

# Strategic Focus: Electric Vehicles

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The European Union faces significant challenges in developing a competitive electric vehicle (EV) industry, highlighted by its recent anti-subsidy duties on Chinese imports of battery electric vehicles (BEVs). Despite ambitious aims for the sector, the EU is struggling to compete with China's dominant global EV market position. The EU's challenges stem from structural limitations including fragmented regulatory power, dependence on offshore production, and constrained industrial policy options compared to the US. More generally, the EV question reflects broader tensions between the EU's environmental goals, industrial ambitions, and security concerns, particularly regarding China. It is a taste of future challenges the bloc will face when it comes to clean technologies and critical raw materials.

## A LONG TRADITION OF COMPETING PRIORITIES

The EU's EV agenda highlights three parallel and at times competing priorities. First, decarbonisation goals include phasing out combustion engines by 2035, with EVs as the current obvious alternative. Second, the EU sees the future of its huge automotive industry in a strong European and global market share for EVs and has shaped the Clean Industrial Deal to support this. Third, conflict-related bottlenecks like the Red Sea corridor and experiences of disruptions in the pandemic have focused minds on supply chain dependencies and vulnerabilities, particularly regarding China's control of critical materials and technologies

The European states have navigated similar tensions before. Pressure from Japanese car imports three decades ago and Chinese solar panels ten years ago both raised similar questions. In both cases, European states were compelled to find a compromise. Both provide some insight into the EV question in Europe.

## STATE OF THE EU EV INDUSTRY AND MARKET

Despite the traditional excellence and deep social and economic significance of the European automotive sector, the European EV industry is not competitive. Notwithstanding the 35% year-on-year increase in global EV [sales between 2022](#)

## KEY EVENTS

- September 11, 2023: EU launches anti-subsidy investigation into Chinese-made battery electric vehicles
- June 12, 2024: EU announces preliminary conclusions and provisional duties ranging from 17.4 to 38.1%
- August 20, 2024: EU discloses draft definitive duties, with Tesla facing the lowest rate at 9% and non-cooperating Chinese manufacturers facing up to 36.3%
- October 4, 2024: Member States vote not to oppose the duties
- October 31, 2024: Final duties ranging from 7.8 to 35.3% entered into force

[and 2023](#), the EU struggles to service its domestic market, let alone global demand. China's large-scale government investment in the EV sector and direct access to critical raw materials such as lithium and cobalt have produced a productive capacity and cost base that has contributed to a notable deficit in EU-China BEV trade.

The slower growth of the European EV industry is also influenced by strategic business decisions within the sector. While pro-EV legislation is increasing, the overall market conditions in Europe have not been favourable for robust growth in the electric vehicle industry. Europe's dependence on offshore production for critical EV components, particularly battery manufacturing and raw materials, has created significant vulnerabilities in supply chains.

European automotive manufacturers, recognising the risks in current supply chains and growing political pressure for diversification and supply chain security, remain hesitant to commit to full-scale European EV production. Instead, major manufacturers such as BMW and Volkswagen have invested heavily in green fuels as an alternative pathway to net-zero mobility, a key component of the EU's decarbonization plans. While innovative, this focus on green fuels has not achieved the scalability needed to drive the transition to decarbonised mobility but managed to divert the attention from investments into EVs.

Structural challenges also limit the growth of the European EV industry. Notably, the European EV infrastructure is fragmented, and the EU would have to channel significant investments to change this. As of 2023 around 61% of all the estimated 630,000 public charging points in the EU are located in just three countries: [the Netherlands, France, and Germany](#). The European Commission estimates that to support the transition to EVs, the EU requires 3.5 million charging points by 2030, meaning [410,000 new charging points need to be installed annually](#). Vehicle-to-grid connectivity, smart charging and heavy-duty EVs will be key, as will be investment into EV R&D and workforce and skills retraining. Additionally, the already limited uptake of EVs in Europe has been partially driven by purchase subsidies which are slowly phasing out. Coupled with the incomplete infrastructure, which makes EVs less convenient, EVs remain expensive, making combustion-engine cars more attractive to customers.

### MODERN DYNAMICS AND THE EU'S LIMITED RESPONSE TOOLKIT

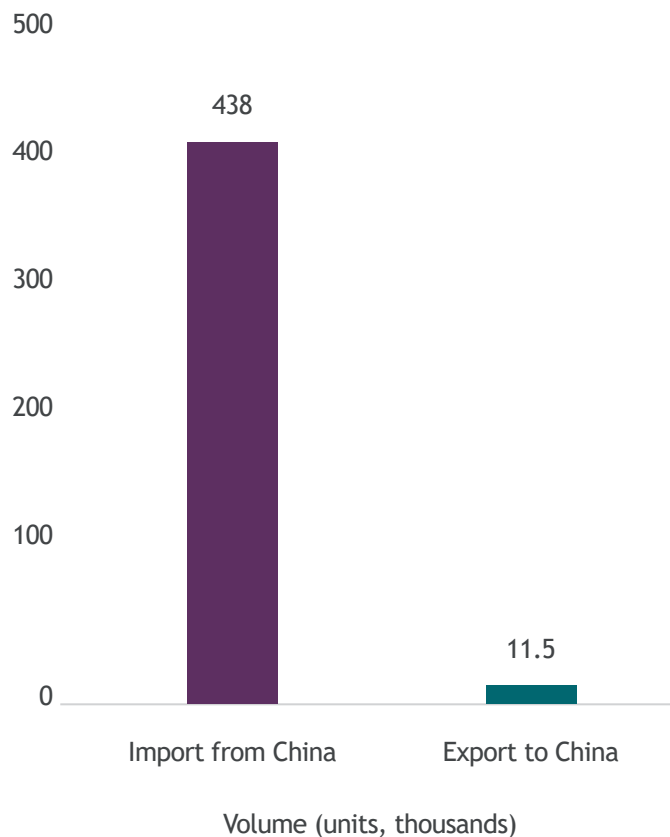
Governments traditionally rely on two key tools to navigate their competing priorities and challenges: trade restrictions to manage competition and industrial policies to boost competitiveness and guide domestic industries toward strategic goals like decarbonisation. Unlike the US, the EU has additional constraints in both.

The EU finds itself in a challenging competitive and industrial position with limited flexibility. The EU's legislative

### CASE STUDY 1: JAPANESE CARS

In the 1980s-90s, the EU faced growing Japanese automotive competition, with Japanese cars reaching 20% market share in the EEC market. Attractiveness of the European industry was declining, as Japan's technological edge and effective production processes offered high-quality yet affordable alternatives. The EU responded with import quotas and tariffs. Committed to a free trade agenda and the EU's reciprocal market access deal with Japan from the 1980s, the European Commission brokered an addendum deal restricting Japanese automotives' access to Europe for a decade. However, since companies such as Toyota, Honda, and Nissan made timely investments in European manufacturing inside the EU's external tariff, they were able to service the market from the inside. With rising environmental consciousness, the compact and fuel-efficient Japanese cars were in an even higher demand. Environmental concerns led the EU to adopt common emission standards, predecessors of today's EURO I-VII. Japanese innovation forced the European industry to transform and the Japanese European market share stabilized at 10-13% in recent years.

### EU BEV TRADE FLOWS WITH CHINA



## CASE STUDY 2: SOLAR INDUSTRY

In 2013, the EU imposed significant 47.6% anti-dumping duties on Chinese solar panel imports following a two-year investigation into allegations of unfair trade practices in the surge of Chinese solar manufacturers. This action sparked a retaliatory investigation by China into European wine and polysilicon imports. The dispute was resolved in 2015 through a price undertaking, where Chinese exporters agreed to a minimum price of 56 cents per watt for their solar panels. Despite a temporary relief, most European solar manufacturers struggled to compete with China's lower costs and scale advantages. Instead, the European solar market shifted towards installation and services. Today, the EU is 97% reliant on Chinese solar panel imports and 90% of the EU market is now focused on deployment rather than manufacturing. For some policymakers, this underscores the lesson that its response came too late to protect its solar manufacturing sector. For others, it is a lesson in accepting that Europe may have to choose between rapid rollouts of these technologies or local production of them.

framework - notably the distribution of competencies between the EU institutions and the member states and associated decision-making - limits its room to manoeuvre. While the US can use the power of the federal government and its balance sheet to launch initiatives like the Inflation Reduction Act (IRA), the EU has much more limited central spending power and can generally deliver industrial policy only through the 27 member states.

While the EU's Green Deal Industrial Plan mobilises approximately €335 billion through existing funds and grants, it has not measured up to the US IRA, which allocates around \$400 billion in straightforward tax incentives and direct payments. Allocation of these funds has not been especially strategic but deferred to individual member states. Although the long-expected Draghi report calls for unprecedented levels of spending and central EU debt-raising for industrial policy, there is formidable resistance to giving this kind of power to Brussels. In areas where EU institutions already have competence to make EU-wide policy such as market regulation, the appetite for using regulatory change to boost industrial sectors is often limited. Action can be slow when it is not.

The EU's limited fiscal and industrial policy ability heightens the pressure on trade defence measures to be part of the EU's response. With the example of acting too late in the solar case, the European Commission has moved more proactively in the case of EVs. It launched its investigation into Chinese subsidies ex-officio rather than waiting for a formal public industry complaint. However, even when using its trade defence competence, the Commission must manage the difficult politics of its member states and external pressures.

While many EU carmakers support the idea of duties on Chinese EVs in principle, some are also heavily reliant on trade with China. By the first half of 2023, China accounted for as much as 40% of all exports for key German brands such as Volkswagen. Concerns about retaliation mean industry and political support for defensive action in principle disappears in practice. China now has ample experience tactically exploiting these dependencies, threatening trade retaliation against key national exports.

When the EU imposed solar industry tariffs, China countered by targeting French wine and German polysilicon. More recently, Beijing launched investigations into EU pork, brandy and dairy products—critical exports for France and Spain. While the US government has been able to act decisively by imposing 100% duties on Chinese EVs and proposing bans on Chinese vehicle software, the EU has struggled to take similar unified action. This was evident in the October 4 EU vote on the EV duties, which passed largely through member abstentions rather than active support, highlighting the EU's challenges in implementing similar measures.

The next thing to watch will be the response to Chinese companies repeating the Japanese strategy of the 1990s and establishing local manufacturing inside the EU to circumvent anti-subsidy duties and position close to EU customers. Some member states like Hungary have courted such investment, but it has also prompted a new range of investment screening tools at both the member state and EU levels, including the new Foreign Subsidies Regulation. Japan in the late 1980s was a strategic ally as well as an economic competitor: Chinese firms could expect a more sustained challenge. Striking the right balance between the critical need for investment in the European EV industry and pressure to act to ensure local European market dominance will require yet another delicate balancing act by the EU.

## BEYOND THE EV CASE

The EV issue is a test case of the ways the EU can struggle to balance competitiveness, technological leadership, reduced global supply chain dependencies and decarbonisation in a global economy where it has material export interests to defend. Just as the solar dispute ten years ago and Japanese car competition in the 1980s foreshadow the EV case, the EV case itself may anticipate tensions to come. Chinese dominance in areas such as clean technologies and “heavy” rare earth elements, which are critical in the manufacturing of EV motors, but also for wind power generation, hydrogen storage, and advanced batteries is an obvious area where the same trade-offs and tensions are likely to emerge in the years ahead.