



# European Commission's EV Tariff Policy Is Economic Nonsense

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## **European Commission’s EV Tariff Policy Is Economic Nonsense**

When the European Commission announced that it would be exploring tariffs on Chinese electronic vehicles (EVs) in October 2023, it made clear that the reason for this was because they thought that the Chinese state was subsidizing its automotive companies.<sup>1</sup> The policymakers that were working to formulate the tariffs saw them as necessary to level the competitive playing field. The idea was that the tariffs imposed on Chinese EVs would offset the subsidies that the Commission believed were being given to the Chinese car companies by the Chinese government. The Commission called such subsidization by the Chinese government “illegal.”

The Chinese response to this has been to call the European Commission’s investigation and the tariffs that arise out of it as a “naked protectionist act.”<sup>2</sup> The Chinese claim that their EVs are so competitive, not because of the subsidies but because of the efficiency of Chinese supply chains. This raises the obvious problem of how the European Commission determines to what extent a Chinese automotive company’s competitive edge comes from subsidization and how much of it comes from the superior supply chain of these same automotive companies. The European Commission determines this through an “anti-subsidy” or “countervailing duty” investigation. These investigations are undertaken by sending questionnaires to companies exporting to the European Union and the public authorities in question—in this case the Chinese government.<sup>3</sup>

Since the anti-subsidy investigation is undertaken in private, with reference to data that is not publicly available, it is an extremely opaque process. It is not possible for a researcher to test the methodology or the data against the results. This leaves the researcher with a strong sense of arbitrariness when confronted with such findings. Tariffs based on such arbitrary findings are almost certain to create major market distortions.

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<sup>1</sup> [Commission begins investigation on electric cars from China \(europa.eu\)](https://europa.eu/press-room/en/infographic-12023-09-14-commission-begins-investigation-on-electric-cars-from-china)

<sup>2</sup> [China denounces Europe probe of EVs as 'naked protectionist' act | Reuters](https://www.reuters.com/world/china/china-denounces-europe-probe-evs-naked-protectionist-act-2023-10-27/)

<sup>3</sup> [Anti-subsidy investigations - European Commission \(europa.eu\)](https://europa.eu/press-room/en/infographic-12023-09-14-commission-begins-investigation-on-electric-cars-from-china)

The final additional tariffs rates—these are applied on top of the flat rate of 10 percent on all EVs entering the European market—for Chinese companies as determined by the European Commission are laid out in the table below.<sup>4</sup>

Company	Tariff Rate (August 2024)
BYD	17.0%
Geely	19.3%
SAIC	36.3%
Other co-operating companies	21.3%
All other non-cooperating companies	36.3%
Tesla	9.0%

It is interesting to note that Tesla—which manufactures cars in China—has a much lower tariff than the other companies. Many analysts were surprised at how low this tariff is being set. George Sebastian, a senior analyst at the Rhodium Group think tank, pointed to loans extended by the local government in Shanghai to Tesla as well as subsidized batteries provided to the company by CATL, the Chinese battery maker.<sup>5</sup> This points to potential arbitrariness in the rules being used to set the tariffs, and a casual observer might conclude that Tesla is getting a better deal because it is an American company and not a Chinese one. The Chinese Ministry of Commerce have already stated that the differential rate applied to Tesla is evidence that the European Commission has arrived at “preset conclusions”—that is, the Chinese government views the anti-subsidy probe as a ruse designed to provide cover for protectionism against Chinese EVs, which are simply better than those currently produced in Europe.<sup>6</sup>

<sup>4</sup> [China BEVs investigation draft definitive findings \(europa.eu\)](https://ec.europa.eu/economy_finance/press_corner/detail.do?lang=en&press_release=1222)

<sup>5</sup> [Tesla wins big cut in EU tariffs on cars it makes in China | CNN Business](https://www.cnn.com/2024/07/23/eu-tariffs-cars-china/index.html)

<sup>6</sup> [China calls EU tariffs on EVs unfair, says it will defend industry \(cnbc.com\)](https://www.cnn.com/2024/07/23/eu-tariffs-cars-china/index.html)

But even if the differential rate applied to Tesla were not arbitrary, it immediately raises the question of why the subsidies provided by the American government to the company are not factored into the tariffs. Tesla vehicles imported from the United States are currently subject to the flat 10 percent tariff applied to all EV imports. Yet Tesla avails itself of a multitude of different subsidies from the American government at both a state and federal level. At a state level, Tesla receives free regulatory credits from California because it produces cars that do not directly produce carbon emissions. Tesla can then sell these credits to other automotive companies and thereby generate extra revenue.<sup>7</sup> This is clearly a direct subsidy. Then there are the massive demand-side subsidies that the company has been granted by the Inflation Reduction Act. Buyers of Tesla vehicles in the United States are eligible for a \$7,500 tax credit for every vehicle purchased between now and 2033 plus \$45/kWh for a made-in-the-U.S. battery pack. This battery subsidy should take \$3,375 off the production cost of the average Model Y.<sup>8</sup>

### **European Car Manufacturers Reject EU Tariffs**

When we look at the subsidies in any detail it is difficult not to conclude that they are largely arbitrary. This means that they are liable to create serious market distortions. While the European Commission is ignoring the potential impact of these market distortions, European car manufacturers are not. The response to the tariffs by European car manufacturers has been overwhelmingly negative. This may be surprising given that the tariffs are supposed to be designed to protect these same car manufacturers from supposedly “unfair” Chinese competition, but the reality is that those in the industry recognize the European Commission’s plans for what they are: a short-termist, reactionary plan that will only damage the industry in the long term.

Stallantis’s chief executive Carlos Tavares, for example, stated that his company was not interested in “hiding behind” tariffs and wanted to continue to try to compete on the international market. Tavares and other business leaders recognize that defending European companies through tariffs will only erode the competitiveness of these companies on the global market. “Correcting the tariff is correcting a lack of competitiveness,” Tavares told the Guardian. “We prefer to race than to be

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<sup>7</sup> [Tesla electric vehicle regulatory credits explained \(cnbc.com\)](https://www.cnbc.com)

<sup>8</sup> [Tesla to get US\\$41 billion in government subsidies over made-in-US EVs and batteries - NotebookCheck.net News](https://www.notebookcheck.net)

told that we are going to be protected, because we do not believe that being protected is a long-lasting competitive position for a company like ours.”

Seeking competitiveness has always been at the core of European industrial strategy. Unlike the United States, Europe always sought to produce cutting-edge vehicles that would be bought all over the world. Consider that in 2023 the European Union exported 6.3 million motor vehicles worth a total of \$191 billion.<sup>9</sup> Meanwhile, in the same year the United States exported only 2.2 million motor vehicles worth a total of \$63 billion.<sup>10</sup> If we adjust for the relative sizes of the two economies, we find that the European Union exported around 4.5 times more motor vehicles to the world than the United States.

While the United States is largely content with its domestic automotive industry, Europe has long sought to be a major vehicle exporter. If the tariffs undermine European competitiveness over the long term, however, we expect to see Europe lose market share on the world stage to the Chinese. A tariff applied to a Chinese EV by the European Commission may disincentivize Europeans from purchasing that car, but it does not disincentivize consumers outside of Europe. It seems highly likely that in such a scenario European cars, falling further and further behind in terms of quality and cost as they are protected from nascent Chinese competition, will become less and less attractive to anyone except the European consumers trapped behind their wall of tariffs. China has also stated that it will respond to any tariffs by placing tariffs on European-made cars, thereby cutting European car manufacturers from one of the world’s most important growing markets.<sup>11</sup>

### **Europe’s Turn to Protectionism Is Suicidal**

From a macroeconomic perspective, Europe’s turn to protectionism appears suicidal. Europe is one of the most open economies in the world and its economy is entirely reliant on trade. Figure 1 below shows external trade as a percentage of GDP for the European Union, China, and the United States. As we can see, the European economy is around 2.8 times as reliant on external trade than China and around 3.9 times as reliant on external trade as the United States. Looking at these basic facts, it appears to us that the European Commission’s new protectionist strategy has not been vetted by

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<sup>9</sup> [EU motor vehicle exports: top 10 destinations \(by value\) - ACEA - European Automobile Manufacturers' Association](#)

<sup>10</sup> [Car Exports by Country 2023 \(worldstopexports.com\)](#)

<sup>11</sup> [China to retaliate if Europe raises EV tariffs - Asia Times](#)

competent macroeconomists. If a country or trade bloc is multiple times as reliant on external trade as its rivals, any move toward protectionism on the part of that country or trade bloc will obviously hurt same country or trade bloc much more profoundly than its rivals. Worryingly, we have not been able to find a coherent response to these obvious macroeconomic facts by the European Commission.<sup>12</sup>

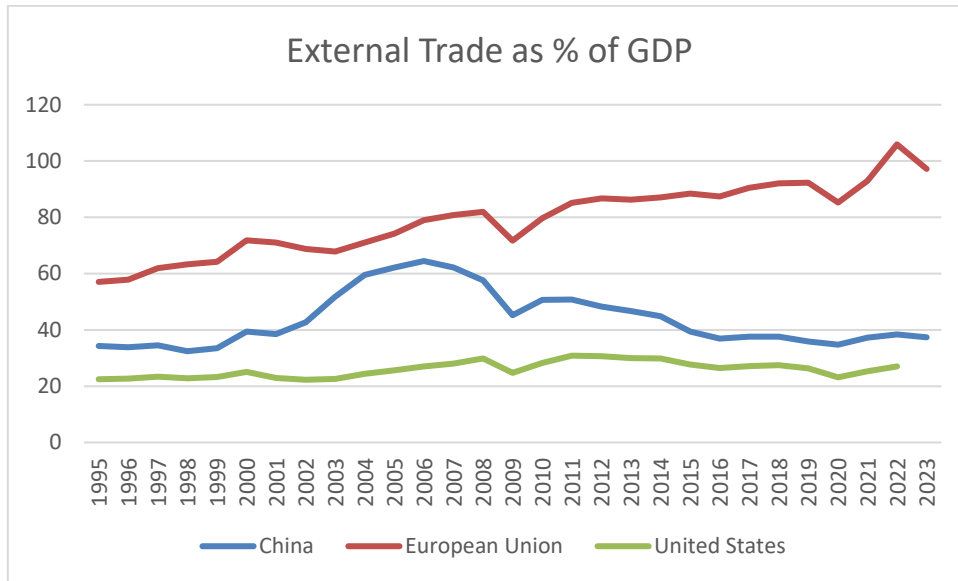


Figure 1 – Source: World Bank

**In the Long Term, Tariffs Will Damage All European Economies**

When it comes to opposing the European Commission on the imposition of these tariffs, we believe that it should be in the interest of the entire continent to oppose such a policy. While the response from the European automotive manufacturing industry to the tariffs has been overwhelmingly negative, however, the response by national governments has been different on a country-by-country basis. In July, Italy and Spain signaled that they would support the tariffs, as has France.<sup>13</sup> France’s enthusiasm for the sanctions is strange because in May the country’s finance minister tried

<sup>12</sup> For a further discussion of these issues see: [connectivity\\_p\\_2024\\_02\\_v5-1.pdf \(hiia.hu\)](#)

<sup>13</sup> [Italy, Spain back EU duties on China-built EV imports | Reuters](#)

to convince the Chinese company BYD to build a factory in France—cracks in the narrative like this indicate that Europe is not altogether confident in its new protectionist strategy.<sup>14</sup>

Germany, Sweden, and Finland signaled that they would abstain from any vote, showing that these countries were not as confident in the policy. The press reported that a dozen EU members voted in support of the tariffs—four voted against and eleven abstained—showing that the European Union is deeply divided on this matter.<sup>15</sup> Yet few countries are willing to speak out openly against the Commission’s extremely unpopular policies. Hungary has led the way on opposing these self-destructive tariffs. In June, Márton Nagy, the national economy minister, stated that Europe should not retreat behind a wall of tariffs, but rather work on improving Europe’s competitiveness on the world stage.<sup>16</sup> Poland announced in June that it is seeking to boost cooperation with China on EV production, signaling that it may not be enthusiastic about the sanctions.<sup>17</sup>

Examining automotive exports by country gives us some sense of why there is such division on the matter. Take the case of Volkswagen. Data shows that nearly 40 percent of Volkswagen sales are to Chinese consumers.<sup>18</sup> Since Volkswagen is a German company, this might partly explain why Germany is abstaining on the tariff vote. This makes Spain’s enthusiastic support of the tariffs more difficult to understand, however, because Volkswagen subsidiary SEAT employs fourteen thousand people in Spain and operates three production centers in Northeast Spain.<sup>19</sup> This raises questions as to whether the current Spanish government is acting in its rational self-interest and whether it has a coherent economic strategy. When we look at French and Italian car manufacturers, however, we see a very different picture. In 2022, Italian car manufacturer Fiat exported on 2,200 cars to China.<sup>20</sup> In 2020, French car manufacturer Renault stopped selling petrol vehicles in China altogether because of poor sales.<sup>21</sup>

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<sup>14</sup> [Chinese EV maker BYD welcome to open factory in France, French finance minister says | Reuters](#)

<sup>15</sup> [EU countries divided on Chinese EV tariffs in vote, Reuters reports \(cnbc.com\)](#)

<sup>16</sup> [About Hungary - Nagy: Hungary rejects “brutal” EC tariffs on Chinese EV makers](#)

<sup>17</sup> [China and Poland agree to boost cooperation on electric vehicles | South China Morning Post \(scmp.com\)](#)

<sup>18</sup> [Deliveries - Volkswagen Group Annual Report 2022 \(volkswagenag.com\)](#)

<sup>19</sup> [Spain Requires VW Subsidiary SEAT To Return Clean Subsidies | Manufacturing.net](#)

<sup>20</sup> [Fiat Sales Figures – China Market | GCBC \(goodcarbadcar.net\)](#)

<sup>21</sup> [Renault pulls out of China joint venture as sales disappoint \(ft.com\)](#)

It is possible that the French and Italian governments, unlike the Spanish, are trying to behave in an economically rational way. They may have concluded that because their own car industries are so uncompetitive in China, raising tariffs will not impact them. But as we have already seen, the car companies themselves are trying to communicate to the government the difference between short-term and long-term effects. In the short term it may be true that Volkswagen will be hit worse than Renault or Fiat. But in the long term, Renault and Fiat will suffer from the same competitiveness issues as Volkswagen. Renaults and Fiats currently sold to countries other than China will be outcompeted and replaced in these markets by superior Chinese vehicles. The only way to avoid this is to not impose tariffs and allow these companies to continue to compete with their Chinese rivals. The car companies themselves are operated by economically rational agents and are aware of this. The governments, together with the European Commission, are behaving in a much more questionable manner.

At both a macro and a micro level, the European Commission's tariff policy is economic nonsense. At a macro level, it is obvious that the European Union is far more dependent on trade than China and the United States and so will lose far more from a turn to protectionism than its rivals. At a micro level, the tariff policies appear to be set arbitrarily behind a murky methodology that cannot be seen by the public or tested by researchers. In addition to this, the tariffs themselves are microeconomically self-destructive. As European automotive company leaders themselves understand, they will lead to the European industry becoming uncompetitive on the world stage. European cars in foreign markets will gradually be replaced by superior Chinese cars and the European industry will wither away and die or, at best, turn into a second-rate industry supplying Europeans with second-rate cars. The only way to avoid this is to allow these companies to continue to compete with China.

To stop the European Commission's tariff plan from becoming law, a qualified majority of fifteen member countries representing 65 percent of the population of the European Union will have to oppose it. If the voting pattern follows the same pattern as the advisory vote in July, the tariff plan will pass.

Member states supporting the Commission's plan should reconsider. This plan does not appear to have been vetted at a professional economic level, either macroeconomically or microeconomically. It appears to be largely arbitrary, with the tariffs based on a hidden methodology and punishing



some companies because they received Chinese yuan subsidies from the Chinese government, but not others that received U.S. dollar subsidies from the American government. The Commission's plan will do untold damage to the European automotive industry and to the European economy and will be extremely hard to reverse. Once the European automotive industry becomes uncompetitive, reexposing it to global market forces to make it competitive again may be impossible as these same forces would destroy it in its weakened form.