European Union imposes tariffs on Chinese EVs

Nick Beams
31 October 2024

At every meeting of international economic and financial organisations, such as the International Monetary Fund, there are warnings that tariffs and other protectionist measures are fracturing the global economy, leading to slower economic growth or worse, including the formation of antagonistic trade blocs that characterised the 1930s.

But despite these warnings, which are repeated in comments by financial and economic analysts, tariff barriers continue to be erected. The US has been in the lead with higher tariff barriers and controls on high-tech exports, initiated under the Trump presidency and markedly intensified by Biden.

It is now being joined by the European Union, which this week imposed an additional tariff of 35 percent on Chinese electric vehicles on top of a 10 percent tariff already in force.

The new measures, which will come into force next week, are to last five years. They were introduced on the basis that Chinese EV makers were benefiting unfairly from state subsidies.

The Chinese government rejected the claim of undue state support, saying it would “continue to take all necessary measures to resolutely safeguard the legitimate rights and interests of all Chinese companies.”

While subsidies and assistance are provided, as in other countries, the real reason for the growing Chinese penetration of the EU market is that Chinese technology is more advanced, and its cost structure is significantly lower.

This is one of the reasons why the imposition of the tariffs met major opposition from the German government and German auto makers who are looking to collaborate with Chinese producers as their road to survival in the intensifying global struggle in the industry. They also fear that tariff measures will bring retaliatory actions that will hit their markets in China.

The decision to impose the tariffs came after eight rounds of talks aimed at trying to devise a mechanism through which a minimum price could be set along with the volume of Chinese exports. But the talks broke down with both sides saying the differences remained significant.

Further talks are to be held, with the EU accepting an invitation by China to send envoys to Beijing to see if some agreement can be reached on these mechanisms.

The tariffs came as the result of an investigation launched by European Commission (EU) President Ursula von der Leyen which was initiated in October last year. Their imposition received considerable opposition within the EU. Of the 27 members five, with Germany and Hungary in the lead, voted against and 12 abstained. In the lead up to the decision the Spanish government called for a “reconsideration” of the plan.

But the commission decided to go ahead, which tends to indicate that geo-political considerations, not least alignment with the US economic war against China, rather than the issue of subsidies, played a considerable part.

Announcing the decision, EU trade chief Valdis Dombrovskis stuck to the line that it was all about subsides and unfair market practices by China.

He said that by “adopting these proportionate and targeted measures after a rigorous investigation, we’re standing up for fair market practices and for the European industrial base.”

“We welcome competition, including in the electric vehicle sector, but it must be underpinned by fairness and a level playing field,” Dombrovskis stated.

However, the reference to the need to protect the “European industrial base” at least indicates one of the underlying reasons for the decision was that all the major powers seek to develop their capacities to shift to a war economy.

The divisions within the EU, which must rank as some of the most significant on trade issues in the history of the Union, were underscored by comments from Germany. Hildegarde Müller, the head of the German auto industry association, VDA, said the decision was “a setback for free global trade and so for prosperity and Europe’s growth.”

“The industry is not naïve in dealing with China, but the challenges must be resolved in dialogue,” a statement said.

A statement issued by the German Finance Ministry said that Berlin “stands for open markets. Because Germany in particular, as a globally interconnected economy, is dependent on this.”

The chief executive of BMW Oliver Zipse said protectionism would only make cars more expensive for consumers and accelerate plant closures in Europe.

The interconnectedness of the global car industry was indicated by Roberto Vavassori, who told the *Financial Times* (FT) that “for many suppliers in the automotive industry, [the Chinese] are both the biggest threat and the biggest customer.”

The attitude of some of the major car manufactures appears to be that under conditions where China is developing more technologically advanced components, their best hope for survival in the intensifying global struggle for markets and profits is not by erecting tariff walls, which raise costs and invite retaliation, but in developing some form of collaboration with Chinse producers.

The lower cost structure is significant. The FT has reported that major Chinese producers are turning out EVs that are more technologically advanced than their European counterparts and 30 percent cheaper.

Speed of innovation, not just cost, is another factor. According to one estimate cited by the FT, Chinese companies are developing new cars, incorporating better technology and design, in just one year compared to four years in Europe.

The motivations behind the opposition to the tariffs by some of Europe’s major producers were indicated in comments to the FT by Andy Palmer, the former head of the British firm Aston Martin.

He asked: “What did the Chinese do, what did the Japanese do and what did the Koreans do when they were behind on technology? They collaborated. The European industry needs to get the Chinese to localise in Europe and it needs to collaborate with them, particularly around battery technology in order to catch up.”

For workers in the auto industry, in Europe and internationally, neither path is the way forward in a situation where they face a wave of job destruction and wage cutting.

Tariff hikes will not defend jobs but will be accompanied by the intensification of the exploitation of those that remain, which will be enforced by the trade union apparatuses. Likewise, efforts by companies to develop joint ventures or other forms of collaboration will involve a vast reduction in the cost structure, to be achieved by job and wage cuts.

The only viable perspective is one based on a socialist program, that is, the fight to take political power and bring the giant global auto companies into public ownership so that the enormous advances in technology can be used and developed for the benefit of all, rather than boosting the bottom line.