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The Franco-German dispute over China's electric vehicle expansion in the EU

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According to recent press releases (including from *Politico*), France is seeking to initiate anti-dumping proceedings against imports of electric vehicles from China, which may lead to punitive duties being imposed on EVs imported from factories in China. Paris wants the European Commission to start using the retaliatory measures in trade policy which it has developed over recent years. Its efforts to this end are being supported by the French EU Commissioner for the Internal Market, Thierry Breton. Germany strongly opposes tightening trade policy towards China because it is much more dependent on the Chinese market, and in consequence is more exposed to retaliation from Beijing. The launch of anti-dumping proceedings against the imports of electric vehicles is expected to be discussed by EU leaders at the European Council summit at the end of June.

Commentary

- Unless the EU's trade policy is tightened, imports from China to the EU are likely to surge over the next two years. In 2022, China's foreign sale of electric vehicles increased by 89%, reaching a figure of almost 1 million vehicles. By 2025, the share of Chinese-manufactured vehicles on the EU market will reach 15%. According to a PwC forecast, China will then export 800,000 cars (mainly electric) to the EU annually, of which probably only 41% will be cars of Western brands located in the PRC. Chinese companies have the advantage of large economies of scale and higher competence in the production of lithium-ion batteries and the module systems for them, and have recently moved to the rapid expansion of their distribution channels and logistics chains in the EU. The EU's liberal and asymmetric trade policy is making this process easier. Currently, the customs tariff on vehicles exported by China to the US is 27.5%, compared to only 10% in the case of imports to the EU. In turn, cars imported to China from the EU are subject to a duty of 15–25%.
- The expansion of electric vehicle imports from China into the EU is causing a conflict between Berlin and Paris. It is in France's interest to raise customs duties on their imports, as Chinese-manufactured vehicles pose a threat to the position on the European market of France's Renault and the French-Italian Stellantis, which principally manufacture lower- and mid-range cars. French CEOs have been warning for months that vehicles from China have a cost advantage of €10,000 in the cheaper models segment. Furthermore, neither of the French brands has a significant market share in China. Meanwhile the German government, which is heavily influenced by German automotive

manufacturers of mid- and top-range cars, is not presently afraid of Chinese competition on the European market. However, it sees possible retaliation by Beijing as the greatest threat, as this would affect the interests of German manufacturers in China, although their position on the Chinese market is rapidly eroding due to problems producing competitive models of electric cars. France is also prepared for a trade dispute with China in areas other than the automotive sector. According to some journalists, the European Commission's chief trade enforcement officer Denis Redonnet is also considering bringing a case under the EU's new International Procurement Instrument against the import of Chinese medical devices into the EU, in order to persuade Beijing to liberalise the public procurement market.

- The surge in imports of electric vehicles from China is also posing a threat to the position of numerous European suppliers, especially those in Central Europe. Many European manufacturers, especially German, benefit from car imports into the EU from their factories located in China. However, their EU-based subcontractors are receiving fewer orders as a result. Japanese manufacturers, for whom the United Kingdom has long been an important production hub for the EU market, are also increasingly interested in importing their production to the EU from China. In this way, Western companies are helping to develop economies of scale and technological competence of the Chinese automotive sector and strengthen China's position as a key electric vehicle production hub not only for their domestic demand but also for that of the EU.
- Despite the structural divergence in trade policy towards Beijing, Germany and France are both interested in increasing subsidies for the transformation towards electromobility. To this end, both Berlin and Paris will lobby to raise the limits on permitted state aid in order to attract investments (especially in the field of chips and batteries for electric vehicles), and to bring the level of admissible support for the manufacturing investments located in these countries closer to the value of the funds allocated by the US under the Inflation Reduction Act. At the legislative level, Germany is also lobbying within the EU to guarantee additional state aid (both from the Just Transition Fund and probably also from the budget of the next EU multiannual financial framework for 2028–34) for those German regions which may be adversely affected by the transformation towards electromobility.