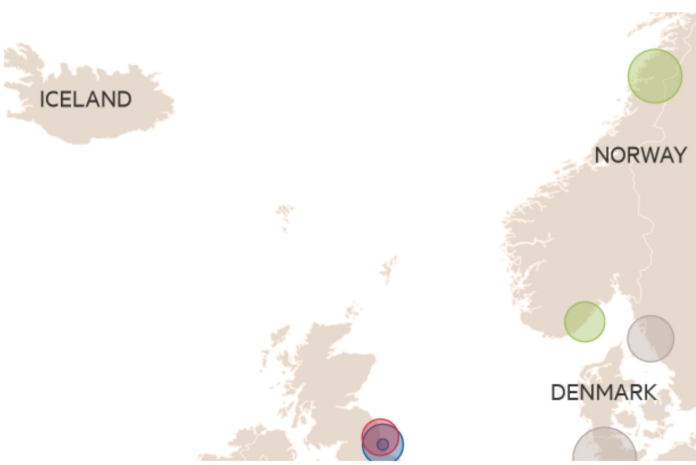
In addition to battery production that has already been announced, a slew of Chinese brands, from BYD to Great Wall and Nio, plan significant sales growth in Europe. This will, in time, mean vehicle assembly and even more battery plants that are also likely to use Chinese technology.

Battery plants in Europe

2031 projections based on currently announced projects (GWh)

Circles sized by capacity 25 100

China France Germany Norway
South Korea Sweden Switzerland UK
Other



Schmall hopes this will spur innovation in Europe. "For sure, it's a risk," he said. "But it's also an opportunity".

VW is foremost among European manufacturers trying to expand their battery capacity and reduce their reliance on external suppliers.

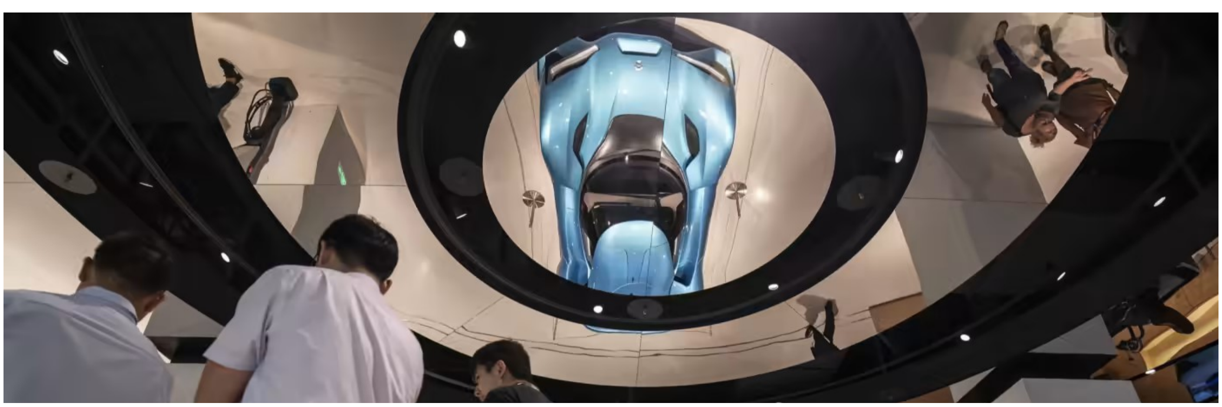
It wants to build five factories in Europe, as well as one in North America. But in the meantime it has a supply deal with China's CATL, the world's largest battery maker.

"Our start block is 100 metres behind them [the Chinese]," Schmall told the Financial Times. "We need to run faster, we need a higher speed level than them, [which is hard] if you see how fast the Chinese guys are moving."

China's growing presence in Europe's auto industry is a result of deals to supply car manufacturers in the region, where electrification is being driven by ambitious decarbonisation plans that aim to end the sale of combustion engine vehicles by 2035.

CATL is a supplier to VW and Mercedes-Benz, while BYD — which also makes its own batteries — has a deal with Stellantis. Envision AESC, a battery group backed by China's Envision, supplies Nissan in the UK and may build more plants in France and Spain.

Nuria Gisbert Trejo, director-general of CIC Energigune, a Spanish energy storage research institute, thinks Chinese investment in battery factories in Europe is a problem because they reduce Europe's independence and autonomy in a key sector for the future.



© Qilai Shen/Bloomberg

"Although in terms of economic impact and employment these investments represent an opportunity for Europe, they are basically a problem since they imply dependence," she said.

At an FT event this year, Stellantis chief executive Carlos Tavares warned, "There will be a significant dependence of the western world on Asia." He has also called the EU's decarbonisation rules "naive and dogmatic", saying: "Do you want to put your mobility in the hands of the Chinese state?"

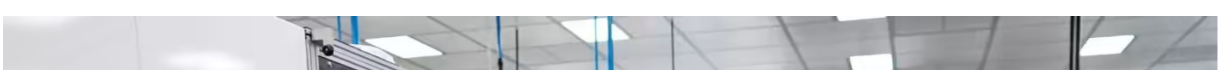
Yet as they look to secure jobs, European governments have sometimes been more concerned with ensuring supplies for local carmakers and have offered generous subsidies to attract production.

Some in the industry argue it is more important to attract investment than quibble over technology.

"It's very important that we have a strong battery cell manufacturing business in Europe," said Heiner Heimes at RWTH Aachen University, who tracks European gigafactory announcements.

But Olivier Dufour, co-founder of French battery start-up Verkor, said: "What has happened in the past two or three years [Covid-19 and the Ukraine invasion] confirms the need to relocate the industry in Europe and be independent on sourcing."

One unexpected winner in the race to attract production has been Hungary, which has supported its growing automotive industry by signing up to China's Belt and Road Initiative, leading to investments from CATL and EVE, another Chinese battery maker.



© Ian Forsyth/Bloomberg

While production incentives can be significant for a new investor, they are not the most important factor.

“Labour cost and incentives are fine, but when you are looking at running costs, that comes down to energy,” said Schmall. Although VW has more than 200 indicators it considers when making a plant decision, energy costs are “one, two and three”, he said.

When Verkor selected Dunkirk in northern France for its battery factory, Dufour said that proximity to customers and permits for a large site were the most important factors, plus capacity to link up to affordable renewable power. Availability of labour was also a major consideration, given that the factory will need 1,200 skilled staff and two or three times that in the local supply chain.

One question is whether Europe will use regulation to limit Chinese involvement.

In the US, the Inflation Reduction Act prevents cars containing technology from a “foreign entity of concern” from receiving consumer incentives, making them more expensive.

But Europe has no such plans to penalise Chinese businesses.

“We are doing our best,” Walter Goetz, the head of the cabinet for the European transport commissioner, told an FT summit this year. “I think this new geopolitical transport commissioner, told an FT summit this year: “I think this new geopolitical situation in Russia and China will give a further push to try to be independent on this, but it will not be an easy task because the raw materials, of course, also need to be also mined at global level.”

He added: “But I think the manufacturing should be as much as possible in Europe. That is our target.”

Schmall is of the view that it is “better to stimulate and force competitiveness” through rules rather than put up barriers, “otherwise in the long run it will be more expensive for the customer”.

Mercedes-Benz is one of the companies sourcing some of its batteries from Chinese suppliers.

“This is independent of where the headquarters of the company that you’re working with is located,” chief executive Ola Källenius told the FT. “Even if you would have an Asian company come to Europe and build a [battery] factory for you, you would still work with that Asian company.”

And while some countries are pursuing protectionist policies, business leaders such as Källenius warn of unintended consequences.

“I think it would be a very big mistake if economically the world would go into building fortresses around the major economic regions, because that will stifle growth.”

This article has been updated to change a reference to China’s starting block as 100 metres ahead, not 100 miles