

China's electric vehicle industry shaken by scandal

September 13 2016, by Joe Mcdonald

China's electric vehicle industry, a flagship for Beijing's technology ambitions, has been rocked by scandal after five companies were caught collecting millions of dollars in subsidies for buses they never made.

The affair of the phantom buses has prompted questions about whether the ruling Communist Party's financial support to an industry it is spending heavily to promote might be disrupted.

The Finance Ministry announced that five manufacturers were fined for fraudulently collecting a total of more than 1 billion yuan (\$120 million) in subsidies. Chinese news reports, citing unidentified industry sources, say as many as 20 others might be in trouble.

The government gave no indication whether managers at the companies might be prosecuted. The Finance Ministry said 90 companies were investigated but didn't identify any of the others.

"'Subsidy fraud' will do a lot of damage to development of the new energy [vehicle industry](#)," the deputy general secretary of the China Association of Automobile Manufacturers, Xu Yanhua, told the newspaper Economic Observer.

Communist leaders see electric cars, solar and wind power and other "new energy" as promising fields with no established competitors where China can take a leading global role and reap higher-paid jobs and economic growth.

Boosted by government subsidies, China passed the United States last year to become the biggest electric vehicle market by units sold.

The biggest Chinese manufacturer, BYD Auto Ltd., passed General Motors Co. and Nissan Motor Co. last year as the top-selling global electric vehicle brand. It was not among the five manufacturers cited as improperly receiving subsidies.

Most Chinese-made [electric vehicles](#) are sold in China, but BYD has sold buses in California and taxis in Europe.

Beijing paid 33.4 billion yuan (\$5 billion) in subsidies to electric vehicle makers in 2009-15, according to the Finance Ministry. On top of that, Shanghai and other cities encourage sales by waiving license plate fees of up to 100,000 yuan (\$15,000).

Manufacturers can receive rebates of up to 500,000 yuan (\$76,000) per bus or 50,000 yuan (\$7,500) per car.

A Cabinet statement said authorities were ordered to "tighten control" over subsidies. It told local authorities to prevent finance officials from helping automakers to obtain improper subsidies but did not indicate how payouts might change.

The scandal is likely to lead to stricter standards in a system that lacks controls to ensure companies that receive subsidies are creating technology, said John Zeng of LMC Automotive Consulting.

Zeng said for now, companies can collect government money for assembling parts bought from other suppliers to make a truck or bus while doing no research or development of their own.

"Definitely, the government will keep a closer eye on this," said Zeng. "I

think it's a good thing. All the money can be used more properly. Companies that are real and invested money in R-and-D will benefit."

The Finance Ministry said last week that investigators found four companies reported inflated manufacturing figures, while the fifth, Gemsea Bus Manufacturing Co. in the eastern city of Suzhou, made no electric buses at all. Gemsea collected 261 million yuan (\$40 million) in public money.

The companies were ordered to return the subsidies and pay fines equal to 50 percent of the improper payments, the Finance Ministry said.

The biggest recipient was King Long United Automotive Industry, also in Suzhou, west of Shanghai, which got 520 million yuan (\$80 million). The company's chief executive committed suicide this year after [news reports](#) accused manufacturers of inflating sales figures.

Zeng said any additional subsidy abuses found by regulators will likely also be in the bus market because of the bigger payments and because auto sales can be tracked more closely when drivers register their vehicles.

Beijing plans to phase out subsidies financed by public money in 2020 and instead pay automakers for each electric car sold by imposing a charge on gasoline and diesel vehicles.

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Citation: China's electric vehicle industry shaken by scandal (2016, September 13) retrieved 25 April 2024 from <https://phys.org/news/2016-09-china-electric-vehicle-industry-shaken.html>

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