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CHINA STRATEGIC RISKS INSTITUTE

CHARGED WITH CONSEQUENCE:

How Europe navigates the risks of Chinese Electric Vehicles

Sam Goodman, Senior Policy Director, China Strategic Risks Institute

ANALYSE

Publication Credits

Publisher
Friedrich Naumann Foundation for Freedom, Europe
Avenue de Cortenbergh 71
1000 Brussels
Belgium

/freiheit.org/eu
/fnf.europe
/fnfeurope
/company/fnf-europe

Author
Sam Goodman
Senior Policy Director, China Strategic Risks Institut

Editor
Katharina Osthoff
Senior Policy Advisor International and Institutional Affairs,
Friedrich Naumann Foundation, Europe

Contact
Phone: +32 2 282 09 30
Email: brussels@freiheit.org

Date
March 2025

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Acknowledgement
A special acknowledgement to Katharina Osthoff, FNF Europe's Senior Policy Advisor, for her editorial support and input into the scope and reviewing the research.

A special acknowledgement to Tau Yang, CSRI's Research Analyst, for the data analysis and the original graphical representation in this report.

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Introduction

How the future of EU competitiveness is challenged by state-sponsored competition from China

In February 2025, the Chinese company BYD introduced their newest fully electric vehicle (EV) – the *Atto 2* – to the European market.[1] On paper, the *Atto 2* offers luxurious features and innovative technologies at a very affordable price [2]– around half of what a seemingly comparable European car may cost. However, this perception is only part of the whole story. While the growing influx of competitively priced and well equipped Chinese EVs may appear the superior choice for both consumers and legislatures in Europe, they bring with them substantial economic risks: minimal value-added benefits, limited technology transfer, low levels of local employment, market distortions caused by subsidies, and growing dependence on China in a critical sector.[3] These risks threaten the domestic automotive industry, which is outmatched by Chinese EV production as well as Europe's ambitious environmental goals that rely on a substantial shift towards EVs. Yet, the implications extend far beyond economic concerns. Chinese EVs potentially pose new risks when it comes to the EU's commitment to data protection abroad and at home as well as to upholding security and global human rights standards.[4]

At its core, the issue lies in China's strategic use of government subsidies, which has enabled its EV manufacturers to produce high-quality vehicles at competitive prices.[5] Over the past years, China's EV sector has rapidly transformed into a global powerhouse, with government-backed subsidies fuelling overproduction and enabling Chinese automakers to dominate international markets, including in Europe.[6] The EU's commitment to a green transition, which heavily relies on increasing the market share of EVs, exacerbates this issue. European manufacturers are currently unable to compete with the state-subsidised Chinese EV producers, which threatens to create a European dependency on Chinese imports. This reliance is particularly concerning given that China's overproduction is not just an economic strategy - it is also a tool for economic and geopolitical leverage that could enable China to shape European industrial policies and foreign relations, as seen through its tactics of economic coercion against Member States.[7] This situation highlights a paradox where European free-market economies are being outpaced by China's state-supported enterprises.

Ironically, China and its socialist market economy have outmanoeuvred Europe's free-market economies at their own capitalist playbook.

Analysts have long cautioned that Europe's reliance on China in green technologies has deepened since the 2014 solar panel dispute, heightening the potential consequences of trade conflicts.[8] Particularly, the automotive sector remains a pillar of Europe's economy with 13.8 million people employed; its significance for the EU cannot be overstated.[9] In recent years, Chinese foreign direct investment in Europe has increasingly concentrated in the EV sector, highlighting Beijing's strategic focus on gaining influence in the industry. Indeed, underestimating China's rapid advancements in EV technology has proven to be a costly miscalculation. Despite Europe's historical leadership in this field, many European automotive companies have been slow to innovate in the EV sector, trailing behind the United States and China. Today, the EU is China's largest export market for EVs, with 40 percent of Chinese EV exports intended for Europe.[10] This is happening at a time when the increasing reliance on Chinese EV imports directly contradicts the economic security strategy's goal of reducing vulnerabilities and diversifying supply chains.[11]

To address this challenge, the new Commission under President Ursula von der Leyen is redefining its strategic focus. With growing geopolitical uncertainty and intensifying global competition, this term the focus lies specifically on bolstering the EU's economic security and ensuring its long-term competitiveness on the world stage. For this, von der Leyen has placed a strong emphasis on enhancing Europe's economic influence, recognising that securing leadership in key industries and innovation is crucial to the EU's global standing. As the new „Investment Commission" strives to make Europe more self-reliant and competitive in an evolving geopolitical landscape, strategic investments in technology, energy, and infrastructure are set to play a pivotal role.[12] The expansion of the Commission's trade portfolio to include „trade and economic security" as well as the merging of competition policy with environmental objectives already signalled a shift toward stronger risk mitigation strategies, particularly in response to China's market interventions.[13]

In this way, under the new Commission, the EU is also aiming to intensify efforts to safeguard its competitiveness in the EV sector. This includes advocating for increased investments and implementing robust industrial policies to bolster the EU industry's growth. Strategies under consideration involve enhancing existing policy tools and developing new initiatives to

1 Reuters, 'BYD Steps up Europe Expansion with New Compact SUV'.
2 Nijkrake, 'Compacte SUV met grootse features'.
3 Mercator Institute for China Studies, 'MERICS Forum: Chinese EV Investments in Europe'.
4 Oertel, 'Security Recall: The Risk of Chinese Electric Vehicles in Europe'.
5 However, it is not solely the result of massive state subsidies. China's success is also driven by a well-developed industrial ecosystem capable of scaling production rapidly, along with abundant financing opportunities for start-ups. See Zajmi, 'Green Growth or Green Defeat? Europe's Clean Industrial Deal in the Balance'.
6 Kennedy, 'The Chinese EV Dilemma: Subsidized Yet Striking'.
7 ibid.
8 Yeh and Woods, 'Building a Green, Fair and Resilient Solar PV Supply Chain'.
9 Lipke, Oertel, and O'Sullivan, 'Trust and Trade-Offs: How to Manage Europe's Green Technology Dependence on China'.
10 Feás et al., 'The Economics and Geopolitics of Electric Cars: A European Perspective'.
11 Lipke, Oertel, and O'Sullivan, 'Trust and Trade-Offs: How to Manage Europe's Green Technology Dependence on China'.
12 Osthoff, 'New Directions in Brussels: From a Geopolitical to an Investment Commission'.
13 Ibid.

promote and protect the EU's EV industry, as well as fostering meaningful global partnerships. A proposed comprehensive *Clean Industrial Deal*[14] aims to stimulate electric vehicle manufacturing within Europe.[15] However, the direction and execution of these policies will largely depend on the new ion of these policies will largely depend on the new Commissioners and work within the DGs, who will shape the EU's approach toward China. At the same time, with a more assertive Commission, Beijing is likely to ramp up efforts to exploit divisions among EU Member States, making a united position in the Council essential.

Yet, too often, the discourse on Europe's resilience concerning China only focuses on economic and climate considerations while neglecting security and human rights aspects. The EU needs to conduct thorough risk assessments, carefully determining when and how to tackle these intertwined and dynamic challenges most effectively — not to securitise all aspects of its relationship with China, but to develop targeted policies that address specific threats.[16] Experts have long urged policymakers in the EU to conduct comprehensive evaluations of the risks associated with Chinese EVs.[17] While the increasing presence of Chinese EVs in the European market has already sparked significant debate, primarily regarding fair competition and pricing, beyond economic concerns, the substantial cybersecurity and data protection risks as well as human rights concerns have taken a back seat in the discussion. Especially, by addressing these human rights concerns, the EU can ensure that its pursuit of technological advancement and economic growth does not come at the expense of ethical standards and fundamental values. With Chinese exports rising sharply, there is limited time to assess risks and implement interim mitigation measures before fully understanding all costs and benefits of Chinese EVs.

To support these efforts, this study, *Charged with Consequence: How Europe Navigates the Human Rights, Economic, and Security Risks of Chinese EVs* provides an in-depth analysis of the multifaceted challenges and strategic considerations facing Europe in this evolving landscape. It examines the economic implications of Chinese competition, the security concerns related to technological dependencies, and the human rights issues associated with global supply chains.

Katharina Osthoff *works at FNF Europe as a Senior Policy Advisor, covering international and institutional affairs as well as fundamental rights. Prior to joining the foundation, Ms Osthoff worked as a Policy Advisor for Foreign Affairs at the European Parliament in Brussels and the German Bundestag in Berlin, focusing on Asia and China.*

14 European Commission, 'The Green Deal Industrial Plan'.
15 Zajmi, 'Green Growth or Green Defeat? Europe's Clean Industrial Deal in the Balance'.
16 Arcesati, Chimits, and Stec, 'De-risking under the next Commission + EV tariffs + Chinese e-commerce exports to EU'.
17 Oertel, 'Security Recall: The Risk of Chinese Electric Vehicles in Europe'.

Executive Summary

There is no guarantee that the European automotive sector will survive its current predicament. European automakers face the coming together of an economic storm, which challenges the viability of their current business model: whereby Chinese EV producers are gaining a significant market share in Europe, at the same time as European automakers are facing declining sales in China and are unable to compete in third markets.

The Economic Impact: A Threat to Jobs and Industry

The automotive industry is a major pillar of the European economy, accounting for 7% of the EU's GDP, 6.1% of total EU employment, 8.5% of EU employment in manufacturing, and provides 13.8 million Europeans with direct and indirect employment.[18] At the time of writing, European automotive companies have already announced potential job cuts exceeding 100,00 positions in the automotive sector and jobs in the supply chain to respond to economic pressure from Chinese EVs.

China's Growing EV Presence in Europe and Beyond

China's EV market penetration in Europe, while still relatively small compared to overall automotive sales, has grown rapidly from 1% in 2019 to around 8% in 2023.[19] While a study by Schmidt Automotive Research has found that Chinese EV sales were at around 10% of the market in Western Europe for the first half of 2024, the European Commission has forecasted that the number could rise to 15% by 2025 across Europe. [20] [21]

At the same time, Chinese EVs are making significant inroads in key global regions, including in the Middle East, Latin America, and the Asia-Pacific region. The European neighbourhood outside of the EU (including Russia) accounted for a third of all EU automotive exports in 2023. European markets will therefore remain a key battleground for European and Chinese automotive producers.

Beyond Economics: Data Security and Strategic Risks

Aside from the economic concerns, there remain further risks to Europe that include data security, dependency, and disruption risks. Under *China's Data Security Law* (2021) and *National Intelligence Law* (2017), Chinese EV producers and companies in their supply chain (including Cellular Internet of Things Modules Manufacturers such as navigational systems) have a responsibility to '*assist, support, and cooperate with national intelligence efforts*'. At the same time, it is illegal to disclose the extent of that cooperation with a foreign government.[22] [23] Recognizing China's legal requirements for data collection and the broader data security risk, the Biden Administration issued an Executive Order on September 23, 2024, banning the import and use of Chinese-connected EVs in the U.S.[24]

The planned integration of Chinese AI software, such as *DeepSeek*, into new Chinese EV models will only exacerbate data security concerns, given that *DeepSeek* has faced restrictions in several countries already. [25] [26]

Human Rights Violations in the Chinese EV Supply Chain

Additionally, China's EV supply chain has been linked to Uyghur forced labour in Xinjiang, child labour in lithium extraction in the Democratic Republic of Congo. This includes through local suppliers participating in Uyghur labour transfer programs and aluminium being exported out of the Xinjiang region and used in other parts of the country to produce car parts. Similarly, forced labour and child labour is allegedly used in the extraction of lithium in the Democratic Republic of Congo, leading to the potential exposure of Chinese EV battery producers to forced labour in their supply chain.

Outside of links to Chinese companies blacklisted for their involvement in alleged human rights violations in Xinjiang, CATL has also been accused of clocking its employees on a "8am to 9pm six days a week" work regime, not only in violation of China's own labour laws but also at odds with the EU's supply chain regulations against unfair work conditions. Such stringent work culture is prevalent in China's tech scene, including reportedly causing numerous instances of death from overwork.

Volkswagen's recent exit from Xinjiang highlights mounting pressure on companies to address these concerns. These issues are highly relevant to the EU's new forced labour screening mechanisms: *Corporate Sustainability Reporting Directive* (CSRD) and the *Corporate Sustainability Due Diligence Directive* (CSDDD).

A debate is ongoing in U.S. Congress over whether companies linked to Uyghur forced labour should be added to the *Uyghur Forced Labor Prevention Act* (UFLPA) entity list. If major Chinese EV battery producers were added to the entity list and are sanctioned, European automakers relying on these suppliers could face significant export restrictions to the U.S.

18 van Wieringen, 'The Future of European Electric Vehicles'.
19 Grieger, 'EU Anti-Subsidy Probe into Electric Vehicle Imports from China'.
20 ibid.
21 Schmidt, 'Chinese OEMs Combined Saw a Record Month When It Comes to New BEV Deliveries across Western Europe in June Driven by Special Effects'.
22 China Law Translate, 'Data Security Law of the PRC'.
23 China Law Translate, 'Data Security Law of the PRC'.
24 Shepardson, 'Biden Proposes Banning Chinese Vehicles, "connected Car" Technology from US Roads'.
25 Li, 'Chinese EV Leader BYD to Offer "God's Eye" Self-Driving System on All Models'.
26 Silva and Mackenzie, 'South Korea Bans New Downloads of China's DeepSeek AI'.

Chinese Investments in Europe: Trojan Horses for Market Domination?

Entangling investments from Chinese EV producers into EU Member States through planned Chinese EV plants in Hungary and Spain will not meet the job losses from the European automakers they undercut, instead they will likely be used to bypass tariffs, expand market share, and undermine European competitors, raising concerns about long-term economic independence. Despite the discussions of the EU gaining "Strategic Autonomy" from China and the USA,, Europe's automotive industry remains one of its few industrial strengths. However, increasing reliance on China for EVs and future green technologies risks creating further economic and geopolitical vulnerabilities. This dependency could be weaponised by China to silence criticism of its material support for Russia's invasion of Ukraine, its military threats against Taiwan, and its human rights record.

As the COVID-19 pandemic and Russia's invasion of Ukraine have demonstrated, a strong industrial base is essential for European resilience. Europe's automotive sector could be repurposed in future crises for medical equipment production or even defense manufacturing.[27] [28] However, without the industrial capacity, the talents and skills the EU will not have the strength to weather future crises.

27 European Automobile Manufacturers' Association, 'EU Auto Industry Actions to Fight COVID-19'.
28 Mackinnon, 'Russia's War Machine Runs on Western Parts'.

Recommendations

- The EU should commit to reviewing the EU's countervailing tariffs on Chinese EVs within the first year of the new EU Commission.
- The EU should review the EU's current Foreign Direct Investment Regulation[29] to focus on rules regarding joint ventures to look at local ownership requirements, data security requirements, and local content requirements.
- The EU should legally require foreign EV companies from a country where the EU does not have a data standards equivalency agreement to store data on European servers and to commit not to transfer the data overseas under any circumstances.
- The EU should negotiate economic security partnership agreements with Japan and the Republic of Korea. One target under these partnerships would be to encourage joint ventures between European automotive producers and world leading Japanese and South Korea battery producers including Samsung, SK Innovation, Panasonic, and LG Energy Solution.
- The EU Commission using the ICTs security and competitiveness working group of the EU-US Technology and Trade Council to negotiate shared EU-US standards on Cellular Internet of Things Modules (CIMs) and develop mutual European and American standards for EVs and connected vehicles.
- The EU should investigate forced labour in Xinjiang, add the geographic region of Xinjiang to its forced labour risk database, and introduce guidelines for European businesses regarding the prevalence of forced labour goods in the automotive supply chain.
- European policymakers should expand tax incentives and other measures to encourage European automotive companies to work together to share research, development, and production costs for EVs.
- The European Commission should work with European Member States to coordinate Next Generation EU and Multiannual Financial Framework funds to support the development of the European EV sector, including encouraging matching private sector investment in the EV battery supply chain and EV charging infrastructure. This should serve as the frontrunner to an EU-wide Green Industrial Strategy.

29 European Commission, 'Investment Screening'.

I. Economic Risk of Chinese EVs

Section Summary

- Europe faces an economic storm over Chinese Electric Vehicles (EVs), threatening the future of its automotive industry and its broader industrial manufacturing base. In 2024, the sector announced potential job cuts exceeding 100,00 positions.
- In 2023, China made 8.1 million EVs and exported around 1.2 million EVs to the world.[30] China's green technology success has been built off the back of generous state subsidies. The Kiel Institute for the World Economy has found that BYD received at least £2.9 billion in subsidies from 2018-2022.[31]
- As a result of its economic downturn, China is seeking to export its way back to high growth. A review by the US Biden Administration found that China's export of EVs has increased by 70% from 2022 to 2023.[32]
- China's EV market penetration in Europe has grown rapidly from 1% in 2019 to 8% in 2023.[33] The EU Commission has forecasted this could rise to 15% by 2025.[34] Eurostat data shows that Chinese automotive imports into Europe grew by 37% in 2023 compared to 2022, while European automotive exports to China dropped by 20.2%.[35]
- Lack of demand has not stopped Chinese EV producers from building new markets, including in India, Turkey, Brazil, Indonesia, Thailand. European automakers risk seeing their share of non-EV car sales falling in these markets while struggling to replace them with EV sales.
- A study by the European Commission simulated a 10% drop in consumer demand for European automotives and found this would have a significant impact on Europe's manufacturing base, particularly for Germany and France's metals and machinery sectors. A separate study by Allianz Global has warned that European automakers could lose 24.2bn euros by 2030 if Chinese EV producers achieve 75% market share in China and reach 13.5% market share in Europe.[36] The economic impact would be the equivalent of a loss of 0.15% of the EU's total GDP.[37]

30 International Energy Agency, 'Trends in Electric Cars – Global EV Outlook 2024 – Analysis'.
31 Bickenbach et al., 'Foul Play? On the Scale and Scope of Industrial Subsidies in China'.
32 Magill and Walz, 'Biden Hikes Tariffs on China-Made EVs, Batteries'.
33 Grieger, 'EU Anti-Subsidy Probe into Electric Vehicle Imports from China'.
34 ibid.
35 European Automobile Manufacturers' Association, 'Economic and Market Report Global and EU Auto Industry: Full Year 2023'.
36 Allianz Research, 'The Chinese Challenge to the European Automotive Industry'.
37 ibid.

Europe faces an economic storm over Chinese Electric Vehicles (EVs), threatening the future of its automotive industry and its broader industrial manufacturing base.

Through a mixture of regulations, financial penalties, and subsidies, European governments are racing towards transitioning their economies to net zero with the hopes of meeting climate targets. A large part of the EU's plan are ambitious targets that all new cars and vans sold in the EU are zero-emission by 2035, effectively phasing out internal combustion engine vehicles.[38] In 2023, EVs represented more than 14.6% of all new cars sold in the EU and plug-in hybrid EVs accounted for another 7.7%.[39]

The growth of Chinese EV imports and a failure by European automotive producers to create a competitive alternative have deepened Europe's dependency on China for green technology, and presents policymakers with stark trade-offs between economic security, human rights, and the green transition.

Despite the European Commission launching an anti-subsidies investigation into Chinese EVs on 4 October 2023 and introducing tariffs on 30 October 2024, many EU Member States and European automotive companies remain asleep to the economic, human rights, dependency, and data security risks they present.

At the time of writing, several European governments and automotive companies have stated that they believe the adoption of increased tariffs against Chinese EV imports is unnecessary and would see European businesses face retaliation in China.[40] [41] [42] At the same time, Tesla, BMW, SAIC, BYD, and Geely have taken the EU Commission to the Court of Justice of the European Union to challenge the imposition of tariffs.[43]

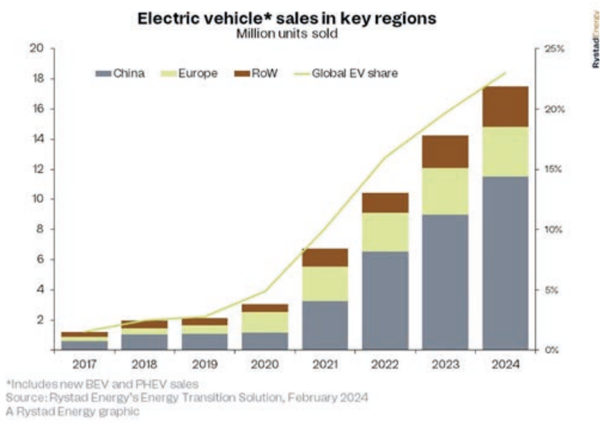
Assessing China's dominance in EVs and manufacturing excess capacity

China's assertion of leadership in EV technologies is over a decade in the making. Xi Jinping's "Made in China 2025" strategy (announced in May 2015) outlines EVs as one of ten strategic industries in which China seeks global leadership by 2049, with a target of 70% of EVs being made in China by 2025.[44] [45]

38 Soolutions, 'EU Bans Sale of New Combustion Engine Cars from 2035'.
39 European Commission, '5 Things You Should Know about Electric Cars'. European Commission, '5 Things You Should Know about Electric Cars'.
40 Bermingham, 'Germany Lobbies Fellow EU Members to Vote against Tariffs on Chinese EVs'.
41 Hall, 'Spanish PM Urges EU to Reconsider Tariffs on Chinese EVs'.
42 Von Der Burchard, 'German Carmakers "Afraid" of China Retaliation, Economy Minister Warns'.
43 France 24, 'Tesla, BMW Take EU to Court over China EV Tariffs'.
44 PRC State Council, 'Notice of the State Council on the Publication of „Made in China 2025'.
45 Institute for Security & Development Policy, 'Made in China 2025'.

China not only boasts the largest EV domestic market in the world, but is also the largest manufacturer and exporter of EVs. In 2023, China made 8.1 million EVs and exported around 1.2 million EVs to the rest of the world. [46]

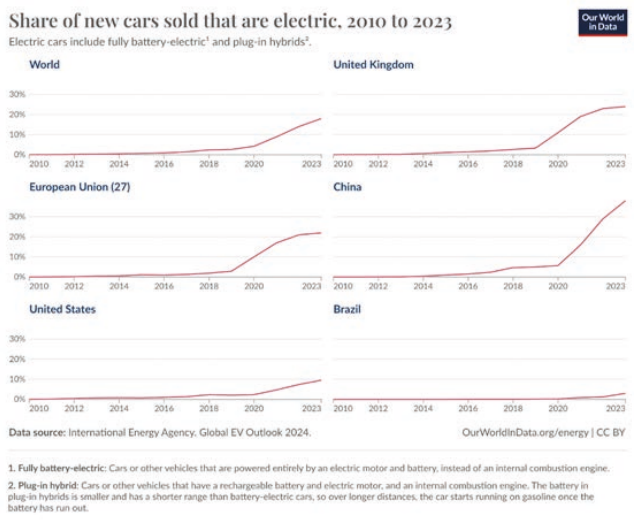
Figure 1 | China's EV sales lead the global market



Source:Rystad Energy

In the same year, China became the world's biggest exporter of cars – surpassing Japan. According to China's General Administration of Customs, China exported 3.2 million vehicles in 2022 compared to Germany's 2.6 million vehicle exports. [47]

Figure 2 | Comparing the global EV market share growth, 2010 to 2023



Source: Our World in Data

In recent years, after consistently missing its economic growth targets[48], China is seeking to export its way back to high growth led by a "trio" of technologies, including electric vehicles, lithium-ion batteries, and solar photovoltaic cells, through leveraging "new quality productive forces" aimed at developing future industries.[49] [50] This strategy is already finding success, according to Chinese government officials green exports rose by 30% to $147bn last year.[51]

China's green technology success has been built off the back of an industrial state policy underpinned by generous state subsidies. In the case of BYD (the top EV producer in China), a study by the Kiel Institute for the World Economy found that the Chinese EV manufacturers received at least £2.9 billion in direct government subsidies from 2018-2022.[52]

According to research by the Rhodium Group, China could have the capacity to export 560,000 cars annually to Europe in 2025, based on six trips per year (in 2023, the EU imported 472,000 EVs from China), and capacity could surge to as much as 1.7 million cars in 2026.[53]

Analysts estimate the production of Chinese automobiles in excess of domestic and global demand could be between five and ten million cars a year.[54] A review by the US Biden Administration found that China's export of EVs has increased by 70% from 2022 to 2023, reflecting the scale of China's excess manufacturing capacity which is assessed by the low utilisation rates in the EV sector.[55] [56]

China's EV exports and ability to gain market share in Europe have been hampered by the scarcity of affordable shipping vessels and increased costs as a result of disruption to international shipping in the Red Sea, amongst other factors.[57] However, Chinese EV producers and shipping companies have moved to rectify this issue by placing orders for new ships.

46 International Energy Agency, 'Trends in Electric Cars – Global EV Outlook 2024 – Analysis'.
47 Hoskins, 'China Overtakes Japan as World's Top Car Exporter'.

48 Rosen et al., 'After the Fall: China's Economy in 2025'.
49 Yu, 'China Economics: Out With the Old Three and In With the New Three'.
50 Kroeber, 'Unleashing "New Quality Productive Forces": China's Strategy for Technology-Led Growth'.
51 Goodman, 'Collision Course: Under-Pricing Chinese EV Risks in the UK'.
52 Bickenbach et al., 'Foul Play? On the Scale and Scope of Industrial Subsidies in China'.
53 Sebastian, Barkin, and Kratz, 'Ain't No Duty High Enough'.
54 Reuters, 'China EV Overcapacity Fix Would Be a Crowd Pleaser'.
55 Magill and Walz, 'Biden Hikes Tariffs on China-Made EVs, Batteries'.
56 Tran, 'Breaking down Janet Yellen's Comments on Chinese Overcapacity'.
57 Sebastian, Barkin, and Kratz, 'Ain't No Duty High Enough'.

Chinese industries dominate EV production from the upstream to the downstream

EV Sector/Supply Chain	China's Dominance
Critical minerals refinement	China refines 68% of nickel, 40% of copper, 59% of lithium, and 73% of cobalt.
EV battery production	Over 75% of lithium batteries used in EVs are produced in China.
EV battery production	China exported 900,000 EVs in 2023 and made 9.3m EVs domestically.
Excess manufacturing EV capacity for export to Europe	China could have the capacity to export 560,000 cars annually to Europe in 2025, and it could surge to as many as 1.7 million cars in 2026.

An economic storm: market share in Europe, sales in China, and competition in third markets

European automakers face the coming together of an economic storm which challenges the viability of their current business model which is built on the combustion engine: whereby Chinese EV producers are gaining a significant market share in Europe, at the same time as European automakers are facing declining sales in China, and are being out competed in third markets.

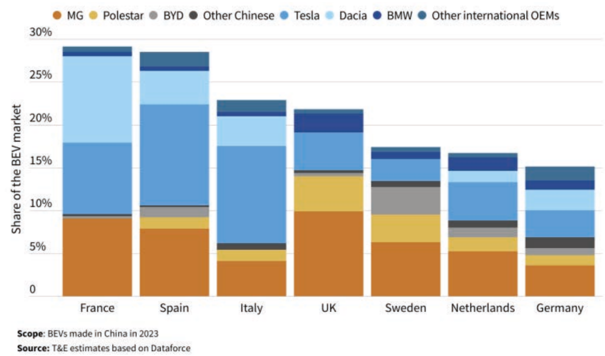
If these three factors continue, Europe's automotive industry may go the way of its solar industry a decade before. Germany used to be the world leader in solar power production. Today, Europe imports 90% of its solar panels from China.[58]

Market share in Europe

China's EV market penetration in Europe, while relatively small compared to overall automotive sales, has grown rapidly from 1% in 2019 to around 8% in 2023.[59] The European Commission has forecasted that this number could rise to 15% by 2025.[60]

- The EU Commission's assessment may be coming to fruition, a study by Schmidt Automotive Research has found that Chinese EV sales for the first half of 2024 in Western Europe were at around 10% of the market.[61]
- The EU is China's largest export market for EVs, with 40% of Chinese EV exports destined for Europe.[62]
- Eurostat trade data shows that Chinese automotive imports into Europe grew by 37% in 2023 compared to 2022, while European automotive exports to China dropped by 20.2% over the same period.[63]
- There are already reports that European imports of Chinese EVs have overtaken current market demand, with some European ports reporting turning into car parks as more EVs from China arrive.[64]
- On an individual EU Member State level, Chinese EV market share in some cases is even larger. Take the case of the Netherlands, 17% of all EVs were imported from China in 2023.[65]
- In the case of Spain and France, which are significantly larger automotive markets, nearly a third of EVs imported in 2023 were from China.[66]

Figure 3 | Chinese BEV sales in some large European countries' markets



Source: Our World in Data

As a result of the changes to China's subsidies regime in 2019, which allows foreign automakers with joint-ventures to access subsidies, European automakers have begun to use China as a manufacturing base not only for its domestic car market but also for the European market.[67]

According to S&P Global Mobility, more than two-thirds of the Chinese EV exports to Europe were European and other legacy brands with manufacturing bases in China.[68] This reflects a

58 McWilliams, Tagliapietra, and Trasi, 'Smarter European Union Industrial Policy for Solar Panels'.
59 Grieger, 'EU Anti-Subsidy Probe into Electric Vehicle Imports from China'.
60 ibid.
61 Schmidt, 'Chinese OEMs Combined Saw a Record Month When It Comes to New BEV Deliveries across Western Europe in June Driven by Special Effects'.
62 van Wieringen, 'The Future of European Electric Vehicles'.
63 European Automobile Manufacturers' Association, 'Economic and Market Report Global and EU Auto Industry: Full Year 2023'.
64 Li et al., 'European Ports Turned into "Car Parks" as Vehicle Imports Pile Up'.
65 Transport & Environment, 'To Raise or Not to Raise: How Europe Can Use Taris as Part of an Industrial Strategy'.
66 ibid.
67 Bickenbach et al., 'Foul Play? On the Scale and Scope of Industrial Subsidies in China'.
68 Fan, 'The Rise of Chinese Auto Brands in Europe'.

trend of European automotive companies choosing to locate their manufacturing supply chain to China to be closer to the critical minerals supply chain, save on cost, and be closer to the leading EV battery producers.[69] As a result of declining profits, increased energy prices, and fierce competition, European automotive producers are making a stark choice between prioritising keeping their European factories open or their factories in China.

In the case of Volkswagen this already appears to be coming to fruition with reports that the German manufacturer is considering shutting at least three factories in Germany, which would be the first factory closure in its home country in its 87-year history.[70]

Sales in China

China not only remains the world's largest automotive market, but it is also one of the largest markets for European automakers' sales.[71]

In the case of the big three German automakers, Volkswagen, Mercedes-Benz, and BMW, China accounted for 4.7m car sales in 2023.[72] [73] [74] China is the biggest market for German automotive companies, with one in every five new cars sold in the country bearing a German company logo and is host to the largest number of German car factories abroad with 350 sales and manufacturing points.[75] [76]

Summing up the extent of their dependence on China's market, between 2019 and 2023 China accounted for around a third of total sales for the big three automotive producers (Volkswagen: 35-42%, BMW: 29-34%, Mercedes-Benz: 29-37%).[77]

Despite this significant share of total sales in China, the German big three are struggling to be competitive. Volkswagen's market share was between 1-4% from 2019-2023, BMW's was 1-3%, and Mercedes-Benz was 0-1% due to increasing competition amongst domestic EV producers in the Chinese market.

Other European automotive companies are similarly losing grounds in China. The Italian carmaker Stellantis had around 0.2% market share in China for the first six months of 2024.[78] For the French carmaker Renault, China was not even listed in its top fifteen sales markets in 2023.[79] Chinese car manufacturers on the other hand accounted for 64% of the domestic EV market.

Chinese brand EVs accounted for 64% of domestic retail sales in 2023 Q1, while European brands did not register in the top ten

Rank	Brand	Origin	Sales (,000 RMB)	%change YOY
1	BYD	China	702.6	81.3%
2	Tesla	USA	177.4	61.5%
3	GAC-Aion	China	121.3	110.3%
4	SGMW	China/USA	111.6	-15.9%
5	Geely	China	88	52.3%
6	Changan	China	79.2	98.6%
7	Li	China	78.3	118.1%
8	Nio	China	37.7	22.2%
9	GWM	China	34.7	-10%
10	Neta	China	33.5	-14%

Source: Italian Trade Agency, China Automobile Dealers Association

As the figures reflect, there is stark competition in China's automotive market between over 200 EV producers who are cutting prices to fight for market share in a weakened economy that has overcapacity.[80] The result is that few turn a profit, most are debt-laden, and the Chinese EV market itself is undergoing consolidation. Reflecting the oversaturation of China's EV market and the ongoing price war, BYD and its rival SAIC have both asked suppliers to cut prices by another 10% in 2025.[81]

Where it leaves European automotive companies is largely outcompeted. A failure to develop EV battery technology and a decision by policymakers to favour subsidies for hybrid cars, namely diesel, has left most of these automotive companies without a viable EV offering.[82]

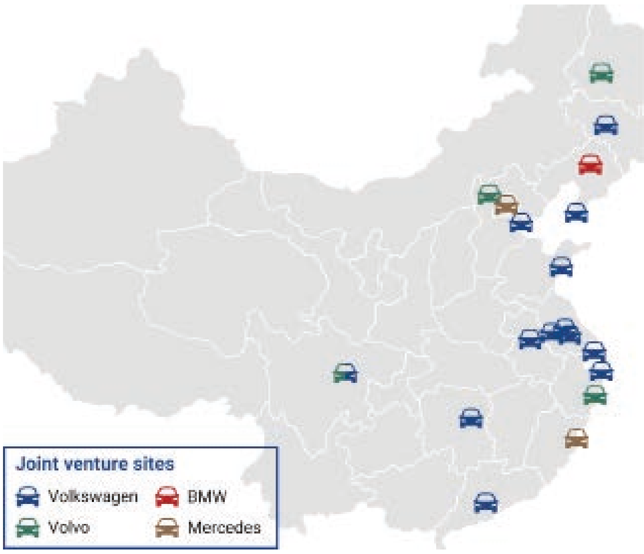
As a result of this fact and China's state investment rules, European automotive producers have entered into joint partnerships with Chinese EV producers. The German big three have the largest number of joint partnerships, with Volkswagen having three and BMW and Mercedes-Benz having two each. In the case of Volkswagen, one of these partnerships is with SAIC, which has been subject to the highest anti-subsi-

69 van Wieringen, 'The Future of European Electric Vehicles'.
70 Jolly, 'Volkswagen Considers German Plant Closures to Save Billions in Costs'.
71 International Trade Administration, US Department of Commerce, 'China - Automotive Industry'.
72 Gasgoo, 'Mercedes-Benz Group's 2023 China Deliveries Remain Flat over Previous Year'.
73 Gabriella, 'Volkswagen Group Sells 3.236 Million Vehicles throughout 2023 in China'.
74 Xinhua, 'BMW Reports Robust Electric Vehicle Sales Growth in China'.
75 German Association of the Automotive Industry, 'China: Partner and Competitor in the Automotive Industry'.
76 Belhassen, 'Facing the Chinese Competition ... Will German Auto Industry Survive ? | LinkedIn'.
77 Own compilation according to Marklines automotive data.
78 Stellantis, 'Semi-Annual Report as of and for the Six Months Ended June 30, 2024'.
79 Renault Group, 'Strong Acceleration in Sales in 2023 Thanks to a Strong and Complementary Brand Strategy'.
80 He, 'A Brutal Elimination Round Is Reshaping the World's Biggest Market for Electric Cars'.
81 Reuters, 'BYD Asks Suppliers to Cut Prices as China Auto War Intensifies'.
82 You, 'The "New Three": How China Came to Lead Solar Cell, Lithium Battery and EV Manufacturing'.

dies tariff by the European Union of 36.3%.[83] Swedish carmaker Volvo, which was acquired by the Chinese carmaker Geely in 2010, has three partnerships, making it one of the largest joint-venture brands in China. These joint ventures within China are covered by the recent tariff increases introduced by the EU.

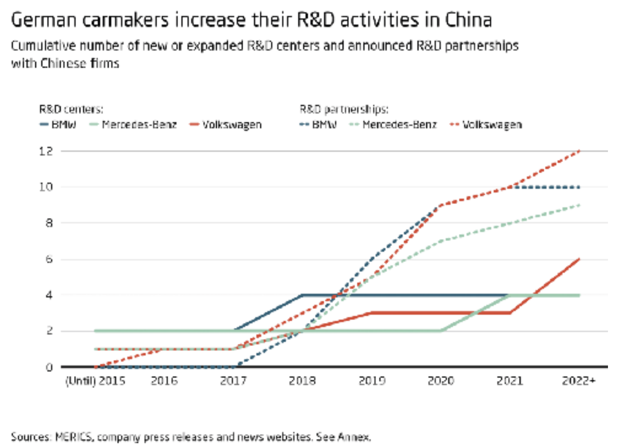
Taking a different approach, the Italian carmaker Stellantis closed down its two joint-venture sites in China in 2022. Instead, Stellantis has committed to use its joint-venture with Chinese EV producer Leapmotor to manufacture and sell EVs in Europe.[84]

Figure 4 | Joint venture sites in China operated by European carmakers



CSRI Graphic. Data Source: Company updates and press releases from Volkswagen, BMW, Volvo and Mercedes.

Figure 5 | German automakers increase their R&D activities in China



Source: MERICS

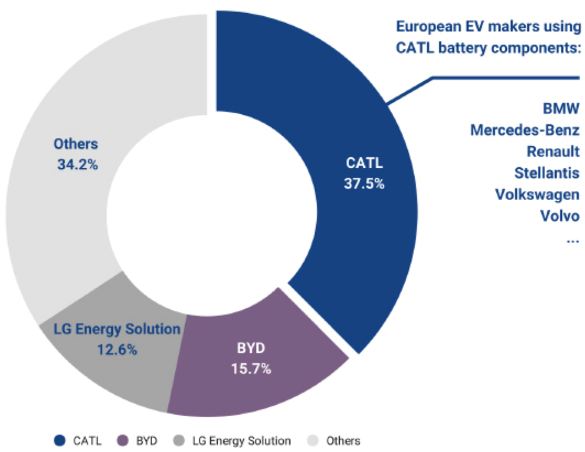
Other than allowing European automotive producers to sell cars in China's market, these joint partnerships have primarily served as an attempt to plug the research and development gap in EV production.

For the German big three, these partnerships have focused on investing heavily in research and development of batteries and digital solutions. This includes agreements with Chinese technology company Baidu and in the case of BMW a joint innovation base in Shanghai with Alibaba Cloud and Chinese software developer Archermind.[85]

Another factor driving this dependency on joint-ventures in China is the dominance of Chinese EV battery producers like CATL. CATL controls nearly two-fifths of the EV battery market, has invested significant sums in creating battery factories in Hungary and Germany, and is a supplier to BMW, Volkswagen, Mercedes-Benz, Stellantis, Renault, and Volvo.[86 87]

Figure 6 | Global EV battery market share in first half of 2024; Nearly all major European EV makers use CATL

EV battery suppliers by global market share, in first half of 2024



Source: CNEVPost; various company reports

Despite these joint partnerships, all the German big three are facing declining sales with reports that their net profit for the first six months of 2024 were significantly down.[88] In the case of Volkswagen by 14%, Mercedes-Benz by 15%, and BMW by 15%. Volvo, the other European automaker with joint-venture sites in China registered a 5% fall in sales from July 2023-July 2024.[89]

Sales in third-countries

The third economic challenge Chinese EVs present to European automakers is competition in third markets which could squeeze their current and future market share.

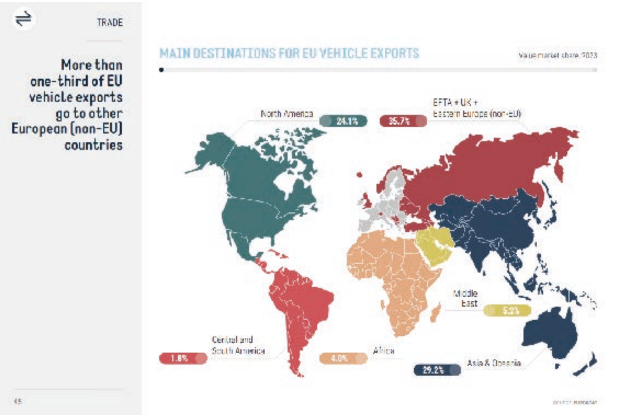
83 European Commission, 'China BEVs Investigation Draft Definitive Findings'.
84 Reuters, 'China's Leapmotor and Stellantis Open Orders in Europe for Budget EVs'.
85 Sebastian, 'The Bumpy Road Ahead in China for Germany's Carmakers'.
86 Hawkins, 'CATL, the Little-Known Chinese Battery Maker That Has the US Worried'.
87 Sebastian, Goujon, and Meyer, 'Pole Position: Chinese EV Investments Boom Amid Growing Political Backlash'.
88 DW, 'Berlin Considering How to Support German Carmaker Volkswagen'.
89 Jing Daily, 'Volvo's Sales Drop 31% in China'.

Europe, China, and North America still make up nearly two-thirds of global automotive sales, with the rest of the world making up the other third.[90] According to the International Energy Agency demand for EVs remains heavily focused in North America, Europe, and China, with these three markets making up 95% of the almost 14 million EVs sold in 2023.[91]

Lack of demand in the Global South has not stopped Chinese EV producers from seeking to gain a foothold and build new markets anticipating future demand as these countries transition to net-zero. Part of this strategy is driven by the introduction of tariffs in Europe and North America and the closing off of these markets. European automakers face the risk of seeing their share of non-EV car sales falling in these markets and at the same time struggling to replace them with EV sales.

As it stands, Latin America, Africa, and the Middle East, accounts for only 11% of all European automotive exports.[92] In comparison, European countries outside of the EU (including Russia) accounted for a third of all EU automotive exports in 2023. European markets will therefore remain a key battleground for European and Chinese automotive producers.

Figure 7 | Sales of EU vehicles are primarily concentrated in Europe, Asia Pacific and North America



Source: ACEA

Key third markets for Chinese EVs

India is predicted to be one of the largest markets for EV growth in the next five years.[93] BYD topped midsize EV sales in India in 2023. Overall, it sold more BEVs than the top three German carmakers combined.[94] BYD sales to India are currently limited by a cap of 2500 units per model under the vehicle certification it currently receives.[95] It hopes to remove the cap and cover 90% of the EV market in India in 2024.

Brazil is the largest EV market in Latin America. Chinese EVs accounted for 92% of Brazil's total EV imports in 2023, which was three times the amount Mexico imported.[96] Chinese EV producers BYD, Chery Automobile, and Great Wall Motor sold 48,000 EVs in Brazil in the first four months of 2024. Despite the warm welcome received by Chinese EV exports, Brazilian President Luiz Inacio Lula da Silva has introduced a 10% tariff on EV imports, which rose to 18% in July 2024, and will rise to 35% in 2026, as a means of encouraging EV development in the domestic auto-industry.[97]

Indonesia is the largest nickel producer for lithium-ion batteries.[98] It is therefore not surprising that with significant Chinese foreign direct investment in the country's critical mineral mines, Chinese EVs accounted for 43% of EV sales in Indonesia in the first half of 2024.[99] [100] Rather than impose tariffs on EV imports, the Indonesian Government has introduced requirements for EV producers to use domestic producers for at least 40% of EV components by 2026 and 60% of EV components by 2030.[101] Indonesia is not an outlier in the South East Asian region. At the time of writing around 75% of the region's EV market is currently made up of Chinese EVs.[102]

Turkey remains an important market for both European and Chinese EV producers. In 2023, Chinese EVs accounted for 4.5% of the market with predictions that it will hit 10% in 2024.[103] In response the Turkish Government initially increased tariffs on Chinese EV imports to 50%. This subsequently was reduced back to 10% as a result of BYD agreeing to invest in a $1bn plant in Turkey to produce around 150,000 EVs a year.[104] Chinese EV producers setting up manufacturing bases in Turkey, which boasts a customs agreement with the European Union covering vehicle exports, is seen as a potential way to bypass pending European Union tariffs on Chinese EVs.[105] At the same time Turkey has applied to join the BRICS grouping which includes China and Russia.[106]

Thailand should serve as a cautionary tale for the potential of Chinese EVs to dominate third markets. In 2022, the Thai Government eliminated tariffs on Chinese EV imports and offered Chinese EV producers grants of up to $4,130 per vehicle on the condition that they produce domestically the same amount of EVs that they export to the country.[107] According to data analysis from Nikkei, supply of Chinese EVs has outstripped demand in Thailand and led to at least 90,000 EVs remaining in oversupply.[108] As a result, vehicle sales in the first five months of 2024 were down 23% from the same period in 2023 and vehicle part orders dropped by 40% in the

90 International Energy Agency, 'Global EV Outlook 2024: Moving towards Increased Affordability'.
91 ibid.
92 European Automobile Manufacturers' Association, 'The Automobile Industry: Pocket Guide 2024/2025'.
93 EVBoosters, 'India's Electric Vehicle Market Projections'.
94 Ahmed, 'BYD Topped Midsize EV Sales In India In 2023, Outpacing Hyundai, BMW And Kia'.
95 The Economic Times, 'Chinese Firm BYD Plans to Cover 90% of EV Market in India This Year'.

96 Tobin, 'Brazil Is Buying Lots of Chinese EVs. Will That Continue?'
97 Reuters, 'Brazil Imports of Chinese Electric Vehicles Surge Ahead of New Tariff'.
98 Mills, 'Indonesia and China Killed the Nickel Market'.
99 Tritto, 'How Indonesia Used Chinese Industrial Investments to Turn Nickel into the New Gold'.
100 Yang, 'You Can't Buy a Chinese EV in the United States. But They Dominate in Southeast Asia'.
101 Reuters, 'Indonesia Relaxes Tax Rules on EV Imports to Attract Investment'.
102 Li, 'How China's EVs Are Taking Thailand by Storm'.
103 Xinhua, 'Turkish EV Market Sees Growing Presence of Chinese Cars'.
104 Hoskins, 'Chinese Tesla Rival BYD Agrees $1bn Turkey EV Plant Deal'.
105 Ibid.
106 Hacaoglu and Kozok, 'Turkey Bids to Join BRICS in Push to Build Alliances Beyond West'.
107 Helven, 'Thai EV Subsidies Trigger Oversupply and Price War'.
108 Phoonphongphiphat, 'Thai Subsidies for Chinese EV Makers Wreak Havoc on Auto Sector'.

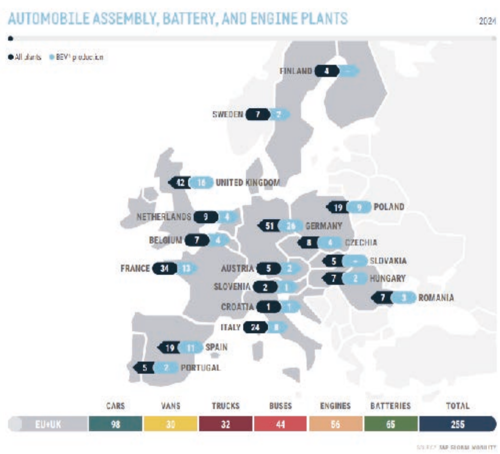
same period.[109] Japanese automaker Honda announced that it would halt production in its factory in the Ayutthaya province by 2025, Subaru announced plans to stop car assembly operations in Thailand by the end of the year, and Suzuki said it would end production in the country by 2025.[110]

A European problem

Rather than merely presenting a risk to any one individual Member State, Chinese EV imports and the failure of European producers to create competitive alternatives in time for the green transition pose an existential economic threat to the European automotive industry.

The automotive industry represents 7% of the EU's GDP, 6.1% of total EU employment, and 8.5% of EU employment in manufacturing, providing 13.8 million Europeans with direct and indirect employment.[111] Historic automotive brands are tied to the national identity of individual Member States and the supply chain of these producers stretches across the EU. This means that the financial health of the European automotive industry and the risk that Chinese EVs present is a pan-European problem with 255 European automotive assembly plants spread across the 27 European Member States.[112]

Figure 8 | Distribution of automobile assembly, battery, and engine plants



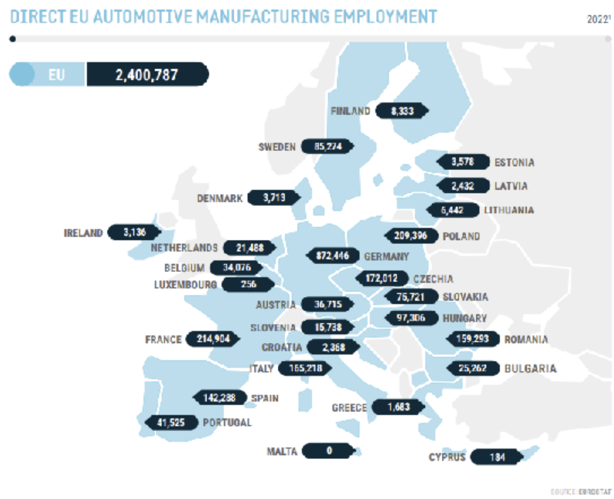
Source: ACEA

- According to the European Automotive Manufacturers Association, automotive employment was particularly concentrated in six EU Member States in 2022, accounting for over 10% of the manufacturing jobs (Germany, Hungary, Sweden, Slovakia, Czechia, and Romania).[113] In another eight EU Member States, automotive employment accounted for over 5% of manufacturing jobs in 2022.

- In the Visegrad Group (Poland, Czechia, Slovakia, and Hungary), automotive exports account for a significant portion of their total exports.[114]

- In the case of Czechia, automotive exports make up 25% of the country's total exports and in Slovakia they make up 42% of all exports , meaning these countries would be particularly hard hit by the PRC-dominance of the automotive sector.

Figure 9 | Direct employment of automotive manufacturing in the EU

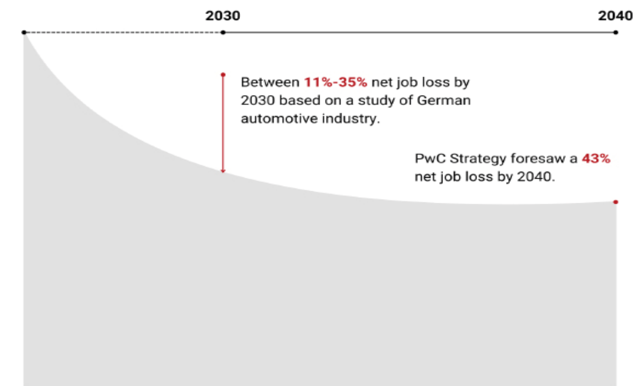


Source: ACEA

Landfall: Economic impact of Chinese EVs

Irrespective of the presence of Chinese EV imports in Europe, the automotive industry's green transition is already predicted to create significant job losses across the continent.

Figure 10 | Projected job losses of the EU auto industry due to EV transition



CSRI Graphic.

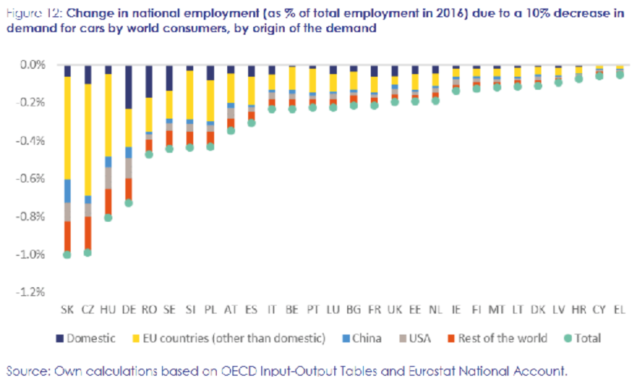
According to the International Monetary Fund, the European automotive sector will need between 23,000-97,000 (11%-35%) fewer workers by 2030, depending on the share of EVs in yearly sales figures and the speed of the transition to net-zero.[115] A study by PWC goes further and forecasts that around 275,000 automotive jobs could be lost by 2040.[116]

109 ibid.
110 ibid.
111 van Wieringen, 'The Future of European Electric Vehicles'.
112 European Automobile Manufacturers' Association, 'The Automobile Industry: Pocket Guide 2024/2025'.
113 ibid.
114 Szunomár, 'From Zero to Hero? Chinese Investment in Electric Vehicle Supply Chains in the Visegrád Four'.
115 Celasun et al., 'Cars and the Green Transition: Challenges and Opportunities for European Workers'.
116 European Association of Automotive Suppliers, 'An Electric Vehicle-Only Approach Would Lead to the Loss of Half a Million Jobs in the EU, Study Finds'.

The European automotive industry is not immune to the shifting market conditions that have upended European dominance of certain sectors in a short period of time. For example, European manufacturers lost more than 90 percent of their market share in smartphones in just six years, and European companies in the film camera industry lost a similar market share in nine years.[117]

Of course, the European Commission is aware of this risk, commissioning a study in 2020 which simulated the impact on EU employment of a projected 10% drop in world consumer demand for European automotives.[118] The study shows that while the Chinese market and the rest of the world are important, the most important market remains the Single Market for European automotive producers. If Chinese EVs are able to take a significant market share in Europe and drive down demand for European cars, that would lead to increased unemployment.

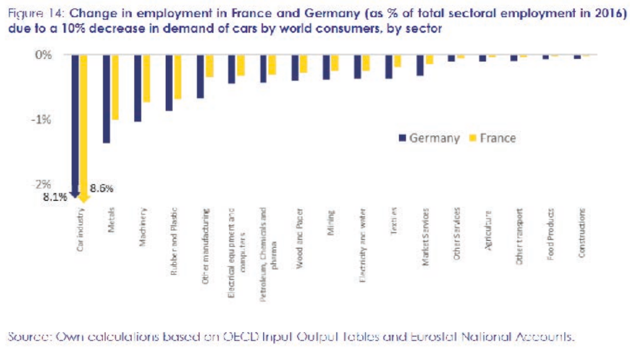
Figure 11 | Change in national employment assuming a 10% drop in world consumer demand, by origin of demand



Source: European Commission

A fall in consumer demand for European automotives would not just hurt automotive producers but would have a significant impact on employment in the wider supply chain and manufacturing base. Germany and France would see significant job losses in their metals and machinery sectors.

Figure 12 | Change in employment in France and Germany assuming a 10% drop in world consumer demand, by sector



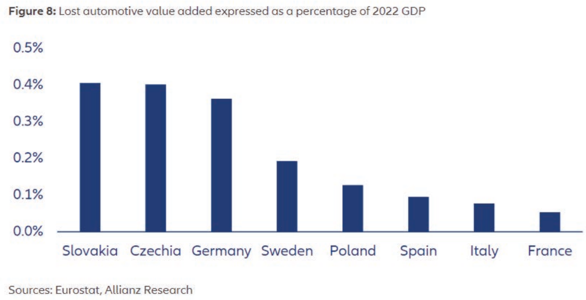
Source: European Commission

- A forecast by European insurer Allianz Global has warned that European automakers could lose 24.2bn euros by 2030 if Chinese EV producers achieve 75% market share in China and reach 13.5% market share in Europe.[119]

- The economic impact would be the equivalent of a loss of 0.15% of the EU's total GDP.[120] This would be felt unevenly across European Member States and would dependon the role the automotive industry plays in their respective economies.

- In the case of Slovakia and Czechia, it would account for a loss of 0.4% of GDP.

Figure 13 | Lost automotive value as expressions of 2022 GDPs, in a scenario Chinese automakers capture 75% domestic market and 10% of the European market.



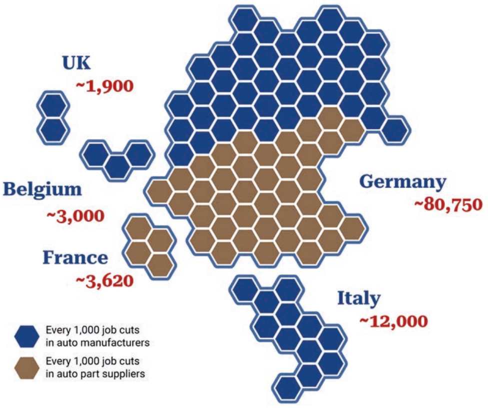
Source:Allianz Research

117 Garcia, Kizior, and Simons, 'Analysing Automobile Industry Supply Chains'.
118 Garcia, Kizior, and Simons, 'Analysing Automobile Industry Supply Chains'.

119 Allianz Research, 'The Chinese Challenge to the European Automotive Industry'.
120 ibid.

Automotive job loss amongst European automotive producers and those companies producing automotive parts is already underway. In 2024, Volkswagen, Audi (owned by Volkswagen), Stellantis, Ford, and Nissan, all announced job cuts with the prospect of downsizing their respective footprints in Europe and in the case of Stellantis and Volkswagen closing plants. Germany is also set to lose 16,000 jobs in the auto part supply chain. Without support from the European Union or individual European governments to respond to the challenge of Chinese EVs, these job losses will continue throughout 2025.

Figure 14 I Job cuts announced by major automakers and part suppliers in Europe since 2024



UK
Ford
Vauxhall

Belgium
Audi

France
Michelin
Valeo

Germany
Audi
Bosch
Continental
Ford
Porsche
Schaeffler
Volkswagen
Walter Klein Group
ZF Friedrichshafen

Italy
Stellantis

CSRI Graphic. Data Source: various news and press releases.

II. Security risks of Chinese EVs

Section Summary

- EVs have been described as "computers on wheels" with the generation of geolocation and sensor data in real time. This could allow a hostile state to exploit the security vulnerability by plotting the movement of government and defence vehicles. As an illustration of these risks, on 6 January 2023, iNews reported that the geolocation data and movements of the UK Prime Minister's car were tracked by China through a Cellular Internet of Things Module (CIM).[121]

- China's Data Security Law prohibits sharing any data stored in China with foreign entities, including in cases of judicial assistance, and China's National Intelligence Law requires all Chinese organisations and citizens to assist national intelligence efforts, including providing data collected outside China.[122] [123]

- The EU is already grappling with the challenge of European data being transferred outside of the EU without proper privacy protections in place. Dutch and French regulators fined Uber 290 million euros for failing to protect the data of its drivers when transferring this data to US servers.[124] Uber recently announced a partnership with Chinese EV producer BYD to introduce 100,000 EVs to its global fleet, starting with Europe and Latin America.[125]

- The planned integration of Chinese AI software DeepSeek into new Chinese EV models will only exacerbate data security concerns, given that DeepSeek has faced restrictions in several countries already on alleged grounds that it has shared user data with ByteDance and may have a backdoor within it.

Aside from the economic risk Chinese EVs present, further risks to Europe include data security risks. The software and hardware of EVs collect a significant amount of data, given the demands of autonomous driving, navigation, infotainment, and other safety and sensory diagnostics. Through the Cellular Internet of Things Modules (CIMs), EVs receive software and firmware updates, connect to traffic grids, and receive travel updates.

Daily generation of EV-borne data could reach 32 TB, which would be the equivalent of data storage of 128 average iPhones

Although there is no consensus on how much data a connected EV currently generates a day within the industry, some estimates have put the upper limit at 32 terabytes of data per day.[126] With the average iPhone having a storage capacity of 256 gigabytes, this would be the equivalent of an EV producing the data storage demand of 128 iPhones a day.

All this data is being continually transmitted to a cloud data centre accessible by the car manufacturer, so it is little surprise that the former head of MI6 has described an EV as a security risk and a "computer on wheels".[127] This requires policymakers to think carefully about how to mitigate these risks.

China is ahead of the curve in this regard having designated data as a "strategic economic resource" in April 2020 and introducing specific data regulations for the automotive sector in June 2021 which includes defining the strict criteria for cross-data transfer.[128]

EVs report geolocation and performance data in real time. This could allow a hostile state to plot the movement of government and defence vehicles. Put together with other information, this could yield critical intelligence. Additionally, by syncing a mobile phone with a car's audio system, manufacturers can gain access to personal data, including access to the messages on someone's phone, their contacts, their files, or perhaps even their banking details.

If CIMs contain vulnerabilities or even backdoors – such as have been found in the products of Chinese technology companies Huawei and HikVision– the amount of data which could be extracted could be considerable.[129] [130] A Le Monde investigation a few years ago revealed that the Africa Union headquarters was bugged by the Chinese Government for five years. China financed and built the building and supplied it with equipment under the pretense of a gift, only to secretly siphon data from computer servers at nighttime.[131] The leading Chinese CIM manufacturer Quectel already advertises this service on its website as part of a 'vehicle tracking system' that offers 'real-time management of vehicle fleets via any computer or mobile phone'.[132] As an illustration of these risks, on 6 January 2023, iNews reported that the geolocation data and movements of the UK Prime Minister's car were tracked by China through a CIM.[133]

121 Holmes, 'Hidden Chinese Tracking Device "found in UK Government Car" Sparks National Security Fears'.
122 China Law Translate, 'Data Security Law of the PRC'.
123 China Law Translate, 'PRC National Intelligence Law'.
124 Pollet, 'Uber Fined €290 Million for Sending Drivers' Data Outside Europe'.
125 Silva, 'Ride-Hailing Giant Uber Strikes EV Deal with China Tesla Rival BYD'.
126 Mazzocco, 'When Cars Become Computers: The New Data Challenge for Electric Vehicles'.
127 Dearlove, 'West Must Wake up to China's Software Surveillance Threat'.
128 Schaefer, Sacks, and Lu, 'With Auto Data, China Buckles In for Security and Opens Up for Future Tech'.
129 Scanlan and Patton, 'China DVR/NVR Backdoor Discovered, Huawei Refutes'.
130 BBC News, 'The Tech Flaw That Lets Hackers Control Surveillance Cameras'.
131 Statt, 'China Denies Claims It Built Backdoors into African Union's Headquarters for Spying'.
132 Quectel, 'Real-Time Management of Fleet Vehicles Thanks to Quectel's M95 Module'.
133 Holmes, 'Hidden Chinese Tracking Device "found in UK Government Car" Sparks National Security Fears'.

A further worry is that a growing number of EVs integrate facial recognition software into their onboard cameras as a safety feature. This is more than theoretical. In Tesla's internal messaging system from 2019 to 2022, their employees shared videos taken from EVs through Sentry Mode (an intelligent vehicle security system) in the homes of private owners.[134]

Legal requirements for EV producers to work with the Ministry of State Security

In China, the authorities have required access to EV data since 2017.[135] Both domestic and foreign automakers must transfer mechanical and navigation data to local government-run data centres, where it is then pooled into a central platform managed by the Ministry of Industry and Information Technology and the Beijing Institute of Technology.

Under Article 36 of the PRC Data Security Law (2021)[136] and Article 7 of the PRC's National Intelligence Law (2017)[137] Chinese EV producers and CIM manufacturers are legally required to share data with the Ministry of State Security and cannot share the data they collect or disclose the extent of that collaboration with the EU or any other foreign government.

PRC law requirements for data collection

Data Security Law (2021)	National Intelligence Law (2017)
Article 36: The competent organs of the PRC are to handle requests for the provision of data from foreign justice or law enforcement based on relevant laws and international treaties and agreements concluded or participated in by the PRC, or in accordance with the principle of reciprocity. Domestic organizations and individuals must not provide data stored within the PRC to foreign justice or law enforcement bodies without the permission of the competent organs of the PRC.	**Article 7:** All organizations and citizens shall support, assist, and cooperate with national intelligence efforts in accordance with law, and shall protect national intelligence work secrets they are aware of. The State is to protect individuals and organizations that support, assist, and cooperate with national intelligence efforts.

Recognising China's legal requirements for data collection and the broader data security risk, the Biden Administration on 23 September 2024 introduced an Executive Order that bans the sales of connected vehicles and EVs which use Chinese software and hardware components in the USA.[138]

134 Roth, 'Tesla Employees Reportedly Passed around Personal Videos from Owners' Cars'.
135 Arcesati, 'The Data Quagmire for German Carmakers in China | Merics'.
136 China Law Translate, 'Data Security Law of the PRC'.
137 China Law Translate, 'PRC National Intelligence Law'.

The EU is already grappling with the challenge of transferring European dataoutside the EU without proper privacy protections in place. Dutch and French regulators fined Uber 290 million euros for failing to protect the data of its drivers when transferring this data to US servers.[139] Uber recently announced a partnership with Chinese EV producer BYD to introduce 100,000 EVs to its global fleet, starting with Europe and Latin America, this will exacerbate data security concerns..[140]

GDPR Compliance

The EU's GDPR requires the compliance of any entity that processes personal data within the EU, whether the company itself is based within or outside the EU. Data collected by EVs, including location, user, and vehicle information, are all potentially covered by GDPR as long as they involve identifiable EU-based residents.

Chinese-made EVs are likely not permitted to process personal data in China and as discussed above are subject to conflicting obligations under PRC laws. Under the GDPR, international data transfer must obtain the "adequate decision" of the European Commission. Since China has received no adequate decision, Chinese companies cannot legally transfer EV data back to China unless the company can demonstrate an alternative safeguarding mechanism.[141] This means that for Chinese EVs to comply with EU data regulations, they will need to process all personal data on an EU-based server, and abide by the general GDPR requirements, such as informed consent, individual rights, minimisation, transparency, encryption, and measures to handle data breach.[142]

In particular, third-party software used in the EVs may be a security concern under the GDPR. The EU Commission has not cleared the upload and process of EV data by third-party developers without adequate security measures. Ethical hackers have found programming vulnerabilities in Ferrari and Mercedes-Benz intelligent systems in the past, which raises concern about the potential threats of malicious hacking of EVs through programming backdoors.[143]

The planned integration of Chinese AI software, such as DeepSeek, into new Chinese EV models will only exacerbate data security concerns, given that DeepSeek has faced restrictions in several countries already on alleged grounds that it has shared user data with ByteDance and may have a backdoor within it.[144] [145] [146] [147]

138 Shepardson, 'Biden Proposes Banning Chinese Vehicles, "connected Car" Technology from US Roads'.
139 Pollet, 'Uber Fined €290 Million for Sending Drivers' Data Outside Europe'.
140 Silva, 'Ride-Hailing Giant Uber Strikes EV Deal with China Tesla Rival BYD'.
141 European Commission, 'Data Protection Adequacy for Non-EU Countries'.
142 Information Commissioner's Office, 'Guide to the General Data Protection Regulation (GDPR)'.
143 Ji-Otto and Kostas, 'Driving in the Digital Age: Addressing Electric Vehicles' Privacy and Security Issues'.
144 Li, 'Chinese EV Leader BYD to Offer "God's Eye" Self-Driving System on All Models'.
145 Silva and Mackenzie, 'South Korea Bans New Downloads of China's DeepSeek AI'.
146 Rahman-Jones, 'DeepSeek "shared User Data" with TikTok Owner ByteDance'.
147 Mok, 'Taking Stock of the DeepSeek Shock'.

III. Human Rights Risk of Chinese EVs

Section Summary

- The European Union has adopted a screening regime that prohibits products made from forced labour being imported into the European Single Market and allows the European Commission to investigate sectors and designate geographic regions as part of a database of forced labour risk areas.[148] This follows growing evidence regarding the prevalence of Uyghur forced labour in goods being imported to Europe from the Xinjiang province in China.[149]

- Research by the Helena Kennedy Centre at Sheffield Hallam University and Human Rights Watch have detailed the potential exposure of Chinese automakers and foreign automakers operating in China to Uyghur forced labour in their supply chain.

- Until recently, Volkswagen remained the only European automaker (through its joint-venture partnership with SAIC) that continued to maintain a factory and a presence in Xinjiang.

- An investigation by the US Select Committee on the Chinese Communist Party has found that two Chinese EV Battery producers, CATL and Gotion High Tech, have alleged links to Chinese companies operating in Xinjiang who are linked to forced labour programs.[150] There is now an active debate in the US Congress on whether these companies should be added to the Uyghur Forced Labour Prevention Act entity list. If Chinese EV battery producers were added, this would mean that EV producers using batteries from CATL and Gotion would be unable to export their cars to the USA.

- In the extraction of critical minerals refined for EV batteries, there are growing allegations regarding the use of child labour in cobalt mines in the Democratic Republic of Congo (DRC).

- There is a further human rights risk when it comes to the growing integration of technology in EVs or charging infrastructure from Chinese companies who are blacklisted or accused of having deep links with the People's Liberation Army (PLA) or human rights violations in Xinjiang. A report by a Chinese market research company found that BYD uses iFlytek for the voice assistant and Huawei for the 5G telecommunications in some of its models.[151] iFlytek and Huawei have both been blacklisted in the USA for their links to the PLA and Xinjiang.

148 European Parliament, Prohibiting products made with forced labour on the Union market.
149 Uyghur Tribunal, 'Uyghur Tribunal Judgment'.
150 Select Committee on the Chinese Communist Party, 'Summary of Select Committee Investigation into Gotion/CATL'.
151 陈, 'In-Depth Report on BYD's New Energy Vehicle Business - Performance and Supplier Comparison of Han/Model3/P7'.

On 23 April 2024, the European Union adopted a screening regime that prohibits products made from forced labour being imported into the European Single Market.[152] This follows growing evidence regarding the prevalence of Uyghur forced labour in goods being imported to Europe from the Xinjiang province in China.[153]

As part of the regime, the European Commission is granted powers to investigate sectors and geographic regions where forced labour has been alleged and to create a database of forced labour risk areas and guidelines for businesses. Enforcement and screening of goods coming into the European Single Market remains the preserve of individual Member States.

Aside from presenting an economic risk, Chinese EVs and its broader supply chain, which has exposure to alleged Uyghur forced labour, could present significant ethical rights risks for European businesses and consumers, and may also fall foul of the new European Union screening regime.

Under Article 2 of the forced labour screening regime[154] Chinese EV exports could be subject to advanced screening if there is evidence of forced labour in their supply chain all the way down to the extraction stage of critical minerals for batteries.

EU's forced labour regulation covers any products made with forced labour at any stage of the production

EU Regulation 2024/3015

Article 2
Definition
[...]
(g) 'product made with forced labour' means a product for which forced labour has been used in whole or in part at any stage of its extraction, harvest, production or manufacture, including working or processing related to a product at any stage of its supply chain;

The new EU screening mechanism also covers distance selling, which in the case of EVs would restrict EU car dealers from importing EVs or EV parts from a third market where there are legitimate concerns about the use of forced labour, such as in the case of Xinjiang.[155] This regime is in line with the United Nations Guiding Principles on Business and Human Rights, which mandates a responsibility on businesses to identify, prevent, and mitigate the presence of forced labour and other human rights abuses in their supply chains.[156]

152 European Parliament, Prohibiting products made with forced labour on the Union market.
153 Uyghur Tribunal, 'Uyghur Tribunal Judgment'.
154 European Parliament, Prohibiting products made with forced labour on the Union market.
155 ibid.
156 Business & Human Rights Resource Centre, 'UN Guiding Principles'.

Aside from the EU forced labour screening regime, European businesses are required under the EU's Corporate Sustainability Directive and the Corporate Sustainability Due Diligence Directive to regularly report on the adherence of their operations and that of their supply chain partners to Environmental, Social, and Governance (ESG) criteria.[157] [158] This is particularly relevant as human rights is a big part of the "S" in "ESG" and Chinese partners companies with links to human rights violations in Xinjiang would not meet this.

Alleged forced labour in the automotive supply chain

Research by the Helena Kennedy Centre at Sheffield Hallam University and Human Rights Watch have detailed the potential exposure of Chinese automakers and foreign automakers operating in China to Uyghur forced labour in their supply chain.[159] [160] This alleged exposure is primarily through local suppliers participating in Uyghur forced labour transfer programs, whereby Uyghurs are relocated primarily from Southern Xinjiang to work in factories in urban areas.[161]

Chinese authorities have described these programs as part of poverty alleviation efforts; however, an expert committee of the International Labour Organization has raised concern that these transfer programs severely restrict "free choice of employment" and involve strict surveillance and the threat of internment in government vocational and educational training centres if they do not accept participation in these programs.[162]

In its report, 'Driving Force: Automotive Supply Chains and the Uyghur Autonomous Region' the Helena Kennedy Centre estimates that there are 96 mining, processing, or manufacturing companies relevant to the automotive sector operating in the Uyghur Region, including at least 38 that have previously documented engagement in state-sponsored labour transfer programs.[163] These companies based in Xinjiang play a central role in the production of the steel, aluminium, copper, glass, tyres, batteries, electronics, and interiors which go into finished Chinese automotives.

The report notes that in December 2022, there were over 40 automotive-sector manufacturers in China that were sourcing from the Uyghur Region or from companies that have accepted Uyghur labour transfers across China.[164] In the case of aluminium production, Xinjiang has been increasingly developed as a hub accounting for 9% of the total global supply and more than 15% of production in China.[165] The auto industry's transition towards EVs is predicted to see demand for aluminium double between 2019 and 2050.

157 European Commission, 'Corporate Sustainability Reporting'.
158 European Commission, 'Corporate Sustainability Due Diligence'.
159 Murphy et al., 'Driving Force: Automotive Supply Chains and Forced Labor in the Uyghur Region'.
160 Wormington, 'Asleep at the Wheel: Car Companies' Complicity in Forced Labour in China'.
161 ibid.
162 ibid.
163 Murphy et al., 'Driving Force: Automotive Supply Chains and Forced Labor in the Uyghur Region'.
164 ibid.
165 Wormington, 'Asleep at the Wheel: Car Companies' Complicity in Forced Labour in China'.

Additionally, Human Rights Watch finds that aluminium produced in Xinjiang is shipped out of the region as "unalloyed" aluminium ingots, travelling thousands of kilometres to reach companies in other parts of China for further processing.[166] This creates a risk that aluminium products made elsewhere in China, including cars and car parts, could contain aluminium linked to forced labour. Aluminium-heavy automotive parts produced in Xinjiang and commonly used in EVs also include alloy wheels and the foil, casing, and trays used in electric vehicle batteries. Human Rights Watch has reported credible evidence of the involvement of aluminium producers in Xinjiang with Uyghur labour transfer programs.[167]

The case of Volkswagen

As noted earlier in the report, until recently, Volkswagen remained the only European automaker (through its joint-venture partnership with SAIC) that continued to maintain a factory and a presence in Xinjiang. Despite calls from over 50 lawmakers, including FDP MP Frank Müller-Rosentritt MdB, for Volkswagen to join other automakers in vacating the region, Volkswagen stayed in Xinjiang until November 2024 and claimed that the operation of the factory was under the control of its Chinese partner SAIC.[168] [169]

Following continued criticism from human rights organisations and pressure from Morgan Stanley Capital International (MSCI) Index which gave Volkswagen a red flag notice indicating involvement in "very severe" environmental, social, or governance controversies, Volkswagen agreed to audit its operations in Xinjiang.[170] The initial audit's findings found "no signs of forced labour" at the plant, although it noted that it struggled to access data from the Chinese partner SAIC.[171] Following the publication of its findings, several staff from the German audit firm, Loening GmbH, distanced themselves publicly from the audit and its findings.[172]

However, on 19 September 2024, a leaked version of the Volkswagen Xinjiang plant audit released to the press found that the audit and local partners had not adhered with internationally accepted auditing standards, particularly when it came to conducting interviews of staff which were carried out over a live stream with the company's law firm in Shenzhen.[173] In response, the Chairwoman of the Bundestag's Human Rights Committee Renata Alt MdB has said that "Xinjiang must become a no go" location for western businesses including Volkswagen and that "no lazy compromises can be reached when it comes to human rights".[174] This followed the announcement from German chemicals company BASF that it would withdraw from Xinjiang.

166 ibid.
167 ibid.
168 Fisher and Nilsson, 'International Lawmakers Call on VW to Withdraw from Xinjiang'.
169 Wormington, 'Asleep at the Wheel: Car Companies' Complicity in Forced Labour in China'.
170 Waldersee, 'VW Sheds "red Flag" Rating from MSCI after Xinjiang Site Audit'.
171 Waldersee, 'Senior Staff at Auditing Firm Distance Themselves from Audit of VW's China Plant'.
172 ibid.
173 White and Nilsson, 'VW Audit of Xinjiang Plant Failed to Meet International Standards'.
174 MarketScreener, 'Politicians Call on Volkswagen to Withdraw from Xinjiang'.

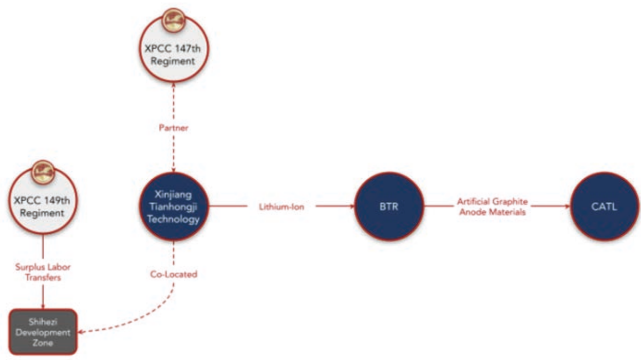
This sequence of events came to an end with Volkswagen announcing that it would be selling its plant in Xinjiang to Shanghai Motor Vehicle Inspection Certification on 27 November 2024.[175] However, this should not be read as Volkswagen reducing its joint ventures in China. On the same day, Volkswagen announced extending its partnership with Chinese automotive producer SAIC to 2040.

EV Battery producers

An investigation by the US Select Committee on the Chinese Communist Party has found that two Chinese EV Battery producers, CATL and Gotion High Tech, have alleged links to Chinese companies operating in Xinjiang who are linked to forced labour programs.[176]

In the case of CATL, the US Select Committee on the CCP has found evidence that it sources a key component, lithium-ion anode materials, from a company controlled by the Xinjiang Production and Construction Corps (XPCC).[177] XPCC is a paramilitary organisation affiliated under the CCP, and the USA has sanctioned it for its links to human rights violations in Xinjiang. The Committee's investigation also found that one of CATL's key suppliers is partly owned by Yibin Tianyuan Group Co. Ltd, which is partnered with the XPCC.[178]

Figure 15 | EV battery giant CATL's alleged links to Uyghur forced labour



Source: Letter to the Forced Labor Enforcement Task Force led by John Moonlenaar

Similarly, the Committee has found that Gotion High Tech sources lithium-ion and other materials from companies with deep connections to XPCC and aluminium foil from a subsidiary of Xinjiang Nonferrous, a CCP state-owned enterprise which is alleged to have participated in Uyghur labour transfer programs.[179]

Outside of links to Chinese companies blacklisted for their involvement in alleged human rights violations in Xinjiang, CATL has also been accused of clocking its employees on a "8am to 9pm six days a week" work regime, not only in flagrant violation of China's own labour laws but also at odds with the EU's supply chain regulations against unfair work conditions.

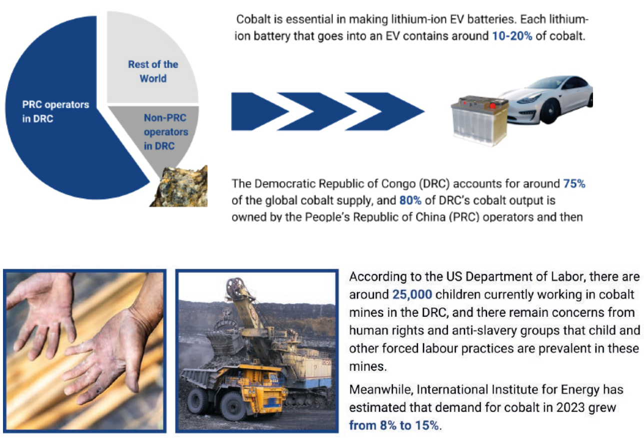
175 Reuters, 'VW Buckles after Years of Pressure to Sell up in Xinjiang'.
176 Select Committee on the Chinese Communist Party, 'Summary of Select Committee Investigation into Gotion/CATL'.
177 Moolenaar et al., '2024-06.05 - Letter to FLETF - CATL.Pdf', 5 June 2024.
178 ibid.
179 ibid.

Such stringent work culture is prevalent in China's tech scene, including reportedly causing numerous instances of death from overwork.[180] These allegations are particularly problematic for European automotive producers who remain heavily reliant on Chinese EV battery producers. In the case of CATL, it had over a third of global market share in the first half of 2024 with customers including BMW, Volkswagen, Mercedes-Benz, Volvo, Stellantis, and Renault.

Critical Mineral Mines

In the extraction of critical minerals refined for EV batteries, there are growing allegations regarding the use of child labour in cobalt mines in the Democratic Republic of Congo (DRC).

Figure 16 | Child labour and China's control over cobalt mines in the DRC



Source: US Department of Labour[181]; Cobalt Institute[182]; International Energy Agency[183].

Chinese EV battery manufacturer CATL injected $137.5 million and $3.7 billion capital into the CMOC Group in 2021 and 2022 respectively.[184] The CMOC Group is a Chinese state-owned enterprise that currently operates multiple copper-cobalt mines in the DRC. However, CATL insists it has ensured a "responsible cobalt supply chain" and used a third-party audit for its cobalt operation in the DRC.[185] There remains a significant lack of transparency and independent investigations regarding the conditions of cobalt mines in the DRC, with journalists reporting on the supply chain facing detention and disappearance.[186]

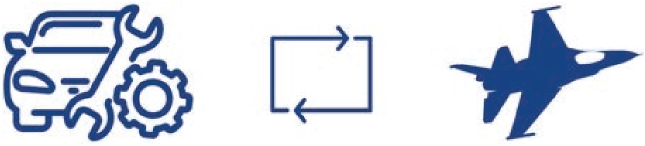
180 Zhou, 'China Tech: Two Deaths on Same Day Reignite Work Culture Debate'.
181 Congressional-Executive Commission on China, 'From Cobalt to Cars: How China Exploits Child and Forced Labor in the Congo'.
182 Cobalt Institute, 'Batteries & Electric Vehicles'.
183 International Energy Agency, 'Critical Minerals - Energy System'.
184 Jamasmie, 'World's Top Battery Maker CATL Grabs Stake in DRC Cobalt-Copper Miner'.
185 CATL, '2018-2019 Responsible Cobalt Supply Chain Progress Report'.
186 'Testimony of Stavros Nicolas Niarchos before the Congressional-Executive Commission on China'.

Chinese companies with links to the PLA or human rights violations involvement in the EV market

There is a further human rights risk when it comes to the growing integration of technology in EVs or charging infrastructure from Chinese companies who are blacklisted or accused of having deep links with the People's Liberation Army or human rights violations in Xinjiang.

A report by a Chinese market research company mapping BYD's suppliers in China found that the EV company uses iFlytek for the voice assistant and Huawei for the 5G telecommunications in some of its models.[187] iFlytek and Huawei have both been blacklisted in the USA for their links to the PLA and Xinjiang. iFlytek and other Chinese technology companies have been accused of assisting mass surveillance programmes in Xinjiang which ultimately has led to the mass incarceration and the use of forced labour against the Uyghur population.[188] BYD is not alone, iFlytek is reported to have cooperative partnerships in China with automotive producers including FAW, Dongfeng, Changan, SAIC, GAC, BAIC, JAC, Chery, Great Wall, Geely, Volkswagen, Audi, Toyota, Honda, Ford and other domestic and foreign automakers.[189]

Further examples of Chinese EV supplier involvements in military research or human rights violations



BYD has three research and development centres that are involved in military-civil fusion initiatives, with bi-directional exchanges between the military and the civilian/commercial sector.[190]

Dahua Technology, a Chinese camera manufacturer that is blacklisted by the USA for its links to Uyghur internment camps in Xinjiang and the subject of a ban in government departments in the UK, has actively been pushing its EV chargers and IoT solutions across Europe.[191] Hikvision, subject to a similar ban, has begun selling an 'EV Bay Parking Solution' which scans 'licence plates and checks them against a DVLA database'.[192]

Chinese technology and cloud storage company, Alibaba, has signed a number of agreements with Chinese EVs companies regarding the provision of data storage, this includes working with SAIC, the owner of MG and Volvo, to develop internet-connected cars since 2016.[193] Alibaba has previously been criticised for providing Chinese authorities with surveillance technology that allows them to target Uyghur Muslims.[194]

In the case of Zeekr, a Chinese EV company which boasts the integration of facial-recognition software to help owners unlock their EVs, in IPO documents to western investors it flagged directly the substantial influence the Chinese Government has exerted over its business.[195] [196]

Another cause for concern is the growing number of partnership agreements signed between foreign automotive companies and Chinese technology companies to help manufacture a viable EV product.

Several media organisations have reported that Tesla cars in China have been banned from driving near military sites, and government buildings on national security grounds.[197] A visit by Xi Jinping to Chengdu saw the authorities ban Tesla cars from the city.[198]

The ban was only lifted after Tesla agreed to integrate the Chinese technology company Baidu's navigation system into its cars in China.[199] Baidu has previously had its ESG rating downgraded and has been accused of complicity in human rights violations, including internet censorship in China.[200]

Japanese car manufacturer Honda Motors has partnered with Chinese facial recognition company Sensetime, which has been blacklisted by the USA for the provision of surveillance equipment targeting Uyghur Muslims in Xinjiang.[201] [202] Similarly, Japanese car manufacturer Toyota has formed a 'strategic alliance' with Chinese technology company Tencent, who had its ESG rating downgraded in 2023 for complicity in internet censorship in China.[203] [204]

187 陈, 'In-Depth Report on BYD's New Energy Vehicle Business - Performance and Supplier Comparison of Han/Model3/P7'.
188 Human Rights Watch, 'Foreign Firms Operating in Xinjiang Need to Consider Human Rights — or Risk Being Complicit'.
189 Guancha.cn, '科大讯飞成立汽车科技公司，早已布局智能汽车市场'
190 Radarlock, 'Building the China Dream: BYD & China's Grand Strategic Offensive'.
191 Platini, 'Dahua's Ambitious Quest to "Play a Significant Role" in the EV Charging Industry'.
192 Caloisi, 'Hikvision Launches EV Parking Detection Solution'.
193 Ren, 'Alibaba-Backed IM Motors Takes Aim at Tesla with New Launches'.
194 BBC News, 'Alibaba Says Its Technology Won't Target Uighurs'.
195 McConvey, 'Facial Recognition Could Make EVs More Comfortable or Add to Data Exposure Risk'.
196 Or and Hytha, 'China EV Maker Zeekr Shares Climb 35% After Expanded US IPO'.
197 Cheng and Tabeta, 'Tesla Cars Face More Entry Bans in China as "security Concerns" Accelerate'.
198 Bloomberg.com, 'Tesla Cars Barred From World University Games Ahead of Xi Visit'.
199 McMorrow, White, and Campbell, 'Tesla Shares Surge after Elon Musk Secures Deal with China's Baidu'.
200 McDonell, 'Elusive Ernie: China's New Chatbot Has a Censorship Problem'.
201 Ren, 'SenseTime Sees Its Smart-Driving Technology in 20 Million Vehicles via Tie-Ups with Honda, Great Wall, Chery and Others'.
202 Bhuiyan, 'US Sanctioned China's Top Facial Recognition Firm over Uyghur Concerns. It Still Raised Millions'.
203 Tabeta, 'Toyota Teams up with Tencent for Drive into China's EV Market'.
204 White and Lewis, 'China ESG Reckoning Looms for Investors'.

Chinese companies with alleged ties to human rights abuses and/or blacklisted by the US and its allies

Chinese Technology Company	EV involvement	Blacklisted/human rights record
Huawei	EV car producer	On the US Entity list and banned in the USA. Some restrictions are required in participating in the following countries‘ telecommunications networks: the UK, Australia, New Zealand, Japan, Sweden, Romania, Estonia, Denmark, France, Latvia, Germany, Italy, Portugal, and Lithuania.
iFlytek	EV voice assistant	On US entities investment blacklist for alleged links to human rights violations in Xinjiang.
Dahua Technology	EV charging infrastructure	On US blacklists for its role in China's Military-Civil Fusion strategy. Banned in UK government departments.
Hikvision	EV smart bay parking solution	On US blacklists for its role in the China's Military-Civil Fusion strategy.Banned in UK government departments.
Alibaba	EV cloud storage	Allegations of complicity in human rights violations against Uyghur Muslims.
SenseTime	EV partnership with Honda Motors	On US entities investment blacklist.
Tencent	EV partnership with Toyota.	Allegations of complicity in human rights violations, including internet censorship.
Baidu	EV partnership with Tesla.	Allegations of complicity in human rights violations, including internet censorship.

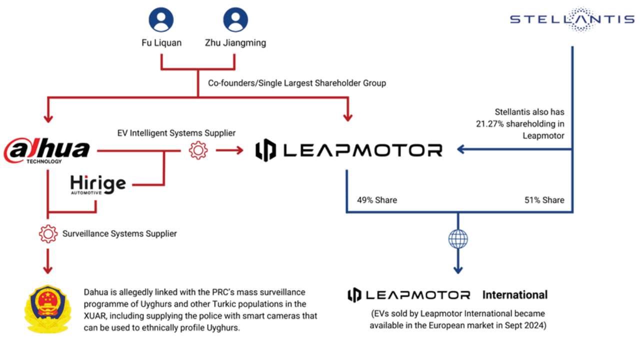
Source: US Department of Commerce; various news reports.

Case study: Stellantis, Leapmotor, and Dahua Technology

As mentioned, the Italian carmaker Stellantis entered into a joint venture with Chinese EV manufacturer Leapmotor in October 2023, with the production of EVs in Europe already taking place in Poland.[205]

Leapmotor was founded in 2015 by the same two executives who founded and owned Chinese camera manufacturer Dahua Technology in 1993. Dahua Technology has been blacklisted by the USA for its alleged links to human rights violations in Xinjiang and is subject to a ban in government departments in the UK.

Figure 17 | Leapmotor was founded by the same persons behind the surveillance camera maker Dahua while Leapmotor and Dahua collaborate closely on EV intelligent systems



CSRI Graphic. Data Source: Dahua and Leapmotor company reports; Leapmotor International.

Note:
Fu and Zhu co-founded both Dahua and Leapmotor. In 2021, Zhu resigned as the Vice-Chairman of Dahua in 2021 to focus on Leapmotor.
Although the executive structures of Dahua and Leapmotor no longer overlap, both Fu and Zhu remain significant shareholders and act as the single largest shareholder group in both companies.

The Uyghur Forced Labour Prevention Act

The Uyghur Forced Labour Prevention Act was signed into law by President Biden on 23 December 2021.[206] Under its provisions, companies must prove that goods entering the United States of America from the Xinjiang region have not been made by Uyghur forced labour. It also introduces an entity list of companies that are deemed to have used Uyghur forced labour in their supply chain either directly or through Uyghur transfer labour programs.

As mentioned above, the US House Select Committee on the Chinese Communist Party has alleged that Chinese EV battery producers CATL and Gotion are exposed to Uyghur forced labour in their respective supply chains. There is now an active debate in the US Congress on whether these companies should be added to the Uyghur Forced Labour Prevention Act entity list.

If Chinese EV battery producers were added to the US entity list, this would mean that EV producers using batteries from CATL and Gotion would be unable to export their cars to the USA. This would create an obstacle for European automotive producers to export to the USA, which remains a significant market.

Some automotive producers already have factories in the USA, including Stellantis, Toyota, and Nissan, which would help them get around this problem, but it would still require these companies to source alternative battery producers for their EV models.[207]

205 Reuters, 'China's Leapmotor Started EV Production at Stellantis' Polish Plant, Jefferies Says'.

206 United States, Uyghur Forced Labor Prevention Act.
207 Gill, '"We'Re Not Panicking yet": UK Carmakers Brace for Trump Tariffs'.

IV. What comes after tariffs?

Section Summary

- At the time of writing, the EU has concluded its anti-subsidies investigation into Chinese EV producers and imposed countervailing duties on Chinese EVs ranging from 17.4% (for BYD) to 35.3% (for SAIC) on top of the previous 10% tariff.[208] In response, a number of EV producers have taken the EU Commission to the European Court of Justice to challenge the imposition of tariffs, including Tesla, BMW, SAIC, BYD, and Geely.[209]

- Research by the Rhodium Group has warned that if the EU is seeking to protect domestic EV production and level the playing field it would need to raise tariffs on Chinese EVs to at least 50% if sales are able to be rendered unprofitable in European markets.

- Several EU Member States have stated publicly that they hope that tariff increases can be used to encourage Chinese EV producers to set up joint-ventures with European automotive producers, open factories in Europe, and transfer technology to close the current EV production gap.

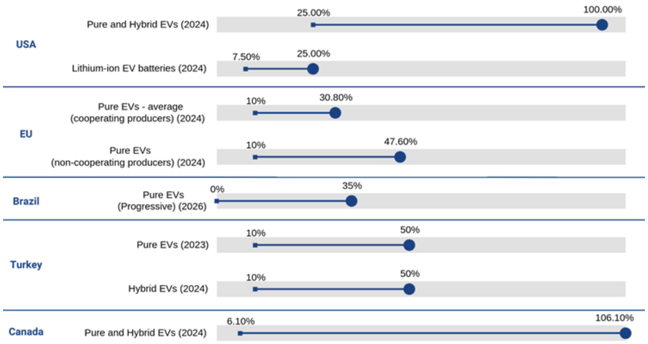
- There remains little financial incentive for BYD to partner with European automotive producers when it continues to make significant profits and can put them out of business. However, this has not stopped investment from Chinese battery manufacturers and EV companies into EU Member States. Some of which allegedly has been weaponised by Chinese officials to encourage EU Member States to oppose tariffs on EVs or at the very least to offer an abstention in the case of planned investments in Italy and Spain.

At the time of writing, the EU has concluded its anti-subsidies investigation into Chinese EV producers and imposed countervailing duties on Chinese EVs ranging from 17.4% (for BYD) to 35.3% (for SAIC) on top of the previous 10% tariff.[210] Other producers are subjected to a weighted average duty of 20.8% depending on their level of cooperation with the investigation and the amount of subsidy received by the manufacturer, while the EU Commission continues to negotiate with Chinese officials to discuss other ways to settle the issue of unfair competition.

These countervailing duties on Chinese EVs are significantly less than the USA, which has raised its tariffs on Chinese EVs to 100% and less than Brazil's 40% tariff on all EV imports. In response, a number of EV producers have taken the EU Commission to the European Court of Justice to challenge the imposition of tariffs, including Tesla, BMW, SAIC, BYD, and Geely.[211]

208 Reuters, 'EU Votes in Favour of Hefty Tariffs on China-Made EV Imports'.
209 Lahiri, 'Tesla and BMW Sue EU as Discontent over Chinese EV Tariffs Mounts'.
210 Reuters, 'EU Votes in Favour of Hefty Tariffs on China-Made EV Imports'.
211 Lahiri, 'Tesla and BMW Sue EU as Discontent over Chinese EV Tariffs Mounts'.

Figure 18 | A global comparison of tariff changes on Chinese-produced EVs



CSRI Graphic. Data Source: various.

Several EU Member States have stated publicly that they hope that tariff increases can be used to encourage Chinese EV producers to set up joint-ventures with European automotive producers, open factories in Europe, and transfer technology to close the current EV production gap. In the case of Stellantis, as noted earlier in this report, its recent joint-venture with Chinese EV producer Leapmotor is designed with this in mind.

Given the track-record of state subsidised Chinese industry upending European manufacturing, the author of this report does not take such an optimistic view. It remains a fun intellectual exercise to attempt to recall any instance where a European company has entered into a joint-venture with a Chinese partner and come out on top.

Research by the Rhodium Group has warned that if the EU is seeking to protect domestic EV production and level the playing field it would need to raise tariffs on Chinese EVs to at least 50% if sales are able to be rendered unprofitable in European markets.[212] In the case of BYD, Rhodium finds that BYD makes around €14,300 in profit on each SEAL U model sold in the EU compared to €1,300 on units sold in China.[213] If the EU were to impose a 30% tariff on BYD it would still leave the company with a €4,700 profit, meaning that exports to Europe would remain highly attractive.

Continued Chinese "green" investment into Europe

Simply put, there remains little financial incentive for BYD to partner with European automotive producers when it continues to make significant profits and can put them out of business. However, this has not stopped investment from Chinese battery manufacturers and EV companies into EU Member States. Some of these investments allegedly have been weaponised by Chinese officials to encourage EU Member States to oppose tariffs on EVs or at the very least to offer an abstention.

212 Sebastian, Barkin, and Kratz, 'Ain't No Duty High Enough'.
213 ibid.

Figure 19 | EV-related investment by China companies in the EU

France:
AESC, Douai

Germany:
CATL, Arnstadt

Spain:
Chery, Barcelona
AESC, Navalmoral de la Mata

Portugal:
CALB, Sines

Sweden:
Volvo, Gothenburg
Kedali, Skellefteå

Poland:
Volve, Kraków
Guotai Huarong, Oława
Tuopu, Poznań
Sanhua, Tychy

Slovakia:
Jiangsu Xiquan, Prešov
Gotion-InoBat, Šurany
Volvo, Valaliky

Hungary:
Huayou Cobalt, Ács
NIO Power Europe Ltd., Biatorbágy
Kedali, Gödöllő
CATL, Debrecen
EVE Power, Debrecen
Halms Hungary Ltd., Debrecen
SEMCORP, Debrecen
BYD eBus & Truck, Komárom
Sunwoda Mobility Energy Technology, Nyoíregyháza
BYD, Szeged

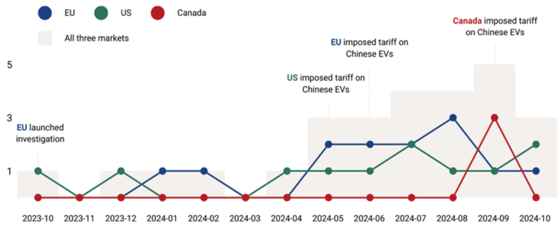
CSRI Graphic. Data Source: Poland, Slovakia, and Hungary data based on Szunomár 2024; The rest are CSRI's own compilation based on press releases and media reports.

In the case of Italy, local media reported that Chinese officials linked a planned investment by Chinese EV producer, Dongfeng, to the Italian Government opposing tariffs and allowing Huawei access to its telecommunications network. Similarly, Spanish Prime Minister Pedro Sanchez has publicly called for the EU Commission to rethink tariffs on Chinese EVs.[214] At the same time, Chinese EV producer Cherry Automobile is set to open a factory in Spain, which will produce EVs for the European market in October 2025.[215]

214 Hall, 'Spanish PM Urges EU to Reconsider Tariffs on Chinese EVs'.
215 Lizarraga and Zhang, 'China's Chery Delays Plan to Build EVs in Spain on EU Tariffs'.

Aside from threatening the withdrawal of investment, China has opened its own anti-subsidies investigations into EU pork, dairy, and brandy exports to China in an attempt to pressure the EU to drop its tariffs on EVs.[216]

Figure 20 | China's anti-dumping tariff measures against EU, US, Canada since October 2023



CSRI Graphic. Data Source: PRC Ministry of Commerce

The consequences of doing nothing

As mentioned earlier in the report, the European automotive sector represents a significant portion of total EU employment and Europe's manufacturing base. Its destabilisation would not only lead to significant economic downturn in a number of EU Member States, a delay in climate targets, but it would also spur on the rise of populism which is already on the march across Europe.

Entangling investments from Chinese EV producers into EU Member States will not meet the job losses from the European automakers they undercut, instead they will likely be used as trojan horses to bypass tariffs, build up market share, and bury European rivals.

For all the talk of "Strategic Autonomy", the European automotive sector remains one of the few areas where Europe continues to lead and has its own industrial and export capability, which competes not only with China but also with the USA. Failing to protect this sector and surrendering this capability would undermine any aspirations or claims the EU has to be a leader in global trade and innovation.

Deepening European dependency on China for green technology, in this case EVs, and the foregoing of an industrial base will only lead to further dependency on future green technologies from China. Stuck in a doom loop, Europe will be unable to innovate and without an industrial base to manufacture. This dependency would be weaponised by China to silence criticism of its material support for Russia's invasion of Ukraine, its human rights crackdown in Hong Kong, the treatment of Uyghur Muslims in Xinjiang, and its military threats against Taiwan.

As both COVID-19 and Russia's invasion of Ukraine have demonstrated, a strong automotive manufacturing base can be repurposed in times of national crisis for medical equipment or even for the production of arms in the defence of Europe.[217] [218] However, without that industrial capacity, those jobs, and skills, the EU will not have this industrial strength to weather future crises.

216 Ford, 'China Hits Back at Electric Vehicle Tariffs with Probe into EU Dairy'.
217 European Automobile Manufacturers' Association, 'EU Auto Industry Actions to Fight COVID-19'.
218 Mackinnon, 'Russia's War Machine Runs on Western Parts'.

Recommendations

Reviewing EU countervailing tariffs on Chinese EVs

The EU Commission should commit to reviewing the EU's countervailing tariffs on Chinese EVs within the first year of the new commission.

This review should assess the impact of Chinese state subsidies for Chinese EV producers and the impact these unfair practices are having on European automotive producers, and whether countervailing tariffs should be raised to in line with tariffs in other markets including the USA, Canada, and Brazil.

Protecting Data Security

The EU Commission should legally require foreign EV companies from a country where the EU does not have a data standards equivalency agreement to store data on European servers and to commit not to transfer the data overseas under any circumstances. EV companies from these countries operating in EU Member States should be legally required to share their source code with European regulators and allow regular inspections of their data storage operations globally as evidence that they are not covertly transferring data to clouds or servers overseas annually.[219]

European intelligence services and the European CyberCrime Centre should be authorised to work with the EU Commissioner for Competition to investigate whether EV companies are transferring data surreptitiously overseas.

A failure to comply with this legal obligation or evidence by the EU Commissioner for Competition's Office that foreign EV operators are refusing to comply with the sharing of their source code or provision of evidence regarding the storage of data globally, should lead to an automatic ban for a particular EV operator from the European Single Market market.

Such a measure should be described at a bare minimum as "reciprocity", since October 2021 China has enforced similar stringent data requirements for non-Chinese technology companies operating in the country who are required to share their source code and commit to keeping data within the country.[220]

219 It should be noted that TikTok in the USA has shared its source code with trusted US cloud provider Oracle as part of Project Texas and even offered to build in a "kill-switch" for US authorities to prevent a ban in the USA.
Anthropic and OpenAI have agreed to give the US AI Safety Institute (which sits under the US Department of Commerce) access to new AI models which will include sharing some of their source code.

220 Arcesati, 'The Data Quagmire for German Carmakers in China | Merics'.

Strict standards for CIMs within EVs

The EU Commission should introduce strict privacy standards for CIMs within EVs, which should include a requirement that EV producers in Europe disclose the suppliers of key CIM components in their vehicles and outline the potential sources of vulnerabilities pertaining to each CIM component.

These standards should legally require EV producers operating in the EU to use non-Chinese CIM suppliers.

Reviewing the EU's investment screening and procurement rules for EVs and their manufacturing

The EU Commission should review the EU's current Foreign Direct Investment Regulation[221] to focus on rules regarding joint ventures and look at local ownership requirements, data security requirements, and local content requirements.

The EU Commission should review the EU's current procurement rules and guidelines for Member States regarding the procuring of Chinese EVs and Chinese EV chargers. EU companies currently face non-reciprocal treatment in China and are excluded from large areas of public procurement contracts in China.

Deepening industrial partnerships with democratic allies

The EU Commission is using the ICTs security and competitiveness working group of the EU-US Technology and Trade Council to negotiate shared EU-US standards on Cellular Internet of Things Modules (CIMs) and develop mutual European and American standards for EVs and connected vehicles.

Building off the EU-Japan Economic Partnership Agreement and the EU-Republic of Korea Free Trade Agreement, as well as the Minerals Security Partnership, the EU Commission should negotiate economic security partnership agreements with Japan and the Republic of Korea.

Areas of focus for these economic partnerships would be collaboration on EV battery development and the creation of a sustainable and reliable critical minerals supply chain in the Indo-Pacific region. The Global Gateway could be used to fund some of these strategic investments.

One target under these partnerships would be to encourage joint ventures between European automotive producers and world leading Japanese and South Korea battery producers, including Samsung, SK Innovation, Panasonic, and LG Energy Solution.

221 European Commission, 'Investment Screening'.

Adding Xinjiang to the EU's forced labour database and introducing guidelines for European businesses

The EU Commission should investigate forced labour in Xinjiang, add the geographic region of Xinjiang to its forced labour risk database, and introduce guidelines for European businesses regarding the prevalence of forced labour goods in the automotive supply chain.

The new European Parliament should also hold hearings with automotive producers, and investigate and conduct a risk assessment of the exposure of the European EV supply chain to forced labour in the INTA and ITRE Committees.

Tax incentives for cooperation between European automotive producers

European policymakers should introduce tax incentives and other measures to encourage European automotive companies to work together to share research, development, and production costs for EVs.

Coordination of EU-wide green industrial strategies

The EU Commission should work with European Member States to coordinate Next Generation EU and Multiannual Financial Framework funds to support the development of the European EV sector, including encouraging matching private sector investment in the EV battery supply chain and EV charging infrastructure.

This should serve as the frontrunner to an EU-wide Green Industrial Strategy that includes policy measures to stimulate the development of an EU EV sector which protects and promotes European automotive jobs.

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