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Analysis of today
Assessment of tomorrow

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Are EU tariffs on Chinese EVs sending the wrong message?

The world is still waiting with bated breath for how the Trump trade wars will pan out. Tariffs, we are to understand from all the recent turmoil in global markets, are bad news.

Yet, now it seems that sky-high EU 'anti-subsidy' import duties on Chinese electric vehicles (EVs) are starting to have at least some effect.

The first indications of much lower Chinese EV shipments already came last November, immediately after the tariffs of up to 45.3 per cent were introduced. Now the Financial Times has published remarks from industry analysts and Chinese auto executives that acknowledge the tariffs' role in limiting Chinese EV penetration in the European market.

Of course, stopping Chinese car makers from selling their much cheaper and increasingly desirable products in Europe, is not the stated purpose of the increased duties.

They came in response to European Commission research that purportedly uncovered large Chinese state subsidies for its EV automotive sector.

An alternative scheme

The Chinese government vehemently disputes this and has lodged a complaint with the WTO. The trade organisation's Dispute Settlement Body has just now agreed to establish a dispute panel in the case, which means it's moving forward, for now.

Both the EU and the Chinese have also indicated in recent days that they would much rather solve the issue through negotiations. An alternative scheme might be in the works: instead of tariffs, minimum prices for Chinese EVs would be established in the European market.

This has worked in the case of some other products, but those are mostly less complex, single components or commodities. Working it out for more complex and varied products such as cars is likely to be less straightforward. Yet, the talks can be seen as progress.

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The EU-China negotiations come amid the ever greater worldwide unease over tariffs and trade obstacles imposed by the US. Early indications are that the steps, which for now most blatantly apply to China, are having an impact on trade and growth.

The German auto manufacturers organisation VDA, always opposed to the EU tariffs, pointedly welcomed the EU-China talks, saying the sides should discuss "how to reduce obstacles and distortions in international trade, rather than building new hurdles."

German automakers were once the gold standard of the EU's remaining manufacturing prowess and were the lead car exporters in the world. Exports to the US, worth around $25 billion in 2023, and China, at over $16 billion in 2023, led this powerhouse, which still stands at the centre of the EU's economic performance.

Yet, the German economy is stagnating and thus dragging down the rest of the EU. Concern centres on German car makers who, while still dominant, have failed to keep up sufficiently. Particularly in EV and battery development and manufacturing.

More manufacturing in Europe

The EU's tariffs on Chinese EVs are supposed to 'level the playing field', meaning that the measures protect European manufacturers from unfair competition from state-subsidised Chinese brands. In response, Chinese EV makers are already looking into creating more production capacity in Europe.

At first glance, this would be a good thing.

More manufacturing in Europe is good for the trade balance, for employment, for supply chains, and for the economy in general. It is what the Trump administration ostensibly is also aiming for with its 'reciprocal tariffs'.

That the EU's duties on Chinese EVs appear to be working might encourage the Americans to stay the course on their tariffs. The US case for 'reciprocal' tariffs might sound weaker than the EU's argument on Chinese EV subsidies, although that is something that the WTO still has to decide.

Regardless of the justifications, major economies, such as the US, the EU and China, will also look at what works in practice. While tariffs and protectionism had waned in the second half of the 20th century and the first years of this one, they've always been present to some degree.

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But here, the European EV story could become tricky. It is no coincidence that the EU is open to discussing replacing the tariffs with minimum prices on Chinese EVs.

Making Chinese imports more expensive and encouraging Chinese manufacturing in the EU is not the desirable solution that it might seem at first sight.

However counter-intuitive, and counter to the Trump administration's narrative of repatriating manufacturing jobs in the US, concerns are already being expressed of Europe becoming a mere 'assembly hub' for Chinese EVs and batteries.

Battery and EV development

China has taken the global lead in certain renewables, especially batteries and EVs, but also in solar panels and wind turbines. Part of the reason it has been able to do so is ascribed to technology transfer agreements.

Simply put, it would allow Western manufacturing on its soil, in exchange for gaining access to the technologies involved.

The EU and European governments are now trying to boost their battery and EV development and manufacturing by also attempting to gain access to now- superior Chinese technology and by giving huge subsidies.

A focus on recapturing manufacturing in certain key sectors that relies on tariffs might still fall short

Earlier this year, the European Federation for Transport and Environment, which looks at sustainable transport, concluded in a report that, "while hundreds of millions of subsidies are given to foreign battery factories and partnerships in Europe, precarious social conditions, some environmental breaches and - crucially - a lack of meaningful technology transfer persist."

The above statement shows how difficult it is to replicate this kind of development and manufacturing capability in Europe. Not just because of the investments needed but also because European countries are less willing to allow the kind of environmental and social conditions that still persist in China.

A focus on recapturing manufacturing in certain key sectors that relies on tariffs, even when combined with subsidies and technology transfer conditions, might still fall short.

Europe will have to tailor solutions to its own circumstances

In the US, the Trump administration is willing to loosen environmental regulations, which is unlikely to happen significantly in the EU. But even then, it's unlikely that American workers will thrive in the same conditions that their Chinese counterparts do, as Chinese social media memes have had a field day pointing out since Trump's 'Liberation Day' tariffs.

None of this will help the EU, either in its quest to remain relevant in the automotive sector or in its drive towards a more sustainable future.

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On the latter issue, logic would dictate freer access to cheap Chinese EVs and batteries, for example, in order to meet the targets for ending the sale of combustion engines by 2035, on which it's woefully behind.

If Europe is to remain relevant in these sectors, it will have to tailor solutions to its own circumstances, cleaner and less labour-intensive than China's. A similar problem is shaping up, by the way, in AI, where the construction of huge server farms needed for computing power puts too much strain in many places on electricity grids, water and other resources.

The Trump trade war might, in the short run, help convince China to be more flexible in its talks with the EU and even share some of its proprietary technology.

In the long run, though, Europe will have to find different solutions, and none of them, not on a technology or manufacturing level, nor in terms of geopolitics, should rely on China.