SECTOR UPDATE

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Rechargeable Batteries (OVERWEIGHT)

Dialogue with the market #62: US warns Ford over CATL deal

- In this report, we examine Washington's recent warning to Ford over its China ties—a possible catalyst of yesterday's rally in Korean rechargeable battery stocks.
- Central issues include whether CATL exercises effective control over Ford's Marshall plant and whether Ford's original licensing agreement with CATL qualifies for grandfathering protections.
- We caution against chasing momentum driven solely by regulatory pressure on Ford.

WHAT'S THE STORY?

Introduction: In this issue of our *Dialogue with the market* series, we examine yesterday's intraday surge in Korean rechargeable battery stocks and its purported catalyst—namely, news that the US Secretary of Transportation had warned Ford over its ties to China. However, a closer look at share-price movements raises doubts as to whether this was in fact the trigger. Meanwhile, we also examine the underlying dynamics and implications of the conflicting positions taken by Washington and Ford.

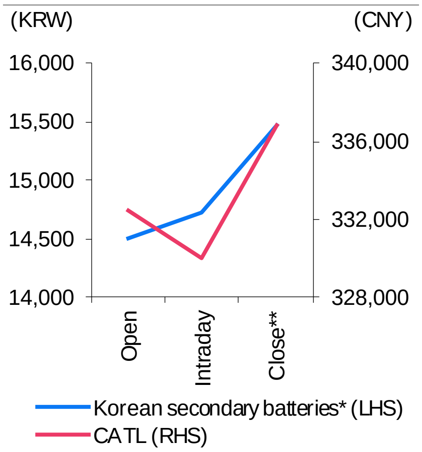
(Continued on the next page)

Share-price movements on Sep 9

(%)	Share-price chg
Korea secondary batteries*	6.9
CATL	0.4
Ford**	-0.1

Note: *Kodex Secondary Battery Industry ETF;
**During US trading hours
Source: Bloomberg

Intraday share-price movement



Note: *Kodex Secondary Battery Industry ETF;
**12:30 pm KST, morning-session close for CATL
Source: Samsung Securities

Market reaction inconsistent with the catalyst thesis: On Sep 9 (US time), US Transportation Secretary Sean Duffy warned Ford against relying on battery cell technology sourced from CATL. Market participants widely attributed yesterday's surge in Korean battery-related equities to this development, interpreting it as a potential setback for Ford's plans to ramp up production of battery cells based on CATL's technology. The logic was straightforward: if US regulatory pressure delays Ford's CATL-dependent facility, Korean battery makers could gain a relative competitive advantage in the US market, fueling buying interest. Yet this interpretation raises questions. If this were truly the primary catalyst, why did the rally begin mid-session rather than at the open? Moreover, why did CATL shares rise alongside Korean battery stocks despite the absence of any positive news specific to the Chinese company? Such parallel movement is difficult to reconcile with the view that the development represented a negative shock for CATL and a clear tailwind for its Korean rivals.

Dispute between US government and Ford over tax-credit eligibility for Ford's CATL-dependent battery plant: The US Secretary of Transportation yesterday criticized Ford's reliance on technology licensed from CATL to produce LFP batteries at its US battery plant, describing it as dependence on technology from a hostile nation. At issue is Ford's Marshall plant in Michigan (part of the BlueOval Battery Park Michigan, which was announced in Feb 2023 as a facility designed to produce 35 GWh[1] of LFP batteries annually exclusively for EVs).

Ford's North American battery plants: Marshall and Glendale

	Marshall plant	Glendale plant
Location	Marshall, Michigan	Glendale, Kentucky
Ownership	100% owned by Ford	Initially a 50:50 JV with SK On; wholly owned by Ford following JV dissolution in Dec 2025
Capacity	Approximately 20 GWh	At least 20 GWh *pa*
Product	LFP batteries for entry-level EVs + residential ESS	ESS for large data centers and utilities
Mass-production target	By end-2026	End-2027

Source: Ford, media reports, Samsung Securities

The dispute centers on differing interpretations of tax-credit eligibility under the OBBBA Act, enacted under the Trump administration. Fords owns 100% of the Marshall plant but relies entirely on CATL for battery-manufacturing technology. Also notable is that, since the OBBBA took effect, Ford has modified its production plans for the Marshall plant to include residential ESS cells alongside EV cells, raising questions over whether such contractual changes could disqualify the project from tax-credit eligibility. Although the Marshall plant must satisfy multiple requirements to qualify for the AMPC tax credit—including the material assistance cost ratio (MACR)[2] and other criteria—this report focuses on two key issues: 1) whether CATL exercises effective control over the facility; and 2) whether Ford's contractual modifications trigger restrictions.

[1] Production capacity was subsequently reduced to around 20 GWh amid the UAW strike, the EV chasm, and mounting US congressional scrutiny of technology cooperation with China

[2] Under the OBBBA, AMPC eligibility requires qualifying components to exceed the applicable MACR thresholds, which measures material assistance from PFEs. For threshold details, see *Dialogue with the market #61: Fino's strength* (Sep 8, 2026)

Ford's Marshall plant: Key issues between the US and Ford over tax-credit eligibility

Item	US government view	Ford management view
Ownership structure	Ford holds a 100% stake, but the plant is effectively dependent on Chinese technology	Ford owns the plant site, buildings, equipment, and all operating interests
Assessment criteria	**Effective control and technological dependence:** On-site CATL engineers and production-volume-based royalty payments constitute violations of Prohibited Foreign Entity (PFE) restrictions	**Simple licensing agreement:** Control rests with Ford management and its US board, with the technology license constituting a standard commercial transaction
Interpretation of OBBBA provisions	Violation of Sec 7701(a)(51)(D) and 45X: Tax-credit eligibility is lost upon amendments/extensions to licensing agreements with PFEs or continued revenue-sharing arrangements	**Grandfathering of existing contracts:** Licensing agreements entered into before enactment of the law (Jul 4, 2025) retain eligibility under statutory exemption provisions

Source: OBBBA, ReBo, US House Select Committee on the CCP, GSS

Issue 1: Whether CATL exerts effective control over the Marshall plant: Under the US government's Prohibited Foreign Entity (PFE) Guidelines, even if a Specified Foreign Entity (SFE) holds less than 25% equity, it may still be classified as a Foreign-Influenced Entity (FIE) if it: 1) exercises control over core battery cell manufacturing technologies through contractual rights; or 2) retains the ability to reclaim intellectual property essential to production. Furthermore, given that CATL personnel are stationed on-site to manage production yield and equipment operations, this can be interpreted as *de facto* control. The law significantly tightens the FIE threshold to prevent PFEs (such as those in China) from circumventing restrictions via licensing agreements (even in the absence of equity investment) to exert influence. In response, Ford contends that CATL holds no equity stake in the Marshall plant, has no board representation, no authority over personnel decisions, and no involvement in management operations—therefore Ford asserts full ownership.

OBBBA: PFE definition and criteria

Category	Definition / criteria
Prohibited Foreign Entity (PFE)	Entities classified as an SFE or FIE
Specified Foreign Entity (SFE)	FEOCs, Chinese military companies, and other Foreign-Controlled Entities*
Foreign-Influenced Entity (FIE)	Meets either of the following: (1) Ownership/control: SFE holds executive appointment rights; single SFE ownership ≥25%; aggregate SFEs ownership ≥ 40%; or debt held by SFEs ≥ 15% (2) Effective control: SFE exercises effective control over the production/operation of a taxpayer's qualified facilities, energy storage technology, or qualified components

Note: * Foreign-Controlled Entity refers to: ① Government of a covered nation, ② Agencies or subordinates of such government, ③ Nationals of a covered nation, ④ Entities established under the laws of or with a principal place of business in a covered nation, ⑤ Entities controlled by any of the above (①-④)

Source: US Congress, Samsung Securities

Issue 2: Restriction on contractual modifications: In an official inquiry sent to Ford's CEO in January, the House Select Committee on the CCP highlighted two key points: 1) the OBBBA explicitly disqualifies a project from tax-credit eligibility if it pays royalties to a PFE based on production volume or if the underlying contract is modified after the law's Jul 4, 2025 effective date; and 2) Ford's decision to expand production at the Marshall plant to include ESS cells constitutes such a contractual modification, thereby rendering the project ineligible for tax credits under the Act. Ford, however, argues that its original licensing agreement with CATL was signed in 2023, before OBBBA was enacted, and therefore qualifies for grandfathering protection that exempts pre-existing agreements from new restrictions.

For grandfathering to apply, however, the original contract must remain unaltered. In this case, while the 2023 agreement with CATL was limited exclusively to LFP battery cells for EVs, Ford publicly announced its strategic shift to include ESS cell production in Dec 2025. This significant broadening of the product scope constitutes a substantive modification of the original agreement, thereby triggering the PFE-related restrictions under OBBBA.

Implications for Korea's rechargeable battery industry—Avoid chasing momentum driven solely by regulatory pressure on Ford: With Ford preparing to begin mass-production of LFP cells based on CATL's licensed technology and the Marshall plant's eligibility for AMPC tax credits still unresolved, the sharp disagreement between the US government and Ford makes it risky to chase momentum on regulatory actions against Ford or make preemptive investment decisions based on anticipated outcomes.

Given the Trump administration's policy stance, Washington is highly likely to resist granting tax incentives for products manufactured using CATL technology and personnel. Moreover, as Ford has already modified or expanded the plant's production plans, the facility could lose its AMPC eligibility under existing legal provisions. This creates a favorable environment for Korean companies to strengthen their position in the US market, particularly as the regulatory framework effectively excludes Chinese supply-chain inputs.

If Ford can demonstrate that it has abandoned its ESS production plans and reverted fully to the terms of its original 2023 licensing agreement, which was limited to EV cells, it may retain its AMPC benefits—though this could weigh on investor sentiment toward the Korean battery value chain. However, even if Ford ultimately secures AMPC benefits, OBBBA's strict limitations on technology licensing from Foreign Entities of Concern (FECs) make it highly unlikely that other US automakers will follow the same model—an important consideration for investors.

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