Europe to Hit China With EV Tariffs That Its Own Automakers Oppose

The European Union plans to impose tariffs on imported Chinese electric vehicles, marking an early victory for officials who view the imports as a threat to the region's powerful car sector despite deep divisions in Europe over the issue.

China was the source of nearly one in five European sales of fully electric vehicles last year and that proportion should grow, according to data from green lobby group Transport & Environment. Concerns have grown in Europe that China's low production costs and what European officials found are hefty state subsidies could soon price out European carmakers.

Brussels' pushback against China is controversial—and not just in China. The tariffs' most vocal opponents include Europe's largest carmakers, which are concerned about retaliation in China, a vast and highly profitable market on which they have become dependent. This reliance has complicated Europe's effort to follow the U.S. in raising barriers to Chinese imports.

At stake, economists say, isn't just the future of an industry that is among Europe's largest employers. The outcome could determine whether and how much Beijing's industrial offensive, which some have dubbed the second China shock after the country's conquest of consumer goods manufacturing in the early 2000s, reshapes the economies of the West.

The Chinese Ministry of Commerce disputed the EU's findings and said China would defend the rights and interests of its companies. "This is blatant protectionist behavior, which creates and escalates trade frictions," the ministry said in a statement.

Among the tariffs' opponents in Europe is Volkswagen, even though the German carmaker is under increased competition from the new breed of Chinese EV makers that are challenging the dominance of Western manufacturers in China and abroad.

A look at VW's sprawling EV complex in Hefei, China's answer to Silicon Valley, goes some way to explaining the company's position. There, more than a thousand robots are busy assembling a sporty all-electric SUV that VW is building here for export to Europe.

The plant is one of the company's most efficient in the world, according to VW officials, who say it has helped the company drastically cut the time needed to make a car, from design to mass-market production—a feat VW describes as "China Speed."

German carmakers like VW campaigned against proposed European import tariffs on Chinese EVs because maintaining their access to the Chinese market matters more. Some German suppliers have welcomed the rise of Chinese carmakers that are now among their customers.

"We stand for fair and open trade and do not want additional protectionist measures," Ralf Brandstätter, CEO of VW's China business, said in a recent interview. "We have to adapt to this new situation instead of putting up new barriers."

In a statement on Wednesday, VW criticized the EU tariffs, accusing the Commission of promoting “protectionism, nationalism and isolationism,” and risking an escalating trade conflict.

The reaction was echoed by the German car lobby organization and by CLEPA, the sector’s Europewide umbrella group, which said that “instead of relying on protectionist measures that could hamper European companies’ access to crucial markets, EU policy makers should focus on making the EU more competitive.”

Germany is the EU’s largest auto market and biggest producer of vehicles and components. As the EU’s largest economy, its support can often make or break EU initiatives. Berlin has also been an ally in China’s effort to blunt the EV tariffs, lobbying Brussels against them.

In April, German Chancellor Olaf Scholz took a three-day trip to China flanked by a large business delegation. During the visit, which included a meeting with Chinese leader Xi Jinping, Scholz played down the risks from cheap Chinese EV imports.

Last month, another official visit drew less attention but provided a starker example of German carmakers and politicians working together to promote good relations with China. The northern German state of Lower Saxony, one of VW’s biggest shareholders, led a delegation to Hefei, home to the ultramodern VW plant. The message: Germany won’t decouple from China.

“In these turbulent times in which there are many unresolved issues between Europe and China and the U.S. and China…we have to remain in dialogue with each other,” Lower Saxony Prime Minister Stephan Weil told The Wall Street Journal during the trip.

One of Weil’s meetings during the trip was with Chinese shipping operator Cosco, about a new investment in the German port of Wilhelmshaven, also home to the country’s largest naval base.

Some member states worry that this could invite retaliation. “We should not forget: European manufacturers, and also some American ones, are successful on the Chinese market and also sell a lot of vehicles that are produced in Europe to China,” Scholz said recently.

Chinese government officials have warned that China would retaliate against any EU tariffs. Facing a saturated domestic market and 100% U.S. import tariffs, the likes of BYD, Polestar and SAIC need to expand to Europe to realize their global ambitions.

During a recent visit with Spanish government officials and to Chinese EV maker Chery’s factory in Barcelona, China’s commerce minister, Wang Wentao, urged the Spanish government to lobby Brussels against the coming tariffs. Wang and a deputy also held meetings last week in Greece, Poland and Portugal—all countries where China has made important investments.

Later in the week, during a visit to Spanish auto supplier Gestamp, Spain’s industry minister, Jordi Hereu, expressed skepticism about the EU’s planned tariffs, and called on Brussels to provide aid to build up key industries at home instead.

“I don’t believe in trade wars, because I believe in international trade, but I do believe in policies to strengthen reindustrialization,” he said.

Yet tariffs alone are unlikely to halt the growing influence of Chinese carmakers.

Investor Zhejiang Geely Holding controls Sweden’s Volvo Cars, and the group’s backer, billionaire Li Shufu, has also invested in British automotive companies including Lotus. Li holds nearly 10% of Mercedes-Benz stock while China’s BAIC holds another 10%. China’s state-owned chemical group Sinochem is the biggest shareholder in Italy’s Pirelli.

Chinese EV makers are also beginning to set up production in Europe. BYD last year announced plans to build a Tesla-style Gigafactory in Hungary, while Chery has created a joint venture with Spain’s EV Motors to assemble vehicles in Barcelona. China’s leading battery makers including Contemporary Amperex Technology, Gotion and BYD have built or plan battery-cell manufacturing plants in Europe.

New factories accounted for 78% of Chinese foreign direct investment in Europe last year, up from 51% the year before, according to a study by the Mercator Institute for China Studies and Rhodium. The push was led by investment in battery plants in Hungary, Germany and France.

Chinese auto executives argue that given a fair choice, European consumers are likely to favor Chinese cars, not because of their price but because they are better. Chinese consumers, they point out, gradually turned away from Western brands for the same reason.

“If Chinese consumers are not buying legacy brands it’s not because of their origin, it’s because such brands are not providing products that are good enough,” said William Li, founder and CEO of Nio, a Chinese EV maker known for its battery-swapping technology. “Chinese competitors are offering better products and services.”