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ASCI Policy Brief

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## Abstract

On 12 June, the European Commission announced the first provisional decision under its anti-subsidy inquiry for battery electric vehicles (BEVs) assembled in China. Albeit initially driven by Western foreign direct investment, Chinese car producers have become prominent producers of battery electric vehicles. This note asks if the imposition of import tariffs may also affect EU producers and reflects the discussion against a trade context. A 2023 analysis reveals that 55% of BEVs sold in the EU and manufactured in China are produced by EU carmakers through joint ventures, a decline from 68% in 2022. Consequently, these companies will be directly affected by the tariffs. However, the suppliers to these OEMs are predominantly located in China (85%). This indicates that EU suppliers are considerably less affected than Chinese firms.

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## Introduction

On 4 October 2023, the European Commission opened an investigation into imports of battery electric vehicles (BEVs) from China. It has now concluded that the Chinese BEV value chain benefits from unfair subsidies, potentially causing injury to EU BEV producers, and outlined the tariffs it would impose on imports of BEVs from China. If no other agreements are reached until then, these tariffs would become definitive in November 2024 and add to the existing import tariffs of 10%.

These measures occur against the backdrop of rising market shares for Chinese original equipment manufacturers (OEMs) such as BYD, Geely, and SAIC. In its first provisional decision, the EU Commission has announced a tariff scheme under its anti-subsidy inquiry for BEVs assembled in China. These are split by brands according to the suspected level of state aid received: BYD (17.4%), Geely (20%), and SAIC (38.1%). Other BEV manufacturer in China that cooperated in the EU investigation, but have not been individually sampled, are subject to a tariff amounting 21%. BEV producers in China that did not cooperate are subject to a tariff of 38.1%. The amount of the tariffs are based on an analysis of the extent to which Chinese producers receive state aid in China. This may take the form of grants, below-market or state-backed loans, various tax rebates, VAT exemptions and discounted prices of goods and services.

The growth of China's automotive industry was initially driven by foreign direct investment from Western countries. However, as the industry matured and gradually moved away from internal combustion engines towards BEV, domestic producers have become increasingly prominent. It is unclear whether the imposition of punitive tariffs on Chinese firms will indirectly affect Western companies.

In this note, we aim to clarify who might be directly and indirectly affected by these tariffs along supply chain dependencies. That is, which companies are producing BEVs in China, and who are the suppliers of these companies? We conclude by putting these results into an industrial and trade policy context.

## Who is producing BEVs in China?

The majority of the BEVs produced in China and exported to the EU are made by two types of companies.

1. Firms may be Chinese OEMs, such as BYD.
2. Firms may be joint ventures (JV) between Chinese companies and OEMs from other regions. An example is the collaboration of FAW and Volkswagen.
3. Firms may be OEMs from other regions producing in China, such as Tesla.

The analysis identified 57 BEV models produced in China and sold on the EU market. The results for these sales by type of OEM are shown in Table 1. The majority of Chinese BEVs sold in the EU are manufactured via joint ventures with OEMs from the EU, from 66% in 2021 to over 68% in 2022, and 55% in 2023.

Chinese OEMs played a rather minor role in 2021 (2.2%). However, their market share increased rapidly over the following two years, reaching 4.2% in 2022 and 11% in 2023. In contrast, sales of US companies, remained relatively stable at around 30% over the same period. Hence, Chinese OEMs gained market shares at the expense of EU OEMs.

	EU Sales of BEVs produced in China (share)		
OEM	2021	2022	2023
China	8,200 (2.2%)	24,400 (4.2%)	96,300 (11%)
EU*	252,400 (66%)	390,400 (68%)	484,800 (55%)
JP*	1,300 (0.36%)	4,400 (0.76%)	15,000 (1.7%)
US*	118,600 (31%)	159,000 (27%)	279,800 (32%)

Table 1: EU sales (quantity) of BEVs produced in China for 2021 to 2023. Results are shown by region of the car maker (OEM). Note that car makers from outside of China operate via joint ventures with Chinese manufacturers.

Source: ASCII calculations based on Marklines data.

\*including joint ventures with Chinese companies.

### Who are the suppliers of these OEMs?

We identified the direct suppliers (Tier 1) of these BEVs produced in China. Figure 1 shows the geographical distribution of these suppliers by region. Most of the supplied components, about 2,000 out of 2,300, are sourced from firms located in China. It is notable that suppliers from other countries are less common. Companies from Germany, South Korea and France primarily supply joint ventures with EU OEMs.

This analysis indicates that the dependencies in the Tier 1 supply chain of BEVs produced in China are also concentrated on Chinese companies, regardless of the type of OEM.

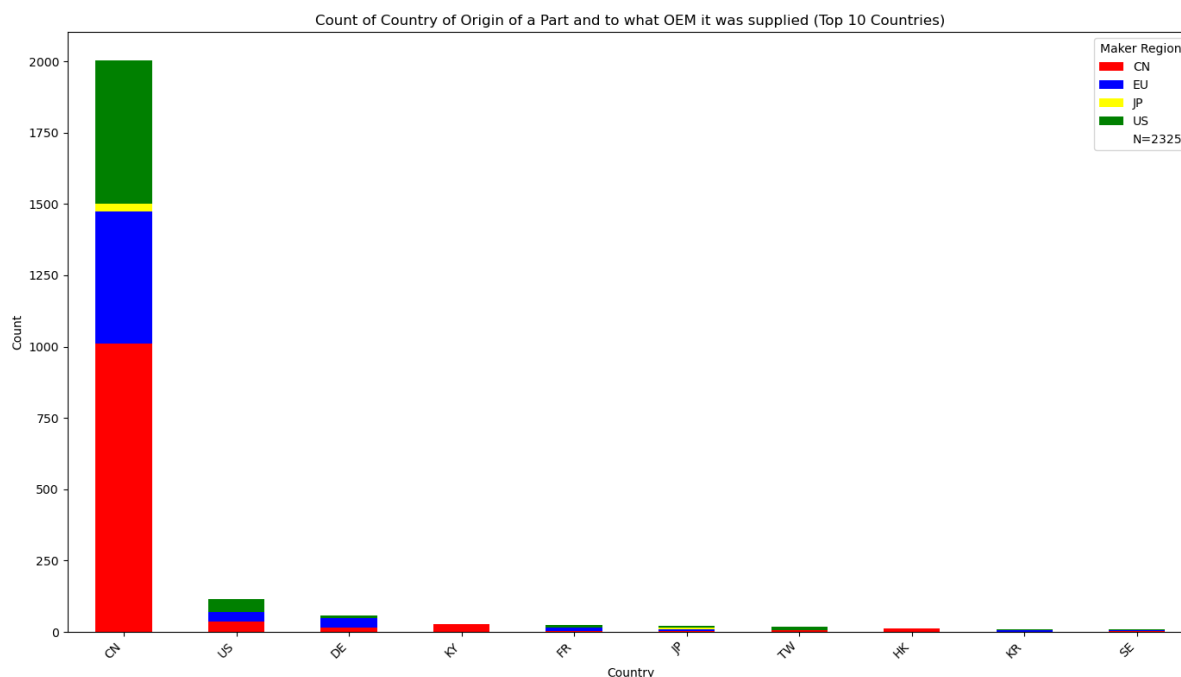


Figure 1: Number of supplied parts for BEVs manufactured in China by region of supplier (tier 1). Colors refer to the type of OEM who is supplied by these companies, including Chinese car makers (red), as well as OEMs from EU (blue), Japanese (yellow) or US (green), many of which operating via joint ventures with Chinese companies.

Source: ASCII calculations based on Marklines data.

## **Concluding remarks**

The BEV market is growing fast, and Chinese companies gain market shares at the expense of EU producers. Hence, European firms are losing market shares in a growing market. While this raises concerns about the competitiveness of EU firms, these dynamics are partly due to subsidies that distort the competition. EU firms seem not to compete on a level-playing-field.

The World Trade Organisation (WTO) prohibits market-distorting practices. The investigation by the European Union into a violation of subsidy law, followed by the imposition of anti-dumping duties, was an appropriate reaction. This represents a regulatory step that is in accordance with the rule-based approach that the EU as a trade bloc relies on. The objective of this policy is to maintain the feasibility of international cooperation and to promote fair competition. The EU's design would be undermined if retaliatory measures were not taken against unfair practices. Furthermore, such a stance would be strategically misguided in a continuous trade relationship.

This approach differs from the imposition of tariffs by the United States, where the Biden administration has imposed a 100% tariff on electric vehicles. The objective appears to be to protect US firms from Chinese competition and establish a US-led electric vehicle industry.

The descriptive statistics indicate that the suppliers to the OEMs affected by the tariffs are mostly located in China. Nevertheless, it is also the case that along their value chains are joint ventures between Chinese and EU-based firms. Consequently, also EU firms are indirectly affected by the tariffs, although to a much lesser extent than Chinese firms.

It remains to be seen whether the tariffs will lead to a broader trade conflict in the medium term. While Chinese officials have reacted with considerable anger, the Chinese car producers affected have been cooperative in the investigation. A complete decoupling from China is neither desirable nor feasible at a reasonable cost, given the intertwined nature of the economies. For free trade to continue, it is necessary to establish rules. It would be in the best interest of all trading partners if competition occurred in a fair and level-playing manner. This would ultimately ensure the most optimal market outcomes, including a broader product range and the best price-quality ratio.