Chinese EV tariffs push production in Europe; Western brands set to feel the impact too

After a year of investigations and talks, the EU will impose additional tariffs up to 35.3% on Chinese electric vehicles starting today, 30 October. This will impact Chinese manufacturers but won't stop their European expansion. Production may shift to Europe, and retaliatory measures could affect European carmakers with stakes in China

The evening rush hour in Beijing's Guomao CBD business district

Formalisation of import tariffs on Chinese electric cars following EU's findings

On 4 October 2023, the European Union initiated an anti-dumping investigation into Chinese electric vehicles (EVs). The investigation aimed to determine whether these Chinese-manufactured EVs were benefitting from state subsidies, thereby distorting competition and potentially harming the EU's automotive industry.

According to the European Commission's findings, the Chinese EV value chain has significantly benefitted from various forms of state subsidies. To restore a level playing field, provisional countervailing duties, implemented as securities, were introduced on 4 July. Now that the duties have become definitive, the EU Commission has decided not to retroactively levy securities from July. Instead, the additional definitive duties will be imposed for a period of five years starting from 30 October.

Chinese brands just started their journey in Europe, but they're positioned to surge

In 2024, the average share of Chinese brands in total new car registrations in the EU barely exceeds 1%. However, for battery electric vehicles (BEVs), this share is already over 8%, reflecting a rapid increase over the past five years. The EU's market share of BEVs slipped to 13% in the first three quarters of the year, down from 14% last year. Nevertheless, with the EU's strong commitment to transitioning to electric vehicles, this share is expected to rebound and rise sharply between 2025 and 2035, bringing affordable Chinese cars into the spotlight.

Web of EU-tariffs add up to 45% to import prices

The level of the duties varies widely depending on how well producers have cooperated in the anti-subsidy investigation and depending on how high the level of subsidies received from China are.

For the three Chinese producers included in the Commission's sample, these individual duties are applied:

- BYD: 17 %
- Geely (incl. Polestar and Volvo): 18.8 %
- SAIC (incl. MG): 35.3 %

All other manufacturers that are producing in China will be subject to additional duties of 20.7%. Companies that did not cooperate are subject to a duty of 35.3%. Tesla pays an individually calculated rate of 7.8% as the company applied for an individual examination, which found that it received lower subsidies compared to other Chinese manufacturers. The definitive measures now enter into force for a period of five years, meaning that the tariff rate for imported cars increases to a maximum of 45.3% as the standard tariff rate for cars imported into the EU is already 10%. By imposing these tariffs, the Commission aims to create a level playing field for manufacturers producing in China and those in the EU.

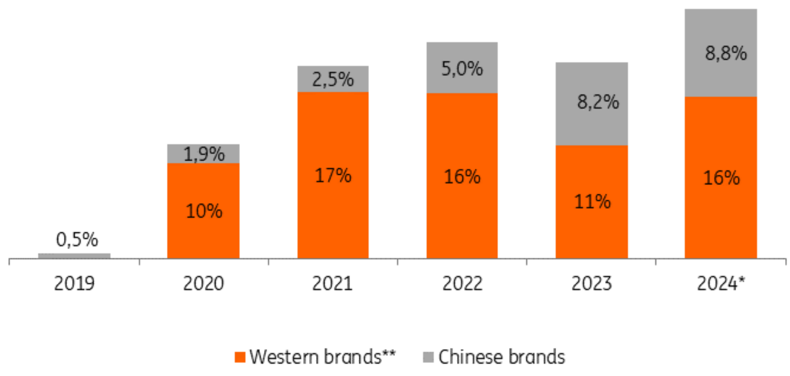
European manufacturers also hit, with many EVs for Europe built in China

However, it is evident that the EU is also focused on protecting its domestic production, as imports of Western brands such as BMW, Dacia, and Renault, which are produced in China and exported to the EU, are also subject to the additional import duty of 20.7%. Imports of Chinese-built EVs by Western brands – like Tesla's Model 3 and Volvo's EX30 – even make up the majority of imported cars (around 60%).

The EU argues that EU manufacturers act as traders and not producers in this case. These tariffs therefore convey the dual objectives of the EU's policy: promoting fair competition and protecting domestic industries. This highlights the complexity and potential unintended consequences of such trade measures.

European market share of Chinese electric cars 8%-9% this year, but many more are built in China by western brands

Share of total EU battery electric car sales built in China, either by Chinese brands or Western brands**, per year



Source: T&E, ING Research *forecast **Excl. Polestar and MG

Tariffs won't be the end of the rise of Chinese brands in Europe

While the tariffs represent a significant barrier, it won't prevent Chinese brands from making inroads and settling in European markets. Profit margins usually still exceed the level of tariff increases and Chinese brands, such as BYD, are eager to win long term shares. The tariffs will likely also speed up the process of setting up production regionally in Europe, which BYD is already preparing in Turkey and Hungary. They could also push the exportation of plug-in hybrid vehicles as these are not included.

European manufacturers importing from China may also reconsider production locations. Volvo, for instance, decided to expand production of its EX30 model to its plant in Ghent, Belgium, due to higher demand from Europe – but also due to tariffs for EV imports into the US.

Retaliatory tariffs will come – spiralling actions are a risk, but we still do not expect a full-scale trade war

Despite trade talks between China and the EU in the weeks after the preliminary finding, final tariffs haven't been averted. Since this anti-dumping investigation was initiated by the EU Commission rather than the industry, there is a concern that it may be driven more by political interests than purely economic reasons. Indeed, several member states – reportedly Germany, Slovakia, Slovenia, Hungary, and Malta – did oppose additional tariffs. However, the blocking of the qualified majority (15 member countries, representing 65% of the EU population) could not be obtained despite retaliatory investigations by China, targeting each member differently due to the diverse interests of EU members.

Even if we see a couple of retaliatory tariffs on (mainly French) brandy, (mainly Spanish) pork and possibly also (mainly German/Slovakian) cars, we do not expect a US-style escalation in trade policy. Both sides are interested in avoiding a major tit-for-tat tariff escalation. For China, the EU market is an enormously important sales market, ranking second after ASEAN. But also for the EU (and particularly German manufacturers VW, BMW and Mercedes), China remains an important export destination; the EU's overall share in its extra-EU exports stood at 8.7% in 2023, making China the third most important export destination after the US with 19.7% and the UK with 13.1%.

Imports from China are even more important. 20.6% of the EU's extra-EU imports come from over there, making China the most important source of imports, followed by the US with 13.8 % and the UK with 7.2 %. With a large dependence on Chinese essential components – particularly batteries and the refined battery materials behind – a deterioration in trade relations and further tariffs pose a non-negligible risk for European manufacturers. This likely explains why the EU continues to pursue a balanced approach, opting for a middle ground solution rather than imposing comprehensive tariffs on Chinese EVs as the US has done. Lastly, considering potential trade tariff escalations between the US and China after the US election, as well as between the US and Europe, trade relations between the EU and China might ultimately improve again.

EU ramps up trade defence, but so does the rest of the world

In principle, the EU's decision fits in with the general mood in global trade – that nations are becoming more protectionist. The EU's 2023 Report on Trade Defence Activities highlights the EU's commitment to protecting jobs by "promoting fairness and a level playing field." According to the report, a total of 182 trade defence measures were in place in the EU at the end of 2023, including 156 anti-dumping measures, 25 anti-subsidy measures, and one safeguard measure – representing a 36.8% increase compared to 2018.

Anti-dumping measures against China account for most activities, while anti-subsidy action has extended to cross-border financial support, meaning that action is taken not only against China's traditional subsidies but also against the financial support that China provides to its companies in third countries. Yet at the same time, 176 trade defence measures were in force against the EU, with the US remaining the most frequent user of trade defence instruments against EU exports (US: 38, China: 18, Turkey: 18).

Due to these measures, nearly half a million jobs have reportedly been protected across various sectors, including those pivotal to the green and digital transition, such as wind energy, solar glass, and optic fibres. The tariffs on Chinese cars are expected to demonstrate similar protective effects in the automotive sector. In five years at the latest, we will see if it has worked.

The complex and intertwined relationships in the global automotive industry

Particularly in the automotive sector, relationships between car manufacturers are becoming increasingly complex and intertwined. There is no longer "the" domestic producer, and manufacturers are now operating globally. Although Smart and Opel, for example, are generally considered German manufacturers, the latter has been part of the Netherlands-based Stellantis Group (again a merger of PSA and FCA) since 2021, while the former belongs to Mercedes joint venture with Geely. And that is not the only cooperation between European and Chinese players. In fact, there are several more such as cooperations, including those between Volkswagen and Xpeng, Stellantis and Leapmotor.

Volvo, Lotus and Polestar also belong to the Chinese Geely Group, which has over 10 brands under its umbrella. Meanwhile in Europe, the Volkswagen Group, includes 10 brands originally from five European countries – and for EVs, also teams up with Rivian for software. Production, on the other hand, takes place across EU-member states and all over the world.

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