

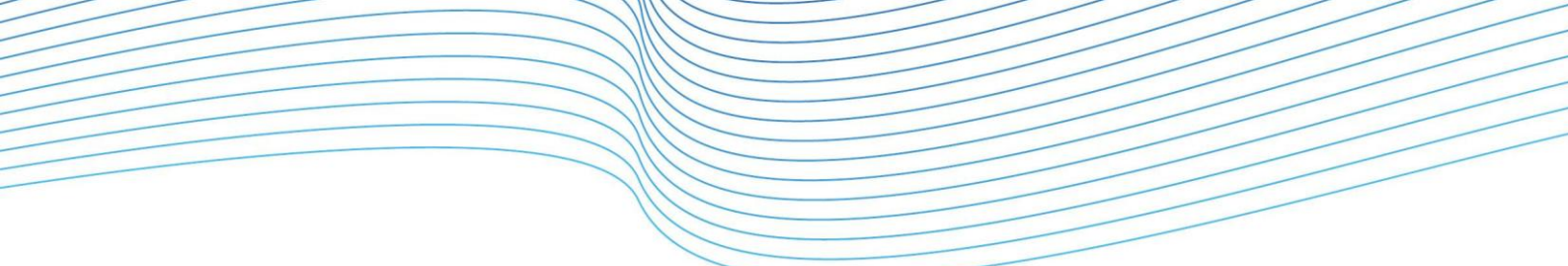
RESEARCH FORUM Column

Chinese EV investors in Europe Nikola Jokanović, Research forum

EV in the European Union – key investments

The European electric vehicle (EV) sector has seen or is yet to see billions of euros worth of investment coming from Chinese companies; this has occurred notwithstanding the ongoing political (the wars in Ukraine and the Middle East) and economic uncertainties. These companies are also experiencing difficulties in China proper, such as the decreased economic growth, limitations to capital outflow abroad as well as the weakening of its currency, yuan renminbi. From the EU end, the bloc and its member countries remain eager to economically cooperate with Beijing – but their motivation now also includes the political and economic derisking of Sino-European economic and political ties. Almost all of the EU member states have in the period 2017-2024 strengthened their emphasis on the economic security, envisaged in the announcement of their respective investment scrutiny mechanisms. Because of this, Chinese investors are less decisive in their efforts to enter the European EV market.

Of the total sum of Chinese investment in Europe in the years 2022 and 2023, greenfield investments have represented no less than 51 and 78 per cent, respectively - or 5.3 billion euros in the year 2023. This can mainly be accredited to the car battery and EV investment projects and is a 48 per cent increase in comparison with the year 2022. When it comes to the recipient countries, the EV investment originating from China is not equally distributed throughout the EU – and it is a total of six countries (France, Germany, United Kingdom, Hungary, Spain and Slovakia) which have gained the bulk of Chinese investors' attention. The former three have received almost 54 per cent of all Chinese investment in the previous two decades. Of the latter three, Hungary has received 2.99 billion euros of Chinese investment as of 2023 and in their case, the Chinese side is represented by the companies CATL and Huayou Cobalt. In Slovakia, a country which has as of 2023 attracted 364 million euros of Chinese EV investment, the Chinese side is represented by Volvo (controlled by Geely, its majority stakeholder) and Gotion High-Tech companies. In addition to the already mentioned companies such as CATL (in control of the battery factory in Germany and building a new such factory in Debrecen, Hungary), Chinese EV investors in the EU member states include AESC, Svolt and Eve Energy. AESC is present in the EV sector in France and the UK, with two investment projects based in Douai and Sunderland and their estimated worth being two and 1.3 billion euros, respectively. Another such investment is expected in the following period in Spain, with an estimated worth being 2.5 billion euros. The remaining two companies, Svold ant Eve Energy, have announced their intention to invest in Germany and Hungary



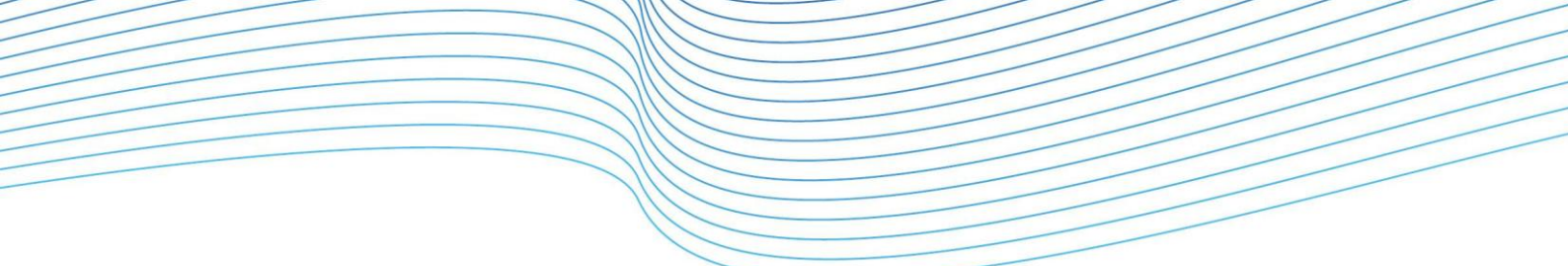
(all of their intended investments are in EV battery production). Two of these companies, AESC and CATL, have also inked supply treaties with the important European automobile producers – on the one hand, AESC has cooperation with Renault whereas CATL’s future production facility in Hungary will provide batteries to BMW and Mercedes.

EU’s anti-subsidy inquiries – the investment screening

Several EV producers with headquarters in China have in the recent period received massive subsidies from the Chinese Government bodies and policy banks, aimed at reducing the cost of their products. Many of these companies are now interested in entering the EU market; in the previous ten years, these subsidies have been a cause for European officials’ concern and it led to introducing or bolstering the legal foundation for investment screening in almost all of the member states. While the presence of Chinese investments might lead to decarbonisation, knowledge exchange and a more solid position of European EV brands on the Chinese market, it also has some aspects which are seen by the EU officials as disadvantageous – ranging from a possible warming up in political relations with Beijing to overreliance on low-cost imports of Chinese goods and even a decrease in competition in the European EV market.

With all of the above in mind, since 2017 the EU has been stimulating its member states to set up a framework for investment screening. Such regulation has been introduced in 24 out of 27 member countries as of April 2024 (and the number of such members has been doubled in comparison with the year 2017). The next phase is represented in the January 2024 document, encouraging all of the EU member countries to set up the screening regulations and, in addition, to harmonise standards adhered to in investment screening. Secondly, the regulation should scrutiny all investment projects initiated or announced by foreign enterprises based in an EU member country. Thirdly, the screening would probably not target all investments and sectors – however, those projects which have also received funding from the EU, or revolve around critical infrastructure, critical inputs or goods and services for dual use, will most likely have to be submitted to scrutiny. Last but not least, the EU member countries would be stimulated to evaluate current and future greenfield investments launched by non-EU companies. While this proposal has been adopted, its implementation has been postponed for two years (until probably 2026 or 2027) bearing in mind the June 2024 electoral campaigns in several EU members. The potential Chinese investors can thus expect a stricter and more demanding investment environment, but also more scrutiny and caution from the EU member states.

Attracting Chinese investors to the EU member countries is coupled with some advantages, but also disadvantages. Firstly, when a Chinese EV is produced in a facility located in an EU member state, it might be offered at a higher price than the EVs exported from China as the overall production will cost more in Europe than in China. Nevertheless, it would contribute to more diversity in the EU’s EV market and less carbon-dioxide emissions. In addition, Chinese companies might be a source of worthy technical expertise and know-how unavailable in some of the EU members. Thirdly, allowing more Chinese investors to enter the EU member countries might indirectly improve the position of their European counterparts offering their goods and services to the Chinese customers, in that Beijing would have less potential to retaliate against the



European investors. The disadvantages, on the other hand, range from a decrease in competition (due to received subsidies, Chinese producers could offer their EVs to the European market at a price tag which is almost unachievable by their European rivals). The statistics published in June 2024 outlines a doubling of the Chinese investors' market share from 5.5 per cent (as of June 2022) to 11 per cent. Also, EU officials are facing a dilemma between affordable EV imports from China versus developing a domestic production capacity in the EU member countries (which might entail massive investment from within) – here it is important to remember that up to two fifths of the price of one EV belongs to the EV battery installed in the vehicle. As an example of a Chinese EV company present in the EU market, the company BYD – a producer of EVs and automobile batteries – might opt for affordable China-made EV batteries' import, especially if the tariffs remain low. Politically speaking, Brussels remains concerned about the political effects arising from massive inflow of Chinese investment, as is the case with Hungary, a recipient of 47 per cent of Chinese EV-related FDI in Europe in 2023. If the investments are too massive, European officials are concerned that the recipient member state might realign its foreign policy closer to Beijing; in turn, any EU-proposed criticism of the People's Republic of China would be difficult to agree upon among the EU members.

Conclusion

In the recent period, China's Chamber of Commerce delegation in the European Union surveyed its member companies on their interest to enter the common EU market. The survey revealed that almost two-thirds of the participants (or 64 per cent, to be exact) would undertake a greenfield investment in the EU market in the following five years. Nevertheless, a decrease in EV sales has made Chinese EV producers more wary, at the time when the top Chinese leadership is concerned about the capital outflows to Europe (which would in turn cause a job loss). The first measures to limit the outflow of EV investment to Europe have already been adopted, as is visible in the case of the company CATL – as of September 2024, this company has encountered legal difficulties in securing the licences needed to transfer capital to the EU. The sole company which has as of September 2024 remained willing to invest in Europe is Chery, a potential EV investor in Spain. All in all, it can be concluded that potential Chinese EV investors have already taken note of the new, stricter investment regulations in the EU member states – and many of them have decided to either invest in the EU's neighbourhood or other countries, or to simply remain cautious and wait until the investment screening mechanism is completed.