

# EU anti-subsidy probe into electric vehicle imports from China

On 4 October 2023, the European Commission published a notice of initiation of EU anti-subsidy investigations into EU imports of battery electric vehicles (BEVs) from China. This has already been announced by European Commission President Ursula von der Leyen during her State of the Union Address on 13 September 2023. She stated that the 'global market is flooded with cheaper electric vehicles' the price of which 'is kept artificially low' owing to 'huge state subsidies'. The probe comes after a surge in EU imports of electric vehicles (EVs) from China, outstripping other Chinese export markets. It may result in the Commission levying countervailing tariffs on EU imports of BEVs from China to offset state subsidies, if substantiated, and to level the playing field.

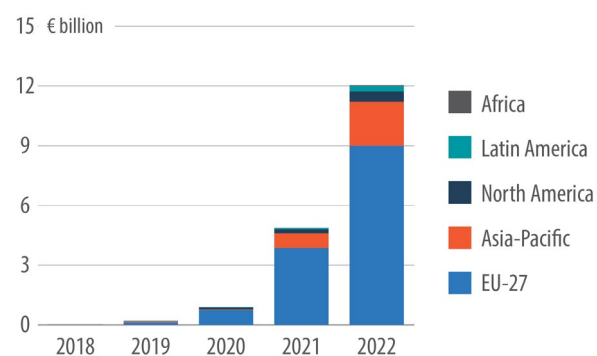
## Background on EU anti-subsidy investigations

Anti-subsidy measures seek to offset international trade distortion and are one of three types of EU [trade defence instruments](#) (TDIs), which also include [anti-dumping](#) and [safeguard](#) measures. The EU TDI legislative framework is derived from and thus consistent with the three respective [multilateral World Trade Organization agreements](#). [Anti-subsidy probes](#) determine whether there is evidence that a non-EU country offers subsidies to industries exporting certain products to the EU that cause or threaten to cause injury to EU industries manufacturing similar products without benefiting from such subsidies, owing to strict EU [State-aid rules](#). As anti-subsidy probes target state behaviour, they are politically sensitive and the EU uses them less than anti-dumping probes, which target companies instead. This is owing to the lack of transparency around state subsidy flows in non-EU countries and their [lack of cooperation](#). By the end of 2022, [21 anti-subsidy versus 117 anti-dumping](#) measures were in force. The United States (US), by contrast, uses anti-subsidy probes [much more often](#). Investigations are typically triggered by EU industry complaints, but as for BEVs, *ex-officio* investigations need not arise from complaints if [sufficient evidence](#) is available. After investigations of up to [9 months](#), the Commission may impose provisional, and after 13 months definitive, countervailing tariffs for 5 years. These may be renewed for a similar period once a review proves that injury persists. EU Member States [can block](#) definitive tariffs based on a qualified majority of votes.

## Why probe EU imports of BEVs from China?

On 4 October 2023, the European Commission [formally initiated](#) anti-subsidy investigations into EU imports of BEVs from China. The aim is to establish whether Chinese BEV exporters' competitive edge is genuine or artificial, and also whether EV imports from China have caused injury or threat of injury to the [upscaling](#) of the nascent EU EV industry. The probe alleges a recent surge in imports of EVs, at prices reportedly [20%](#) lower than those of similar EU [products](#). Low-priced EVs, linked to a [fierce price war](#) on the Chinese EV market, may reflect [battery oversupply](#) and growing [excess capacity](#) in China. Allianz puts the EU car industry's potential annual loss in net profits due to Chinese competition at above [€7 billion](#) by 2030. Figure 1 shows that China's BEV exports have gone mainly to the EU – rather than to other markets. The US [27.5%](#) tariff on EVs from China (former US president Donald Trump [imposed](#) an additional 25% on a range of imports from China in 2018 under [Section 301 of the Trade Act of 1974](#)), together with recent US green policies, e.g. the 2022 [Inflation Reduction Act](#) subsidies, act as a barrier to US market access, while the 10% EU EV import duty has a 'pull' effect.

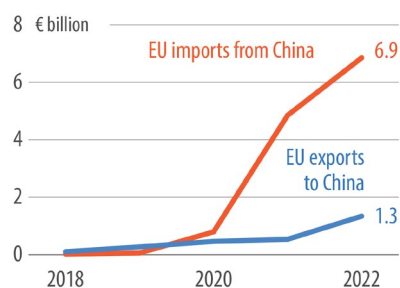
Figure 1 – BEV exports from China by region, 2018-2022 in € billion



Data source: [UN Comtrade](#). BEVs for HS code 870380. Data do not include values for Luxembourg owing to a lack of data.



Figure 2 – EU-China BEV trade, 2018-2022, in € billion



Data source: [Eurostat Comext](#)

According to the Commission, the share of **EVs** from China sold in the EU recently jumped from less than 1 % to **8 %**. This share could soar to **15 %** by 2025. European car association ACEA [suggests](#) that the share of **BEVs** from China in total EU EV sales rose from 0.4 % in 2019 to 3.7 % in 2022. Various sources have [stressed](#) that Chinese firms' EV export numbers remain small (e.g. [BYD](#), [Nio](#), and [Xpeng](#)), and that two-thirds of EU imports of EVs from China are from legacy [EU and US firms](#) manufacturing in China. Nonetheless, Western carmakers' share of global EV markets has [trended downwards](#) (also because of a [chips shortage](#)), while BYD and Geely-Volvo have trended upwards. Moreover, EU-China BEV trade is becoming increasingly asymmetric (Figure 2). This has brought back memories of the EU market being flooded, more than a decade ago, with cheap [Chinese solar panels](#),

which [continues](#) to put [pressure](#) on an EU industry from which China had absorbed the technology. There is a sense of urgency for the EU [to pre-empt](#) a similar fate for the EU EV industry.

The anti-subsidy probe comes at a time when the EU is running a growing trade deficit with China (it reached an all-time high of almost [€400 billion](#) in 2022), which is likely linked in part to practices that [call](#) for an assertive use of the EU's autonomous trade measures, including TDIs, to level the playing field. It also comes at a time when a new dependency on BEV imports from China would run counter to the [European economic security strategy](#) call for 'de-risking', and the proposed [net zero industry act](#), designed to boost the manufacture of 'strategic' net-zero technologies, including solar and battery technologies. On the other hand, the EU has decided to [phase out](#) internal combustion engine vehicles by 2035 and to [boost](#) the EU's [green transition](#), spurring [EV demand](#) in the EU that Chinese EV firms are eager to tap into, as the Chinese economy continues to [slow](#). Increasing the price of BEV imports from China through additional tariffs may prompt Chinese [retaliation](#), e.g. in the form of [export controls](#) undercutting the EU's [still challenging](#) access to critical raw materials. This may [threaten](#) the EU's wider goal of reaching its Green Deal targets through affordable and widely available green goods.

## Where does the Chinese BEV manufacturers' competitive edge come from?

Chinese EV firms owe their [competitive edge](#) to [government support](#) and incentive policies that began two decades ago when the EU car industry was still focused on internal combustion engine vehicles, while Chinese R&D [investment](#) objectives into BEVs were integrated into the 10th 5-year plan (2001-2005) and the 11th 5-year plan (2007-2010). Speeding up BEV development became one of the '[leapfrog development](#)' priorities of the 12th 5-year plan (2011-2015) and the EV industry was identified as one of the [seven strategic emerging industries](#). The 2015 '[Made in China 2025](#)' strategy includes BEVs as one of 10 strategic industries in which China seeks global leadership by 2049, with [80 % of BEVs](#) to be made in China by 2025. Since [2009](#), China has used a [variety](#) of subsidies to scale up BEV production, boost market penetration, [build](#) a BEV charging station [infrastructure](#) and achieve global leadership. China's early 2000s 'going out policy' to [acquire](#) overseas mining assets (e.g. the 2008 [minerals-for-infrastructure deal](#) with the Democratic Republic of Congo known as the [Sicomines pact](#) securing China's access to cobalt supplies), and its 2013 flagship [Belt and Road Initiative](#) helped China reach a [dominant position](#) in cobalt and lithium refining that it can now leverage.

## Stakeholders' views

Some experts have [taken the view](#) that the probe will spark controversy between proponents of the EU's autonomous trade measures and critics of protectionism. Others have [warned](#) that countervailing tariffs would make green goods more expensive, would fail to solve circumvention and competition issues in third markets, and are likely to trigger '[tit-for-tat](#)' measures. European car association ACEA has [called](#) for a comprehensive industrial strategy to enable EU industry to compete on an equal footing. China's Ministry of Commerce has [criticised](#) the EU probe as a 'blatantly protectionist act'.

### European Parliament position

In its 2021 [resolution](#) on a new EU-China strategy Parliament expressed its concern about the 'increasingly unbalanced bilateral economic and trade relationship between the EU and China' and stressed that 'rebalancing and a more level playing field are vital to EU interests'.