

China Seen Laying Down \$15 Billion Bet on Electric Vehicles

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- ▶ China to be 'epicenter of electrification,' analyst says
- ▶ BYD, Zotye among biggest sellers of electric cars in China

China has found electric cars a tough sell even after lavishing consumers with subsidies and privileges. After almost certainly failing to meet a target to have half a million of such vehicles on its roads by year end, its next act is to achieve a 10-fold increase by the end of the decade.

The electric vehicles in service will fall about 26 percent short of its year-end target, according to estimates from the science ministry and state-backed auto association. To meet its 2020 goal of five million EVs, the government will speed up the construction of charging stations, reducing a major inconvenience for urban residents who don't have personal garages to charge their cars.

"China will be the epicenter for electrification of the auto industry globally," said Bill Russo, Shanghai-based managing director at Gao Feng Advisory Co., who estimates that China would have invested 100 billion yuan (\$15.5 billion) by 2020 on new-energy vehicles.

President Xi Jinping has designated electric vehicles as a strategic initiative in a bid to upgrade the auto industry and create challengers to Toyota Motor Corp. and General Motors Co. The government is increasing spending after signs that the combination of research grants, consumer subsidies and infrastructure investments is starting to yield results. New-energy vehicle production surged fourfold to 279,200 units in the first 11 months, even as oil traded near levels last seen during the global financial crisis.

Local Winners

That has benefited automakers like BYD Co., Zoyte Auto and BAIC Motor Corp., which have led sales of electric cars. BYD, backed by Warren Buffett's Berkshire Hathaway Inc., would have turned a loss in 2014.

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and this year if not for EV subsidies from the central government, according to Barclays Plc. [Geely Automobile Holdings Ltd.](#) said last month that it would target new-energy vehicles to make up 90 percent of sales by 2020.

The government incentives have lured consumers like Zhang Peng, 30, who decided to buy BAIC's EV200 electric car after trying without success for two years to win a license plate in the bimonthly lottery held by the Beijing government. EVs are exempt from the ballot, which has worse odds than roulette.

Zhang also received 90,000 yuan in matching grants from the central and local governments, or almost half of the 208,922 yuan sticker price for BAIC's EV200 electric car. The model costs about 7.5 yuan to run every 100 kilometers (62 miles), compared with an estimated 39 yuan for an equivalent gasoline-powered 1.6-liter Toyota Corolla, according to calculations based on the published fuel-economy rating and Beijing pump prices.

Battery Suppliers

The burgeoning demand has also helped battery suppliers such as South Korea's Samsung SDI Co. and LG Chem Ltd., which supplies SAIC Motor Corp. and Chongqing Changan Automobile Co. Panasonic Corp. said it is considering building a car-battery factory in China to supply lithium-ion batteries.

Among local component makers, Wanxiang Qianchao Co. and Hunan Corun New Energy Co. have more than doubled in Shanghai trading this year as investors bet the surge in electric vehicle demand will boost demand. BYD has climbed 34 percent this year and Geely Automobile has surged 79 percent in Hong Kong trading, compared with the 8.4 percent decline in the benchmark Hang Seng Index.

Global automakers are beginning to get into the act. [Volkswagen AG](#), the largest foreign carmaker by sales, has said it will introduce 15 locally produced new-energy vehicles in the next three to five years in the country. [Ford Motor Co.](#) said this month it's investing \$4.5 billion globally in electrified vehicles.

'Foreigners Coming'

"In the initial stage it was mainly local automakers competing with each other in the electric-car segment, but now the foreign players are coming," said Ouyang Minggao, director of the Tsinghua New Energy Vehicle Center. "All kinds of electric cars will be here soon, including plug-in hybrids, which will lead to very big challenges to local automakers."

The Chinese government is not alone in setting aggressive targets for alternative-energy transportation. President Barack Obama in 2011 called for one million electrified vehicles in the U.S. by 2015, a target that the administration scaled back in March after low gasoline prices reduced the cost advantage of plug-in and

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China, though, has stood out in terms of the scale of the state's financial support. The country has invested about 37 billion yuan into the new-energy vehicle segment over the past five years, according to Gao Feng's Russo, who estimates the government will devote another 63 billion yuan by 2020.

Funding Plan

The central government released a plan on Wednesday detailing funding for local governments to construct charging facilities, tied to the number of new-energy vehicles they sell.

Automakers will have to play by China's rules if they want a piece of the market, even if they don't believe in electric cars. The government has mandated the lowering of average fuel consumption to 5 liters by 2020, from 6.9 liters per 100 km this year.

"There is really no choice for the automakers, if they are required to meet the more stringent emission standards by 2020," said Steve Man, an analyst with Bloomberg Intelligence. "Other technologies with the stringent emission standards won't get you all the way to target."

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