

IENE Briefing Note No.19



EU Probe on Chinese EV Sales to Europe

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Prepared by IENE's Research Team

IENE Briefing Notes

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Introduction

As Europe is frantically trying to decarbonise its transport sector by massively expanding the use of electric vehicles (EV) while bolstering its car industry, growing Chinese EV imports are posing an existential threat. Hence, on September 13, 2023, the EU Commission chief Ursula von der Leyen announced an anti-subsidy probe into Chinese EVs in its 2023 State of the Union Address (1). More specifically, the most substantial announcement during her speech was the launch of the probe into China's electric vehicles. The Commission, she said, would investigate whether to impose punitive tariffs to protect European Union producers against cheaper Chinese electric vehicle imports it says are benefiting from excessive state subsidies.

The following day, Beijing blasted the launch of the probe by the European Commission into China's electric vehicle subsidies as protectionist and warned it would damage economic relations, a concern shared by Germany's car industry (2). In 2022, China's exports to the EU rose 8.6% to \$562 billion, according to Chinese customs data. But imports from the EU slumped 7.9% to \$285 billion due to weaker Chinese demand and sharply widened the EU's trade deficit with China for the second year.

EU officials believe Chinese EVs are undercutting the prices of local models by about 20% in the European market, piling pressure on European automakers to produce lower-cost EVs. The Commission said China's share of EVs sold in Europe had risen to 8% and could reach 15% in 2025. Underscoring challenges facing established European automakers, Volkswagen is looking at cutting staff at its all-electric plant in eastern Germany. In 2022, 35% of all exported EVs originated from China, according to US think-tank the Center for Strategic and Internal Studies (CSIS), with most destined for Europe. The single largest exporter from China is US giant Tesla. (3)

The months-long probe, which could lead to higher tariffs on Chinese imports, is aimed at buying more time for Europe's legacy carmakers to adapt to the green transition as China's battery-powered models threaten to swamp the growing market. The move comes as the EU strives to find a balance in its wider strategy towards China, with Brussels seeking to treat Beijing as a rival in economic and geopolitical terms, but also as a key trade partner for many of its member states and a critical part of its green technology supply chains.

1. Current Situation in Global EV Market

According to IEA's Global EV Outlook 2023 (4), EV sales break new records with momentum expected to continue through 2023. EV markets are seeing exponential growth as sales exceeded 10 million in 2022. A total of 14% of all new cars sold were electric in 2022, up from around 9% in 2021 and less than 5% in 2020.

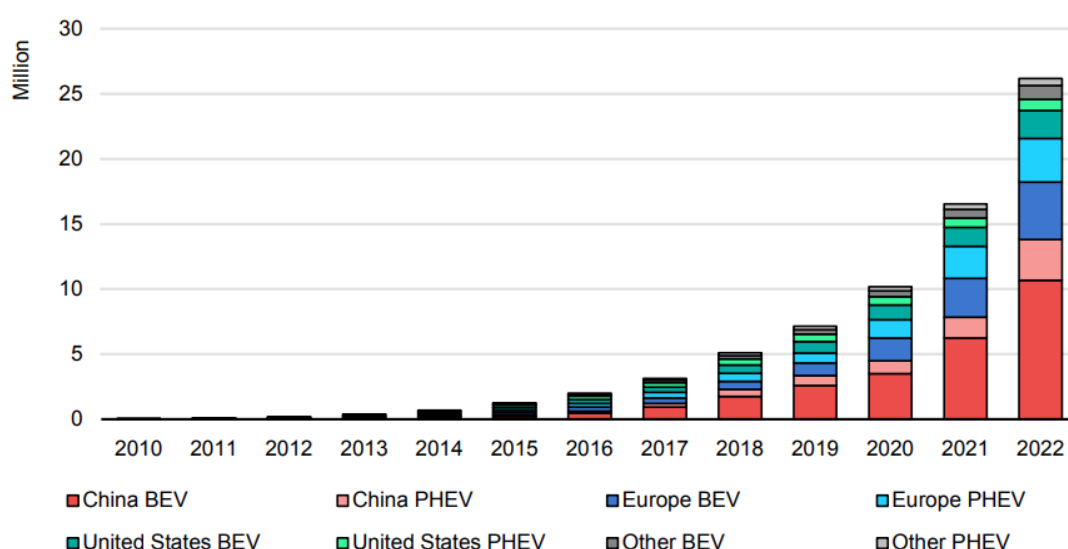
Three markets dominated global sales. China was the frontrunner once again, accounting for around 60% of global EV sales. More than half of the EVs on roads worldwide are now in China and the country has already exceeded its 2025 target for new EV sales. In Europe, the second largest market, EV sales increased by over 15% in 2022, meaning that more than one

in every five cars sold was electric. EV sales in the United States – the third largest market – increased 55% in 2022, reaching a sales share of 8%.

EV sales are expected to continue strongly through 2023. Over 2.3 million EV were sold in the first quarter, about 25% more than in the same period last year. IEA currently expects to see 14 million in sales by the end of 2023, representing a 35% year-on-year increase with new purchases accelerating in the second half of this year. As a result, EVs could account for 18% of total car sales across the full calendar year. National policies and incentives will help bolster sales, while a return to the exceptionally high oil prices seen last year could further motivate prospective buyers.

The EV supply chain is expanding, but manufacturing remains highly concentrated in certain regions, with China being the main player in battery and EV component trade. In 2022, 35% of exported EVs came from China, compared with 25% in 2021. Europe is China's largest trade partner for both EVs and their batteries. In 2022, the share of EVs manufactured in China and sold in the European market increased to 16%, up from about 11% in 2021.

Figure 1: Global Electric Car Stock in Selected Regions, 2010-2022



IEA. CC BY 4.0

Notes: BEV = battery electric vehicle; PHEV = plug-in hybrid electric vehicle. Electric car stock in this figure refers to passenger light-duty vehicles. In "Europe", European Union countries, Norway, and the United Kingdom account for over 95% of the EV stock in 2022; the total also includes Iceland, Israel, Switzerland and Türkiye. Main markets in "Other" include Australia, Brazil, Canada, Chile, Mexico, India, Indonesia, Japan, Malaysia, New Zealand, South Africa, Korea and Thailand.

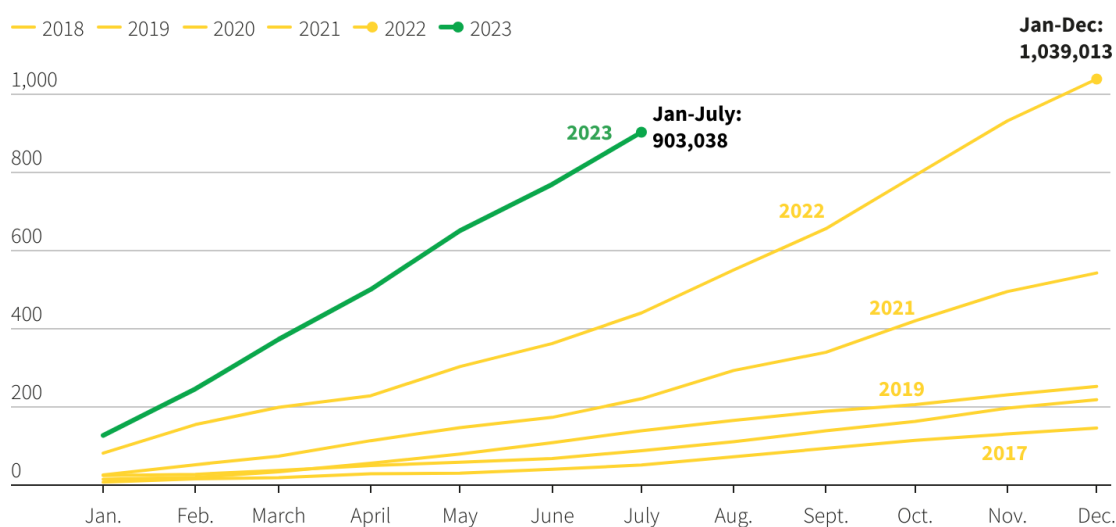
The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Sources: IEA, ACEA, EAFO, EV Volumes and Marklines

EV supply chains are increasingly at the forefront of EV-related policymaking to build resilience through diversification. The Net Zero Industry Act, proposed by the European Union in March 2023, aims for nearly 90% of the European Union's annual battery demand to be met by EU battery manufacturers, with a manufacturing capacity of at least 550 GWh in 2030. Similarly, India aims to boost domestic manufacturing of electric vehicles and

batteries through Production Linked Incentive (PLI) schemes. In the United States, the Inflation Reduction Act emphasises the strengthening of domestic supply chains for EVs, EV batteries and battery minerals, laid out in the criteria to qualify for clean vehicle tax credits. As a result, between August 2022 and March 2023, major EV and battery makers announced cumulative post-IRA investments of at least USD 52 billion in North American EV supply chains – of which 50% is for battery manufacturing, and about 20% each for battery components and EV manufacturing.

Figure 2: Cumulative Number of Chinese New Exports of BEVs and PHEVs (in thousands), 2018-2023

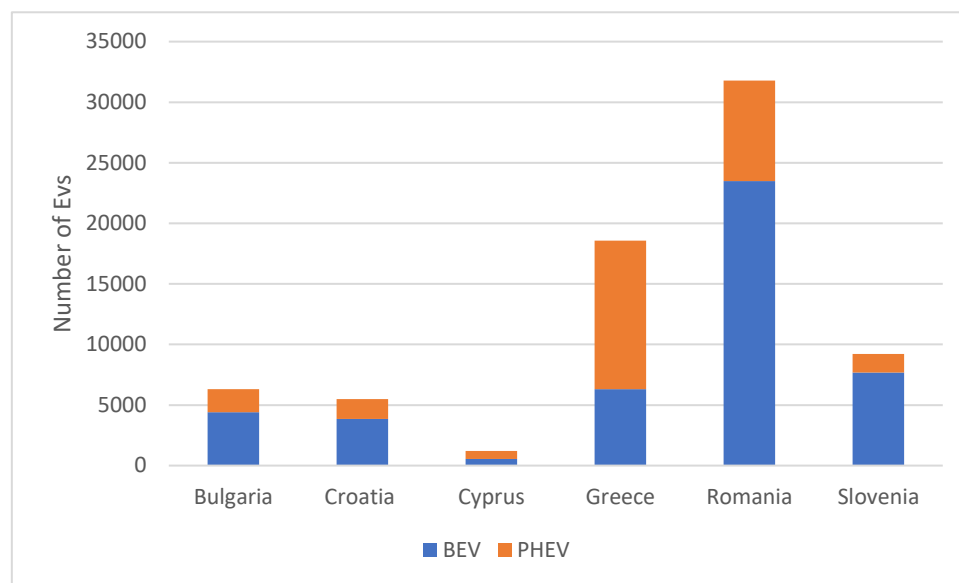


Sources: LSEG Datastream, Reuters

2. The Nascent SE European EV Market

Although not as dynamic as EV markets in Northern Europe, the countries of SE Europe are well on the path of expanding their nascent electric vehicle market. Following an uncertain early period in 2016/2020, where sales were minimal, the EV market in several countries in the region is reporting solid growth. Some countries are far ahead in terms of annual sales and in terms of the development of charging station networks. Countries, such as Romania, Greece and Slovenia, are developing that kind of market much faster than the rest of the region.

Based on data from the European Alternative Fuels Observatory [\(5\)](#), Romania and Greece are the frontrunners regarding the fleet of EVs in SE Europe, with about 32 thousand and 18.6 thousand in 2022, followed by Slovenia with a fleet of 9.2 thousand EVs. There are only three other countries in the region, i.e. Bulgaria, Croatia and Cyprus, with a small fleet of EVs, while the other countries in the Western Balkans are still inactive in this market.

Figure 3: Total Number of BEVs and PHEVs in SE Europe, 2022

Sources: European Alternative Fuels Observatory, IENE

3. How Does the Probe Work?

The EU will trigger an investigation into imports of new battery-powered passenger EVs made in China, regardless of whether they are Chinese or European brands. Such investigations happen when a foreign country is suspected of subsidizing products in a way that harms European industry — as the EU executive believes to be the case.

The investigation has not yet been launched officially. Once that happens, the Commission will seek reactions from the Chinese government and the companies concerned. It is then up to the Commission to prove whether car exporters received subsidies from the Chinese government during a specific period of time and whether these subsidies are harmful to European industry. If that is the case, the European Commission can impose import tariffs, known as countervailing duties in the EU trade jargon.

4. How Did We Get Here?

The EU has acted in response to a steep increase in imports of Chinese EVs. According to a European Commission spokesperson, Chinese brands have already built a market share of 8% — and that could double within a couple of years. This rapid rise led the European Commission to start its own investigation after gathering what it sees as sufficient evidence of potential subsidies into EVs. Such an “ex-officio” investigation is unusual; anti-subsidy investigations of this kind typically result from an industry complaint.

There is politics at play too. The French government, which advocates an interventionist industrial policy, had been pushing the European Commission to start an investigation (6). And von der Leyen, who set out her stall to lead a “geopolitical” Commission, is keen to

support European industry's green transition at a time when the US is ramping up subsidies under its Inflation Reduction Act.

5. How Long Could it Take?

Once the investigation is launched, the clock begins to tick. Any provisional tariffs would have to be imposed within nine months. Any definitive tariffs should be set within 13 months of the start of the investigation. That means the ball will likely land in the court of the next Commission, which will be appointed after the election to the European Parliament next June. This matters, as anti-subsidy investigations, especially this one, are seen as more political than anti-dumping investigations.

6. What Happens if China is Found to be in Violation?

After the investigation, the European Commission can impose tariffs on Chinese EV imports to limit the damage done to European industry. How high those tariffs would be depends on the outcome of the investigation into the scale of the Chinese subsidies. Previous subsidy investigations have often led to the imposition of extra duties ranging from 10% to 20%. Existing European import duties on EVs are 10%, lower than most other big markets. US duties on Chinese EV imports amount, for example, to about 27.5%.

7. What Could China Do?

Legally, Brussels does not see its move as provocative toward China. Launching an anti-subsidy investigation for trade defense purposes is in line with global trade rules. So, even if China challenges any future tariffs via the World Trade Organization, the EU is convinced it can legally stand its ground.

But that depends on whether Beijing will “keep an appearance of WTO consistency,” said Philippe De Baere, managing partner at law firm Van Bael & Bellis. “Ultimately, they could basically limit further investments by European producers in China, or make it much more difficult to sell on the Chinese market.” (7)

In a political dispute with EU member Lithuania, China showed it was prepared to take unusual retaliatory steps. Beijing imposed an unofficial economic blockade on Lithuania in December 2021, after Vilnius deepened ties with Taiwan, which Beijing views as a renegade province.

8. Carmakers Under Scrutiny

There are supporters and opponents of this protectionist probe within the bloc. Member states like France — home to brands like Renault, Citroen, and Peugeot — have relatively less exposure to the China market and are expected to benefit the most from any potential anti-subsidy tariffs. Meanwhile, German automakers that have close relations with (and exposure to) the China market have voiced their concerns regarding the investigation, even

though the European Commission said the purpose is to “de-risk” but not to “de-couple” from China.

According to the Financial Times (8), Tesla and European carmakers that export from China to the EU are set to come under scrutiny as the bloc probes whether the country’s EV industry is receiving unfair subsidies, said Brussels’ most senior trade official. EU executive vice-president Valdis Dombrovskis recently said there was “sufficient prima facie evidence” to justify the probe into imports from China of battery-powered vehicles, which Brussels fears could overwhelm the bloc’s car industry.

“Strictly speaking, it’s not limited only to Chinese brand electrical vehicles, it can be also other producers’ vehicles if they are receiving production-side subsidies,” said Dombrovskis in an interview, responding to a question on whether Tesla or Geely, the owner of Sweden’s Volvo, might fall under the probe. The EU was “open to competition” in the EV sector, but “competition needs to be fair”, said Dombrovskis, adding that other large economies had already introduced tariffs on battery EVs from China. “The EU is now probably the largest market which is open for Chinese producers,” he said.

Chinese commerce minister Wang Wentao told Dombrovskis the rapid development of China’s EV sector had been the result of research and development innovation, free competition and a “complete industry system”. “Wang Wentao expressed serious concern and strong dissatisfaction that the EU would initiate an anti-subsidy investigation into Chinese electric vehicles,” the commerce ministry recently announced, accusing Brussels of “protectionism” that would affect environmental co-operation and the stability of global automotive supply chains.

Tesla already exports EVs to Europe from its Shanghai gigafactory, although those numbers might fall following the opening of a facility in Berlin last year, said analysts. About one-fifth of all EVs sold in Europe are manufactured in China. In the first half of this year, Chinese-made vehicles accounted for 11.2% of EVs sold in Germany, according to a brief by CSIS. About 91% of those cars were from Chinese-owned European brands such as Britain’s MG, owned by China’s SAIC, or Volvo’s Polestar, or from joint ventures between European and Chinese companies such as Dacia Spring, Smart or BMW iX3, said the CSIS.

To sum up, this development is not only a cause for concern for Tesla but also for European brands like Polestar, BMW, and Cupra, which exclusively manufacture some of their EV models in China for export to the European market. The EU’s investigation aims to assess whether China has subsidised not only Tesla but also domestic manufacturers like BYD, SAIC Motor, and Nio, and to take appropriate measures to level the playing field for the EU’s EV industry.

Discussion

Battery-powered carmakers from China are vying for a bigger slice of the global market. However, a recent European Commission investigation could hamper these efforts. The probe, the latest effort by the European Union to reduce reliance on Chinese exports in the

bloc's green transition, could trigger new tariffs on Chinese EVs. If Beijing bites back, industry watchers warn of economic consequences for both sides.

While the EU is keen on keeping its EV factories running, China will likely react to higher-than-normal tariffs by leveraging its massive stock of raw EV-related materials and production facilities, where 90% of the world's rare earth concentrates are refined. Production of this kind is almost non-existent in Europe. As China just raised its rare-earth mining quota by 14%, this edge may grow even stronger.

In view of potential alienation, Chinese automakers will likely seek stronger relations with regional trade partners like ASEAN. With Thailand and the Philippines already top export locations for Chinese EVs and recent regional initiatives to strengthen partnerships in the sector, Chinese brands will likely take advantage of this more friendly business environment and increase their activities in the Asia Pacific.

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