https://www.wsj.com/business/autos/us-europe-anxiety-chinese-ev-gets-real-37a54973

Western Anxiety About Chinese EVs Could Prove Self-Defeating

The U.S. and Europe risk slowing electric-vehicle adoption by excluding Chinese suppliers from subsidies and raising tariffs

By Stephen Wilmot

Updated Jan. 1, 2024 12:06 am ET

Chinese electric vehicles are subject to steep U.S. import taxes. PHOTO: TINGSHU WANG/REUTERS

China hawks have the upper hand in the political battle over electric vehicles. They should be wary of overplaying it.

The rules for getting a tax credit on EV purchases in the U.S. changed recently. One difference will help stimulate sales: The credit, worth up to $7,500, is now available at the point of sale rather than at the end of the tax year, meaning it can be used as part of a down payment. Other changes will have the opposite effect. Among new sourcing requirements designed to foster a North American supply chain, battery components manufactured in China, the world's largest supplier, now make models ineligible.

The rear-wheel-drive and long-range versions of Tesla's TSLA **-1.86%** ▼ Model 3 just lost the credit as a result. So did the Cadillac Lyriq and Chevrolet Blazer EVs made by General Motors GM **-0.77%** ▼ , at least temporarily while the company accelerates alternative sourcing arrangements. Ford Motor's Mustang Mach-E no longer qualifies for the half share of the subsidy.

Although the rules have been known for well over a year as part of President Biden's 2022 Inflation Reduction Act, the Treasury Department only came up with detailed guidance a few weeks ago. Carmakers generally wanted a looser view so that more EVs would qualify at a lower cost. So did many environmentalists, who are eager to see more affordable EVs. They were pitched in a lobbying battle against national-security hawks, who are worried about replacing a reliance on Saudi oil with battery supply chains dominated by China.

In the end, the bill's interpretation reflected the same spirit of political compromise that brought it to law, but if anything it leans toward the hawks. Chinese companies have to own less than 25% of a battery-parts producer to avoid disqualifying a vehicle. This rules out all but the most lopsided joint ventures, though it does leave the door open to technology licensing—the approach Ford is pursuing with the Chinese battery giant CATL at a new plant in Michigan.

EV tax credits aren't the only evidence of how China hawks are prevailing in Washington. Just before Christmas, The Wall Street Journal reported that the Biden administration is considering an increase in import taxes on Chinese EVs, even though they are already high at 27.5% and hardly any Chinese EVs are currently imported (models by Polestar are an exception).

And it isn't just Washington. The French government recently introduced restrictions on its own EV subsidies that exclude products imported from China, such as those of the Chinese state automaker SAIC Motor 600104 **0.37%** ▲ , as well as Tesla's Model 3, which is currently shipped to Europe from Shanghai. Paris framed its restriction as an environmental one, on the basis that made-in-China EVs cost a lot of carbon to make and bring to Europe.

Meanwhile, the European Union is considering an increase in tariffs on EVs imported from China. A few months ago it launched an investigation into the potential "illegal subsidization" of EVs that might cause "economic injury" to its own producers. The most feared Chinese producer isn't waiting for the results. Just before Christmas, BYD, China's answer to Tesla, said it would build its first European car factory in Szeged, Hungary.

Beijing itself continues to support the technology. In June, it said it would extend a tax break for EV purchases by another four years. In 2024 and 2025, the exemption will be worth 10% of the vehicle price or up to 30,000 yuan, equivalent to $4,200, after which it will be halved.

Excluding Chinese companies from Western EV handouts is something politicians on both sides of the Atlantic can agree on. With 2024 set to be a record year for elections globally—Americans aren't the only ones who will head to the polls—this seems unlikely to change.

The risk is that the West cuts off its nose to spite its face. Slow down the shift to EVs too much to build local supply chains and give domestic manufacturers time to adapt, and Chinese technology might simply pull farther ahead, supported by a huge, generously subsidized domestic market and exports to emerging economies.

It will be hard for the West to strike the right balance between protecting domestic supply chains and creating globally competitive ones.

Write to Stephen Wilmot at stephen.wilmot@wsj.com

Appeared in the January 2, 2024, print edition as 'West Must Strike Balance on China EVs'.