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Policy Brief

# Boxing Smartly by the Rules - What the EU can learn from its EV Anti-Subsidy Investigation against China

July 2024
#EUChina
#TradePolicy
#EVInvestigation

**Arthur Leichthammer**, Policy Fellow
**Nils Redeker**, Deputy Director

**The anti-subsidy investigation into Chinese electric vehicle (EV) exports constitute the EU's most high-profile case in trade defence in the last decade. At the same time, it offers a glimpse into the broader challenges the next European Commission will face on trade. The politics of trade are becoming contentious. And policies of trade defence are becoming more complex. To navigate this new reality, EU trade defence should take three lessons from the current case. First, trade defence measures should be rules-based but strategic, concentrating on sectors where the EU has significant economic interests to protect. Second, the measures should be effective but keep the door open for competition. And third, these measures need to be embedded in a much more forceful European industrial policy strategy.**

**The EU's anti-subsidy probe into Chinese EV exports is the most significant trade policy investigation in recent years and the largest European case ever against China.** It could have far-reaching economic consequences, has already revealed sharp divisions among member states, and is set to become an important reference point for EU-China relations in the years to come.

**At the same time, it offers a glimpse into the broader challenges the next European Commission will face on trade.** The politics of trade defence is becoming more contentious. As key trading partners adopt increasingly aggressive industrial policies, the use or non-use of countervailing instruments will often impinge on the core — and sometimes contradictory — interests of member states. Moreover, the policies of trade defence are becoming more complex. Trade policy must now balance a range of often conflicting goals, from economic interests via security concerns to climate objectives, turning the drafting of effective trade measures into a high-stakes juggling act.

**The EV case gives some insights into how the EU can develop a more robust position on trade defence while navigating these trade-offs going forward.** First, trade defence measures should be rules-based but strategic, concentrating on sectors where the EU has significant economic interests to protect. Second, the measures should be effective but keep the door open for competition from both imports and foreign investors. Third, these measures need to be embedded in much more forceful European industrial policies that mitigate any harm to European consumers and the climate.

## 1) What makes the EU's EV case important

The anti-subsidy investigation into Chinese EV exports is one of the most prominent trade cases the EU has pursued in recent years. It also highlights three factors that are likely to elevate the future stakes of EU trade defence: the economic stakes are rising, the politics of trade defence is becoming more contentious, and EU trade policy is grappling with new trade-offs.

*The economic stakes are rising*

**First, the EV case underlines what's at stake economically.** The automobile sector constitutes a crown jewel of European industry. It generates over 7% of the bloc's Gross Domestic Product (GDP) and provides about 13.8 million direct and indirect jobs, which make up 6.1% of the Union's total employment. At the same time, the sector is in the throes of a fundamental transformation. The EU's commitment to phase out the sales of internal combustion engines (ICEs) by 2035 means that the industry has less than a decade to fully transition to electrification.

**Chinese industrial policies are putting the EV sector under enormous pressure.** Since declaring EVs a ‚strategic emerging industry' in 2009, Beijing has deployed a variety of government support measures to bolster the entire production value chain. On the supply side, it has provided significant subsidies for mining and processing raw materials and expanding battery manufacturing capacity. It has orchestrated technology transfers through targeted joint venture policies while restricting market access for foreign players. Additionally, vast support for research and development, alongside the provision of cheap credit and access to land and electricity, has enabled domestic firms to scale rapidly. On the demand side, Beijing has offered generous consumer subsidies, sales tax rebates, and initiated significant government procurement programs to boost sales over the last decade. As a result, China now boasts several highly cost- and technology-competitive automakers, making it the world's largest producer of EVs.

**Chinese EVs are already making significant inroads into the European market.** As Chinese producers continue to ramp up production capacities, fierce price competition at home and limited domestic consumption, following the phase-out of the decade-long generous subsidies in late 2022, have made exports the strategy of choice. Although the absolute number of Chinese EVs on European streets remains relatively low, imports are rising rapidly. The share of EVs from China sold in the EU increased from around 3% in 2020 to over 20% in 2023, amounting to about 440,000 vehicles (see Figure 1). While Western car makers producing in China, such as Tesla and BMW, still account for most of these imports, Chinese brands are predicted to take the lead as early as 2025.

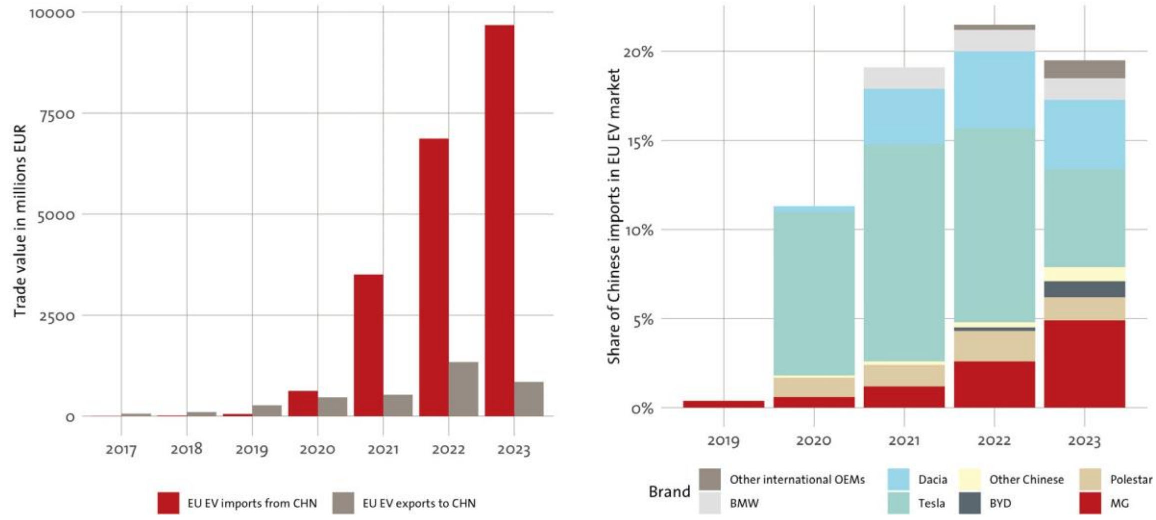


Figure 1: Development of China-EU EV trade (Data: [Eurostat](#) (HS 870380)) & Composition of EVs imported from China by producer, as share of EU EV market (Data: [Transport & Environment](#))

**Concerns about the influx of cheap Chinese EVs reflect the EU's growing unease over the economic impact of Chinese trade practices on European industries.** China's post-pandemic trade surplus in manufacturing stands at record highs and shows no signs of shrinking. Moreover, heavily subsidised exports are increasingly concentrated in strategic and high-tech manufacturing sectors, from solar panels and wind turbine components to aircraft, industrial robots, ships, and electronics. As the Chinese government aims for technological leadership in high value-added industries that have been central to the European economy, calls to protect EU industries from the coming next China shock are gaining traction for good reasons. The European Commission will have to pick similar battles in the future.

*Member states are divided about the best response*

**Rising economic concerns do not mean that EU member states have a united stance on the use of trade defence measures.** On the contrary, the current investigation highlights how higher economic stakes tend to amplify political fault lines between European capitals. On EVs, for example, French carmakers Peugeot, Renault, and Citroen, along with Italy's Fiat, target similar price segments as Chinese manufacturers and have called for countervailing measures early on. German auto manufacturers, by contrast, operate predominantly in the higher-priced segment. While they face less immediate competition from cheap Chinese EVs in Europe, they derive more than 20% of their global profits from the Chinese market. Consequently, they fear retaliatory measures against countervailing tariffs, which could impact both their ICE exports and broader market access in China. As a result, Berlin has been vocal in opposing the investigation, while Paris has actively lobbied for it.

**Disagreements between industry and member states give the European Commission an even more central role in trade disputes.** In the EV case, this has led to a significant novum in anti-subsidy investigations. Typically, the Commission relies on industry complaints and their preliminary evidence of state subsidies to initiate such probes. For a complaint to be recognised as originating from European industry, producers representing 25% of the EU's output must come forward, with supporting manufacturers having a larger overall output than those opposing it. Due to the opposition from German manufacturers, this threshold was not met. Consequently, for the first time, the Commission exercised its ex officio prerogative, launching an investigation of its own accord.

*EU policy faces new trade-offs*

**The economics and politics of the EU's new trade environment are further complicated by the fact that trade is no longer just about economics.** The EV case highlights the difficult trade-offs that EU policies must navigate. The widespread roll-out of EVs is crucial to achieving the EU's climate goals and reducing emissions from the transport sector. The EU has set an ambitious target of having at least 30 million zero-emission cars by 2030. While European uptake has steadily increased in recent years, reaching 6.7 million electric cars in 2023 (including the UK and EFTA region), purchases have been concentrated within a few countries and the EU will need to significantly accelerate sales to meet its goals (see Figure 2).

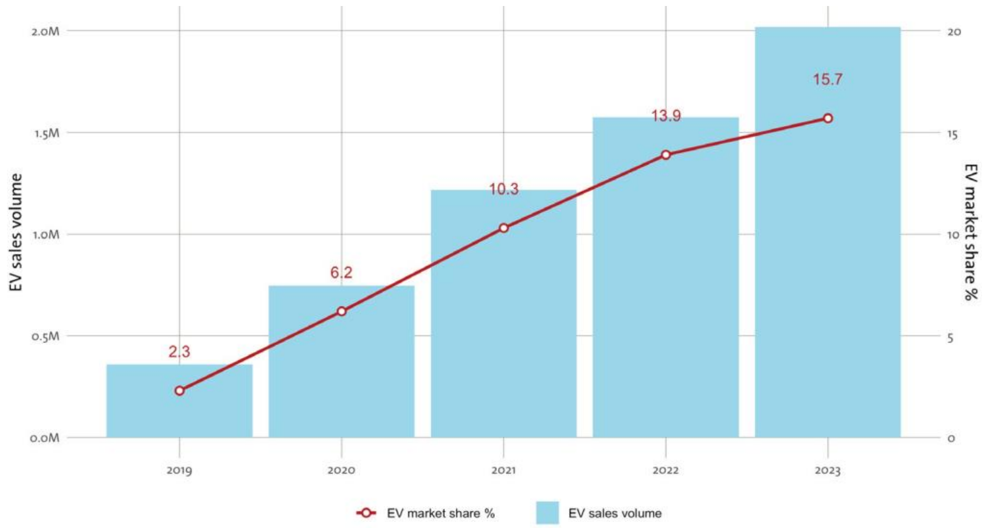


Figure 2: Sales volume of EVs in the EU & EV's market share of entire automobile sector
(Data: Transport & Environment)

**Recent trends, however, indicate that growth is slowing rather than accelerating.** In May 2024, the sale of new EVs in the EU dropped by 12% compared to the previous year. This decline is mainly driven by a 30% decrease in Germany, following the phase-out of consumer subsidies. Additionally, some carmakers are intentionally delaying a roll-out of lower-priced EVs until new EU emissions targets bite, prioritising the larger profits from ICEs and more expensive EV models in the interim. In this context, importing cheap EVs from China could become a crucial pillar in the EU's climate strategy, particularly as higher EV costs remain a significant barrier to consumer adoption. A key question moving forward, therefore, is how the EU can calibrate its trade policy to balance domestic industry promotion with its decarbonisation goals.

## 2) What the initial outcome of the investigation means

The initial outcome of the investigation gives an insight into how the Commission plans to navigate these new realities. First and foremost, it shows that the EU plans to play by the rules. Adhering strictly to proportional WTO subsidy rules, the Commission has proposed countervailing measures that introduce firm-specific tariffs based on empirical evidence it collected on the extent of state support (see Table 1). These tariffs would be in addition to the 10% import tariff already in place. They would also apply to Western firms like Tesla and BMW that produce in China and export to Europe. However, producers can still submit substantiated requests for individually calculated rates. Tesla has done so. Others may well follow in the hope of more lenient rates.

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|---|---|
| In-depth investigated companies | BYD: 17.4%<br>Geely: 20%<br>SAIC: 38.1% |
| Non-sampled EV producers that cooperated with the investigation (including Tesla and BMW) | 21% |
| EV producers that didn't cooperate with the investigation | 38.1% |

Table 1: Preliminary tariffs proposed by the Commission on 12 June 2024

**To be clear, these tariffs would be sizeable.** Estimates from the IfW Kiel think tank suggest that extra tariffs of about 20% - which constitutes the lower bound of the proposed measures - could reduce EU imports by a quarter. This also means that these measures would cut the cost advantage Chinese producers now enjoy over European manufacturers by a significant margin.

**However, unlike the trade measures recently introduced by countries like the US and India, they are clearly designed to offset proven subsidies and are unlikely to be prohibitive.** In many cases, Chinese companies would simply be able to absorb the new tariffs into their margins and still export to the EU at a profit. For instance, BYD achieves additional 'EU' profits of anywhere between 24 and 53% and is well placed to pursue its expansion within the European market. Even the 38.1% tariff imposed on SAIC-owned MG would primarily eat into its estimated 'EU' profits, potentially making Europe a less attractive export destination, but still allowing it to sell profitably in the region.

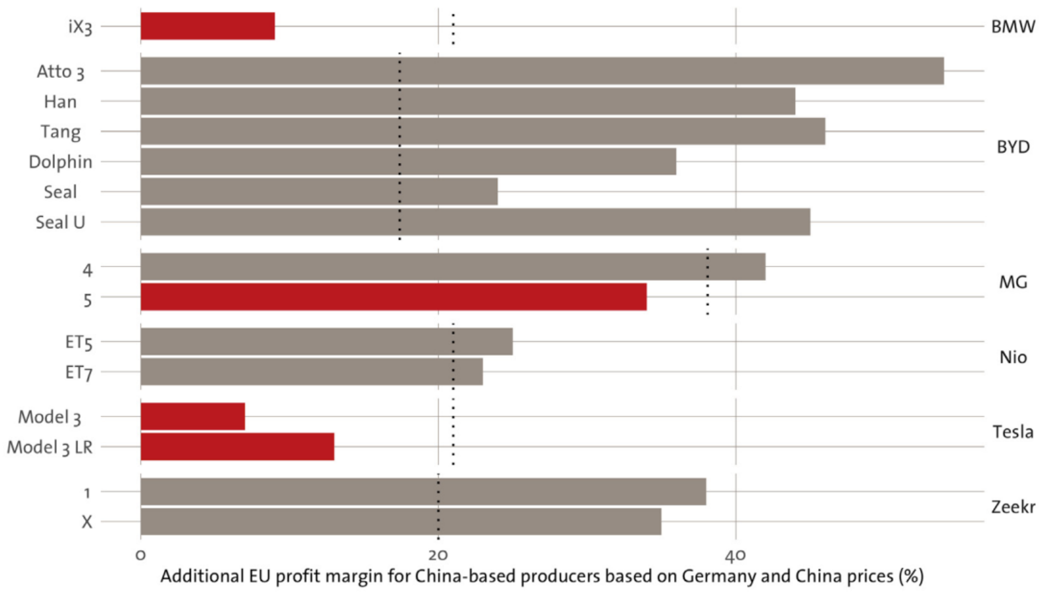


Figure 3: Additional profit margin for China-based producers before additional tariffs; Dotted lines indicate proposed tariff levels by European Commission. Source: Rhodium Group

**Importantly, while the results of the investigation give an indication of where things are headed, they are not set in stone.** While the new tariffs will start to be applied on July 4, they are only preliminary and will need to survive a vote in the Council in November before being adopted for the next five years. Announcing the preliminary tariffs, the Commission stressed its openness to dialogue with the Chinese government. On 22 June, China's Minister of Commerce Wentao and Commission Executive Vice-President Dombrovskis announced the official start of consultations on the investigation.

**The coming months are, therefore, likely to be marked by tough negotiation tactics.** The Chinese government has already begun targeting key member states with retaliatory measures. Building on a dumping inquiry into French cognac producers, launched in response to Paris' support for the EV investigation, Beijing swiftly doubled down with a probe into pork imports designed to hurt the export interests of countries like Spain and the Netherlands. Additionally, Beijing has threatened to impose a 25% tariff on ICE-powered autos, which would severely impact German carmakers.

**While these measures are clearly designed to build opposition against the countervailing measures amongst member states, the Commission will remain in the driver's seat.** For one thing, trade policy is an exclusive EU competence, with all negotiations in Commission hands. Moreover, political hurdles for rejecting the measures are set high. To vote them down in the Council, opponents would need to find a qualified majority. Currently, Germany, is still lobbying for solutions that would avoid countervailing tariffs altogether. Sweden and Hungary have also voiced their criticism. However, they would need at least 12 more member states for a successful veto. Instead, there will be intense negotiations about revising the preliminary tariffs downwards, for producers to be given a more favourable classification, or to find a negotiated solution overall.

## 3) What the next European Commission should take from this

The incoming European Commission will face a rocky start on trade. On the one hand, it will likely take office in the midst of heated trade disputes with a critically important trading partner. On the other hand, it will need to view these ongoing negotiations as a test case for how it should navigate the complex politics and economics of trade over the next five years. The proposed measures on EVs are sound, and the last thing the EU now needs is member states pressuring the Commission to take a completely different route. However, new EV-like cases are bound to come. What's needed is, therefore, a more principled recalibration of the EU's trade defence strategies that makes economic sense and can withstand a tougher political climate. To achieve this, it should stick to three principles.

*EU trade policy should be rules-based but strategic*

**First, the EU needs to play by the rules but be clever about it.** The European Commission meticulously adhered to WTO procedures for identifying and countervailing China's subsidies. This is a more cumbersome path than that taken by the United States, which has imposed 100% tariffs on Chinese EV imports in open violation of WTO rules, and China, which is already retaliating against the EU with a barrage of unrelated measures. Nevertheless, it is the right approach. The EU has a vested interest in maintaining a rules-based trading order. Even if China and the US sideline the system, Europe depends on global adherence for its trade diversification plans and should continue to be a dependable partner. Moreover, this stance is rooted in practical politics. The EU is fundamentally a club of relatively small, open economies. If the Commission wants political backing for its chosen course, it cannot afford to flout multilateral trade rules.

**However, being rules-based does not mean being naive.** Not all foreign subsidies hurt EU interests. For instance, the EU should embrace the influx of heavily subsidised Chinese solar panels, which are accelerating the deployment of renewable energy within the Union. Solar cells are cheap and mass-produced, and localising production would have little economic benefit for Europe. While the EU's strong reliance on Chinese imports does pose a geoeconomic challenge, instruments such as non-price criteria in public procurement and proactive trade diversification are more cost-effective solutions than broad tariffs.

Therefore, the EU should not blindly heed every fresh call for subsidy investigations but selectively target sectors where it has genuine economic interests to protect.

**Following this approach requires upgrading the EU's analytical capacities for trade defence.** One reason the European Commission has never initiated an anti-subsidy investigation ex-officio before is the analytical complexity involved. When industry initiates a complaint, it must gather data on the existence of countervailable subsidies, provide evidence of economic injury, and produce numerical estimates. Doing this all on its own is stretching the Commission's limited analytical resources. However, a strategic policy on foreign subsidies should not depend on whether EU producers can agree a common position. The EV example, specifically, shows that the interests of European producers with a big stake in the Chinese market do not necessarily equate with those of the European economy. This does not absolve the Commission form building more diplomatic backing for its course amongst member states. However, it should be able to take a pro-active position on trade defence. The next Commission should, therefore, invest in bolstering its administrative capacity to initiate and conduct ex-officio investigations more regularly.

*EU trade policy should keep the door open for competition*

**Second, the EU should keep markets open.** A key advantage of the EU's approach, compared to the US tariff wall, is that it does not lock Chinese EVs out of the European market. The proposed measures will still enable Chinese producers to export to the EU at a profit. As a general strategy this is sound. Research shows that successful industrial policies thrive in tandem with competition. The ideal trade policy should give EU producers some breathing room, but keep foreign competitors nipping at their heels, to drive investment and innovation.

**This also means the EU should stay receptive to Chinese investments in the EV sector.** Chinese producers, eager to sidestep countervailing measures, are now more likely to set up production facilities within the EU. A recent example is Volvo's decision — under the majority ownership of China's Geely — to shift its EV production from China to Belgium. The US government has already indicated that it would likely curb such direct EV investments by Chinese companies in their market on security grounds. While EU member states could theoretically follow suit using national Foreign Direct Investment (FDI) screening mechanisms, they should exercise restraint in deploying these tools.

**Economically, EU production sites create jobs and add value for local workers and suppliers.** To build up their competitiveness, many EU manufacturers need to catch up with Chinese technology and production methods. Here, partnerships with foreign investors can provide expertise and foster innovation within the EU's own automotive sector. Politically, the EU now has robust tools to ensure that such investments do not disrupt the level playing field in the Single Market. The new Foreign Subsidy Regulation (FSR) grants the Commission significant powers to counteract unfair foreign subsidies. This includes blocking mergers with EU firms and excluding companies from public tenders. However, it is often overlooked that the Commission can also impose direct financial and other penalties on foreign firms that benefit from unfair support. To apply this instrument effectively, the EU once again needs to enhance its administrative capabilities for ex officio investigations and, if it does, it has the right instruments to confidently welcome Chinese investors.

*Trade policy needs to be embedded in a broader green industrial strategy*

**The proposed tariffs are justified from the standpoint of European industrial policy and trade strategy but a clear disservice to the climate.** By making EVs more expensive for European consumers, these tariffs risk slowing down the already sluggish decarbonisation of Europe's transport sector. For all the valid concerns Europe has about China's 'overproduction' from a purely climate-focused perspective, an excess of green goods is precisely what is needed.

**Trade defence is no substitute for a working European green industrial policy.** Measures that increase the price of clean imports must come with more aggressive policies to lower their domestic production costs. This involves applying the sticks Brussels has developed in recent years. For instance, the EU should maintain its ban on new combustion engines from 2035 to signal that the industry's transformation is non-negotiable. It should also roll out the new emissions trading system for heating and transport to incentivise EV take-up. Additionally, current tariffs should come with a clear expiration date to stop industry relying once more on protection and complacently putting off the transition from ICE models until it's (almost) too late.

**It also involves developing new incentives to create a reliable EV market for domestic producers.** For instance, the EU should develop common standards to ensure member state consumer subsidies are conditional on low carbon footprints, effectively favouring European manufacturers. Additionally, the EU should enhance the Net Zero Industry Act by introducing stricter non-price and resilience criteria for public procurement of EVs and critical components like batteries. Moreover, the EU needs more robust industrial policies to de-risk and scale manufacturing projects within the EV supply chain. This may include new Important Projects of Common European Interest (IPCEIs) for innovative clean battery projects and better support for risky technologies from the European Investment Bank (EIB). Most importantly, the EU must significantly boost resources for common industrial policy in the upcoming negotiations for the next European budget.

## Conclusion

Trade decisions are no longer straightforward. The next Commission will have to navigate a loaded political landscape and juggle difficult policy trade-offs. The EV case shows that the EU has the tools to defend its economic interests while adhering to the rules. Given that these tools will need to be applied more regularly, the Commission must upgrade its analytical and administrative capacities. However, the EV case also highlights the downsides of a tariff-only approach to European competitiveness. Relying on trade defence only would leave the EU to navigate the global industrial policy landscape with all rudder and no sails.

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This work is part of a collaborative network of think tanks from Germany, France, the UK, Australia, and the United States, which is supported by Amazon.com, Inc., and produces analyses on international cooperation and economic security.



Alexanderstraße 3
D – 10117 Berlin
Tel.: +49 (0)30 259219-107

Online: delorscentre.eu
E-Mail: info@delorscentre.eu
Twitter: @delorsberlin