

Ford's deal with China's CATL on \$3.5B battery plant faces geopolitical headwinds

Article

The news: Ford announced plans to build its \$3.5 billion EV battery factory in Michigan using technology from China-based Contemporary Amperex Technology Limited (CATL).

- Under the arrangement, Ford would own 100% of the plant, allowing the batteries to be covered under **Inflation Reduction Act (IRA)** tax credits while relying on CATL's technology and services, per [The New York Times](#).
- CATL is the world's largest EV battery producer, with components in a third of EVs globally, including in **Tesla** and **BMW** models.
- The deal will **help Ford build more EVs faster using CATL's lithium-iron-phosphate (LFP) battery production technology**, which results in cheaper and more durable batteries compared with those containing cobalt and [nickel](#).
- Ford executive chairman **William Clay Ford Jr.** said working with CATL will help the automaker gain the technical expertise needed to eventually build the batteries without assistance.

The big failed diplomacy problem: Ford's CATL partnership represents ongoing US-China interdependence. Many decades of US companies outsourcing production to China helped it reach global superpower status through manufacturing prowess.

- The US has since grown uncomfortable with trade dependence on China, and [relations have soured amid failed diplomacy](#).
- Virginia Gov. **Glenn Youngkin** called Ford's relationship with CATL a "Trojan horse."

We expect partnerships like Ford's to be under scrutiny by the increasing bipartisan hawkishness over China among US politicians.

- Ford's CATL contract includes provisions to work through problems created by geopolitical tensions.
- Such **provisions might lack teeth given Beijing's heavy hand on its private sector and possibly more restrictive policies from US lawmakers on companies doing business in China.**

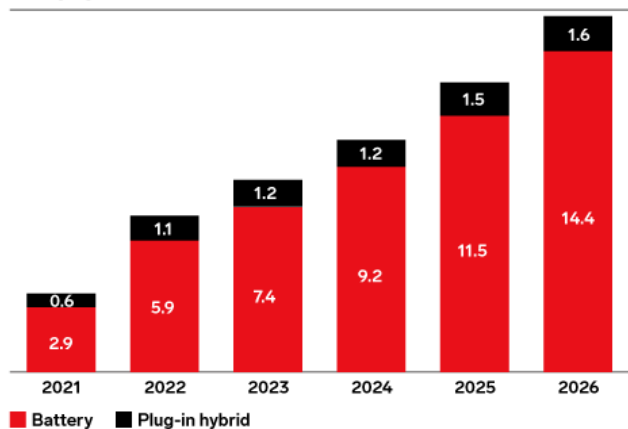
Prepare for supply chain pain: Rising tensions between the nations creates more urgency for the US to diversify manufacturing out of China. However, the Ford-CATL partnership illustrates that the plan isn't easy to achieve.

- US manufacturers will have to find [creative ways to reduce higher domestic production costs](#) to avoid passing them on to inflation-burdened consumers.

- **Apple**, one of many US companies seeking to diversify away from China, is running up against production speed and quality [problems at plants in India](#).
- **Tensions between the US and China could escalate faster than China's production expertise can be replicated elsewhere.**
- Military conflict involving the nations could [harm the global economy and supply chains](#) and be another blow to the struggling tech industry.

**Plug-In Hybrid vs. Battery Electric Vehicle
Production Volume in China, 2021-2026**

millions



Source: International Data Corporation (IDC), "2022-2026 China New Energy Vehicle Market Trends Forecast Report" as cited in press release, Aug 8, 2022

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