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SPOTLIGHT

In Landmark Decision,
EU to Impose Definitive Tariffs on Chinese EVs

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Despite intense lobbying and pressure on the European Commission (EC) and the Member States from China as well as German Chancellor Olaf Scholz and his country's automotive sector, the EU on 4 October backed the Commission's proposal to impose tariffs on electric vehicles (EVs) imported from China. This is a landmark decision that suggests the EU is on a confrontational course with China.

What was the decision and why is it groundbreaking?

Ten countries voted in favour of the Commission proposal, including Poland and France, five voted against, including Germany, and 12 abstained. Because the vote took place under the reverse-qualified majority voting (QMV) formula, in which a sufficient number of votes are needed to reject an EC proposal, abstentions in practice were treated as votes in favour of it.

The EU's positioning on China has changed in recent years. This was reflected in a document adopted in 2019 that presented China not only as a partner but also as a competitor and systemic rival. It then began to introduce so-called defensive mechanisms, such as investment screening and an anti-coercion instrument. Despite these changes, the EU had not yet confronted China in such a clear way as this recent decision.

So far, the use of defensive measures, such as screening or the foreign subsidies regulation (FSR) that targets financing that distorts the internal market, has been mainly dissuasive (e.g., Chinese companies withdrew from tenders, such as one for electric trains for Bulgaria or a photovoltaic farm in Romania after the announcement of the FSR launch). The measures have also affected sectors that are not as economically important in Europe as the automotive industry—almost 14 million Europeans work directly or indirectly in this sector, representing 6.1% of EU employment.

The decision on EVs, however, changes the state of play to offensive because it hits Chinese production and exports. Although demand for EVs in Europe is falling, the EU's plans to make CO_2-emitting cars unaffordable from 2035 mean that European consumers will sooner or later buy zero-emission vehicles. The survival of the European car industry is therefore at stake. In the case of electric cars, the Union has resisted strong pressure from China—risking retaliation—and Germany. It has learned the lessons of the defeat it suffered in 2013 when it imposed not very high and, above all, belated tariffs on Chinese photovoltaic panels. As a result, the European solar panel industry was practically wiped out by subsidised Chinese production.

What made the EV decision possible?

In recent years, especially since the Russian full-scale invasion of Ukraine in 2022, the Union has increasingly recognised China as a systemic rival. There is a growing awareness in the EU that China is a threat both to the Union's economic security (a flood of overproduction leading to the deindustrialisation of Europe) and to "hard" security (e.g., via China's cooperation with Russia and its supply of materials, including dual-use items, to Russia).

The position of Commission President Ursula von der Leyen also plays an important role. She is convinced of the need to stop the flood of subsidised Chinese products into the EU market in a sector as important to Europe and vital to the economies of many Member States as the automotive industry. Its importance to the EU in her thinking is demonstrated by the case involving Chinese EVs, which was taken up the EC and announced by von der Leyen in September last year, a move that was seen as a surprise.

It is also significant that the EC president is convinced of the need for close cooperation with the U.S. (it announced in May that it would impose 100% tariffs on Chinese EVs, coming into force on 27 September this year), which will allow synergy to be achieved in actions to protect the EU market. This could also be important in light of a possible Donald Trump victory and the likely additional pressure on Europe.

The decision was also made possible by the weakening of the Franco-German tandem "engine" in the EU. Germany's (mainly under Scholz) and France's policies towards China are increasingly diverging. The governments of both countries are further weakened after the European elections, the French parliamentary elections, and the recent elections in three German Länder. The weakness of the German governing coalition, disagreements within the coalition on China, and Scholz's rigid position in favour of the German car industry, which fears Chinese retaliation, mean that there is less willingness in the EU to take Germany's position into account or even to exert pressure because of it.

What is next?

The support of the Member States for the EC's proposal means that the Commission will be able to close the investigation into the subsidised production of Chinese electric vehicles and impose duties. The Commission's implementing regulation should be published by 30 October this year, in which case the duties will enter into force in November and will be in place for five consecutive years. Until the regulation is published, negotiations with China are possible. Trade Commissioner Valdis Dombrovskis laid the groundwork for talks when he met his Chinese counterpart, Minister of Commerce Wang Wentao, on 19 September this year. Wang came to Europe to negotiate, among other things, a postponement of the vote on the issue, to which the Commission did not agree.

Retaliation from China is possible, although given the dependence of the Chinese economic model on exports (because of very low domestic consumption), including to the European market, the scale of retaliation may be small. Until the tariffs come into force, China will negotiate, putting the EC in a better position. However, it is likely that once the tariffs are imposed, China will target agricultural products, like the already introduced screening procedures of EU imports of brandy, pork, and dairy products, which in effect reduce imports. Poland, which exports agricultural products to China, could also be affected. It is also possible that China will not agree to the so-called regionalisation of Polish poultry exports, which is currently being negotiated. By hitting the agriculture industry, China is counting on lobbying by producers in the sector in European countries and possible anti-government protests to force concessions on EVs and in other areas.