

ENERGY COMMUNITY FORUM
COMPETITION LAW IN
THE ENERGY SECTOR

Webinars FROM JANUARY 25TH TO 29TH, 2021



Energy Community Forum: Competition Law in the Energy Sector

#1 Batteries, the new Airbus

Is competition law an obstacle for creating champions?

Monday 25 January 2021

*Interview with Philip Andrews-Speed (National University of Singapore), by Dirk Buschle (Energy Community Secretariat)**



Philip Andrews-Speed (Senior Principal Research Fellow - Energy Studies Institute, National University of Singapore) has been interviewed by Dirk Buschle (Deputy director & Legal counsel, Energy Community Secretariat) in anticipation of the 2021 edition of the "Energy Community Forum: Competition law in the energy sector" to be held online with a series of 3 webinars on January 25th, 27th and 29th.

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Dirk Buschle: To help set the scene for this discussion, who are the leading manufacturers of batteries for motor vehicles and what were their origins?

Philip Andrews-Speed: There are five leading manufacturers of batteries for motor vehicles in terms of capacity. They are LG Chem (now LG Energy Solution) of Korea, CATL and BYD of China, Panasonic of Japan, and Tesla from the US. Their history and origins are quite diverse. LG Chem was founded in 1947 and is part of the LG Group, a 70-year-old Korean *chaebol*. Such industrial conglomerates have close relations with the government. Panasonic is a one hundred-year-old Japanese consumer goods manufacturer. Though it might be considered a small keiretsu (vertically-integrated company) its ownership is highly diversified. Both LG Chem and Panasonic started to manufacture Lithium-ion batteries in the 1990s.

In contrast, the two leading Chinese battery manufacturers were both founded in the 1990s by individual entrepreneurs who, as you might expect, are now very rich. Whilst CATL focuses solely on batteries, BYD also makes vehicles, railways and solar panels. China's research into technologies for electric vehicles began in the mid-1990s and received increasing support from the central government. In response to the 2008 global financial crisis, China identified new energy vehicles as one of the key innovative industries to promote. Subsidies from central and local governments were directed at charging infrastructure, vehicle purchase, and even parking. Vehicle manufacturers were given production quotas and EVs received licenses preferentially. A general feature of many 'private' companies in China is that local state-owned companies are often significant shareholders. In the case of CATL, this ownership amounts to 33% of the shares.

Finally, we have Tesla, an archetypal US, entrepreneur-led company, and the youngest of the five, being founded in 2003.

According to its own website, “the Commission aims to make Europe a global leader in sustainable battery production”. How realistic do you consider the achievement of this goal this in the face of well-established supply chains in Asia? Is this a case of too little, too late?

We should recognise that Europe's failure to produce a major manufacturer of vehicle batteries reflects a lack of appropriate entrepreneurs, the failure of existing battery manufacturers to identify a business opportunity, and a delay on the part of vehicle manufacturers to align their strategies with the climate strategy of the EU. As a result, European (and American) car makers are buying their batteries mainly from East Asia.

To build global leadership along the full supply chain is an ambitious aspiration. Let us break this question in two parts. First, should the Commission support initiatives in specific parts of the supply chain, for example, fundamental research, advanced battery manufacturing or battery recycling? The answer here may be 'yes'. The recently formed joint venture Automotive Cells Company between Total (which now owns the battery maker SAFT), PSA and OPEL might be the type of initiative to receive support. But there again, this JV should be able to raise commercial funding. More deserving, in my view, would be fundamental

research in (1) advanced batteries that would hopefully use materials that are easier to source, and (2) battery recycling.

The second issue is the value of the Commission trying to build leadership along the full supply chain and with industrial clusters across the entire EU. My personal view is that this may not lead to the sort of technological and commercial creativity that will be needed, and may waste money and effort. Instead, a focus on selected initiatives might prove better value. Though I remain open to counter-arguments.

Or would, in your views, Europe's industry be better advised to accept Asia's comparative advantage? What kind of dependencies and risks would you see in such a strategy?

As I mentioned above, European vehicle manufacturers already have supply agreements with battery makers in China, Japan and Korea. Further, car manufacturers from these countries have plants in Europe. Thus, I do not see that a failure to develop a world-leading battery industry would necessarily undermine the EU's ability to pursue its climate goals. If one battery manufacturer, or battery manufacturers from a specific country, chose to embargo deliveries to the EU, then other manufacturers would step in to fill the gap.

Certainly, a European battery manufacturer would be dependent on the reliability of supply chains of raw materials. This is the incentive for the Commission to support (1) the development of batteries that use more accessible materials and (2) battery recycling. These two activities would greatly reduce the EU's external dependence.

So, repeating what I said above, my personal view would be that the Commission should be selective and focused on choosing what activities and initiatives to support.

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