

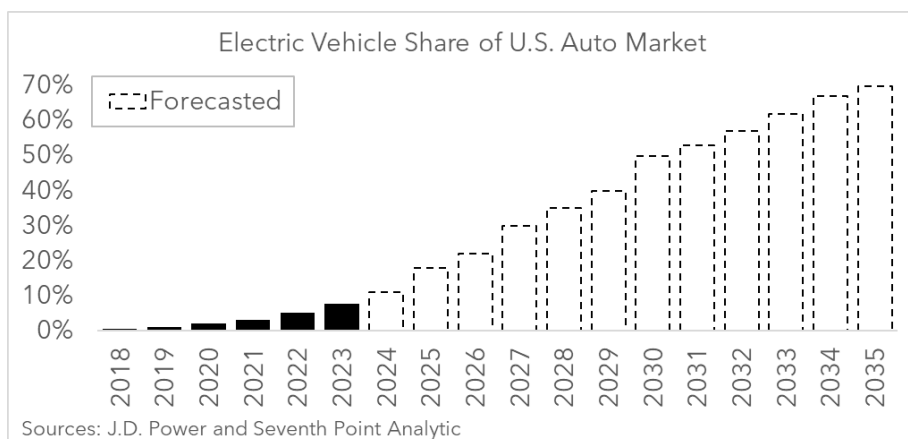


Friday, May 31, 2024

Earlier this month the Biden Administration announced it will **quadruple** the import tariff rate on Chinese electric vehicles (EVs), including both fully-electric and hybrid-electric vehicles (among [many other tariff hikes](#)). Most analysts I've read consider the gesture largely symbolic because, [as is](#), we don't import a lot of Chinese-made cars - only 2% of imported EV cars and only 0.1% of all U.S. auto sales in 2023. That said, the motivation could be, as it is with most import tariffs, just good old fashioned trade protectionism.

It's certainly true that, without tariffs, Chinese EVs could flood the U.S. market, hurting U.S. auto makers and workers. We have a lot of latent demand, largely because U.S. made EVs are so expensive. According to the National Automobile Dealers Association (NADA), the average sale price for all new cars and light trucks sold in the U.S. in 2023 was [\\$47K](#), while the average for EVs was 16 percent higher at [\\$54.5K](#).

One major reason U.S. made EVs are so expensive is because of their batteries. U.S. EV manufacturers almost exclusively use Lithium Nickel Manganese Cobalt (NMC) batteries. These have a high nickel content, and nickel is very expensive. Close to 50 percent 🤪 of the global nickel supply comes from [Indonesia](#), but it's controlled by – you guessed it – Chinese multinationals. The Indonesian government gets kickbacks for protecting these companies by artificially restricting nickel supply through [trade quotas](#). Despite China's having cornered the nickel market, most Chinese-made EVs don't use much nickel. Instead, they increasingly use Lithium Ferrous Phosphate (LFP) batteries, which typically cost about 20 percent less than NMC batteries. And why don't U.S. auto makers use LFPs? [China owns almost ALL global LFP manufacturing capacity](#).



Regardless of where they come from, American drivers will be ditching their internal combustion cars. EVs had an eight percent U.S. market share in 2022, but that number is growing fast. J.D. Power projects EV's market share of new car sales will be **70 percent** within 10 years (see graph at left).

That's a lot of new cars we *could* have for 16 percent less cash *and* speed our transition to clean energy.

Would that be good? Who am I to say? I'm just an economist, and [we don't have the luxury of opinions](#) 🤖

Until next week,

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