



By: Tomorrow's Affairs Staff

Higher European tariffs on Chinese EVs - a necessary measure to protect against unfair competition



The European Union has launched a probe that will last more than a year. The outcome is already known - the imposition of tariffs on the import of electric vehicles (EV) from Chinese manufacturers. Ursula von der Leyen, head of the European Commission, may not be in that post when the EU formally imposes import tariffs on Chinese EV manufacturers, but she is the architect of that decision. Speaking at her annual State of the Union address at the European Parliament, the Chief EU executive announced the launch of a probe to determine the unfair practices of Chinese manufacturers exporting more EVs to the EU due to significant state subsidies. The EU's decision to identify unfair Chinese competition has been brewing for months, under significant pressure from European car manufacturers and politicians from their countries, primarily France and Germany. In such cases, it usually takes more than a year from the start of an investigation to the decision of Brussels on the measures that would suppress the potential damage to the European market.

The decision has already been practically made

But, in reality, such a decision had already been reached before the probe began. The European Commission rarely starts such a process without being confident that the results would support the initially expressed suspicions. Therefore, the Europeans have already entered a trade war with China where the stakes are high, not only financially. As early as September 25, at the high-level dialogue on economy and trade, the launch of a probe into Chinese EV exports will undoubtedly be the main topic. This will also be the case at the EU-China summit that will follow at the end of the year. The European bureaucracy and the governments of its largest economies have decided to protect their large car manufacturers from the invasion of high-quality, but also highly subsidised, Chinese competitors. "We don't want to see Chinese electric vehicles benefiting from our climate policies", said

Manfred Weber, head of the European People's Party, the largest faction in the European Parliament, supporting the measures announced by Ursula von der Leyen.

Invasion of Chinese EVs

Chinese manufacturers started to pose a challenge to major European manufacturers in their home market last year, and the situation is similar this year. During the first half of 2022, some 350,000 Chinese EVs were sold in 9 EU countries - more than in all of the EU countries combined. Sales have increased significantly. In the first 7 months this year, the EU imported between two-thirds and twice as much as it did during the same period in 2022. The Chinese share in the European EV market has been increasing progressively. Last year, it was around 8%, but it will double in 2025 to approximately 15%. Large European producers, particularly those in France and Germany, are evidently unable to accept the competition's rapid takeover of the market. As a result of their pressure, politicians provide protection. Chinese manufacturers present competition to European ones. The average price of their EV is 20 to 30% lower than the European one in the same class. That difference is only partly the result of lower production costs in China, and there is no doubt that a large part is the result of massive state subsidies, which the EU wants to defend itself against.

China will retaliate against European manufacturers

There is room for protectionism here because import tariffs for Chinese manufacturers are still at 10%, far lower than the American one of 27.5%. The issue is whether the EU will be able to increase its import tariffs on Chinese vehicles to 30% in a year, given that they are already that much less expensive, largely due to government subsidies. Any percentage increase in tariffs, particularly one so significant, will be an issue for the same European producers these measures should

protect, since they also produce a lot in China. Without a doubt, the Chinese government will retaliate against European protectionism with its own administrative measures, which would, in turn, penalise European producers and their businesses on the Chinese market. Simply put, China is a champion in state interventions in the economy, so counter-measures will not be a problem, nor will it have to do tests or significant market analysis. Conquering the huge European EV market is an economic but also a political task, considering the advanced European green strategies, the basis of which is the transition from traditional vehicles with internal combustion to electric ones.

The EU should have protected itself earlier

European protectionist measures will impact the business of European auto giants in China. Nearly half of Volkswagen's sales come from the Chinese market, so it, like other European manufacturers, will have to prepare for a decrease in sales and revenues if China takes reciprocal measures. However, the EU's protective measures regarding its own auto industry were inevitable, even overdue. This industry employs 13 million people in the EU - about 7% of the total workforce. By that parameter alone, it must be the subject of Brussels' particular concern. The expansion of Chinese imports poses a threat to the whole industry, which serves as the principal engine for ambitious carbon-neutral strategies. The measures suggested for Chinese producers could not immediately result in a balance acceptable to European producers. However, this will be enough time to consolidate and carry on the race in more equal circumstances than currently, following a period of declining sales and a slower transition towards EV manufacturing.