

# **Overview of the Escalating EU-China Trade Conflict over Electric Vehicles and Agricultural Products**

## **Prelude to the Tariff War (Late 2023 to Early 2024)**

The trade conflict between the European Union (EU) and China began to surface in late 2023, when concerns about the competitive pricing of Chinese electric vehicles (EVs) led the EU to initiate an investigation. The European Commission, alarmed by what it considered unfair subsidies granted by the Chinese government to its EV manufacturers, launched a formal probe in October 2023. This investigation revealed that China's state-sponsored support allowed its EVs to enter European markets at prices that undercut local producers, posing a significant threat to Europe's automotive industry.

Meanwhile, similar actions were taking place across the Atlantic. The United States, under President Biden, raised its tariffs on Chinese EVs to a staggering 100%, reflecting the broader global concern about China's rapid dominance in the green-tech sector. The EU followed suit, albeit more cautiously, capping its proposed tariff increase at 48% for Chinese EVs. Both economies were motivated by the desire to protect domestic industries from disruptive competition fueled by perceived unfair practices in China's green technology sector.

## **January 2024: China's Initial Retaliatory Measures**

Even before the EU's tariffs were formally imposed, China began preparing retaliatory measures. On January 5, 2024, the Chinese Ministry of Commerce launched an anti-dumping investigation into European brandy imports. This move appeared to be aimed at France, which was the most vocal proponent of EU protectionism in the EV industry. The brandy industry in France was heavily reliant on the Chinese market, accounting for 99% of China's total brandy imports, valued at \$1.73 billion in 2023.

The timing of China's probe raised suspicions of a direct response to the EU's investigation into Chinese EVs. French President Emmanuel Macron, following discussions with Chinese President Xi Jinping, expressed hopes that tariffs on brandy could be avoided. However, the final decision from China on this issue was deferred until August 2024, indicating that Beijing was keeping this option open as a bargaining chip.

## **June 2024: European Tariffs and China's Expanded Response**

As the EU's tariff decision on Chinese EVs loomed, China broadened its scope of retaliatory measures. On June 17, 2024, Beijing announced a new investigation into European pork imports, targeting Spain, the Netherlands, Denmark, and France.

Spain, a major exporter, was hit hardest, as pork accounted for a large share of its exports to China. Spanish pork exports to China were particularly significant, amounting to \$865 million in 2023, making Spain a critical player in this sector. The investigation aimed to determine whether European pork producers were

selling at prices below the cost of production, a practice known as dumping. If found guilty, Spain could face severe tariffs that would cripple its access to the Chinese market, which is vital for the country's agricultural economy.

Simultaneously, Chinese state media began signaling that other agricultural products, such as dairy, could also face scrutiny. On June 12, 2024, the Chinese Ministry of Commerce warned that it would take "necessary measures" to defend Chinese companies against what it saw as unjust EU actions. This period marked a critical escalation, as it became increasingly clear that China was willing to strike at specific European industries in retaliation for the impending tariffs on EVs.

#### **July 4, 2024: EU Tariffs Take Effect**

On July 4, 2024, the European Union formally imposed new tariffs on Chinese electric vehicles, ranging from 17.4% to 48.1%, depending on the level of cooperation from the manufacturers. This marked the beginning of a new phase in the trade war between China and the EU. The EU's rationale for these tariffs was rooted in concerns that Chinese subsidies were creating an uneven playing field for European manufacturers, particularly those involved in the green-tech sector.

The tariffs were set to have a significant impact on the market. Chinese companies had already begun to dominate the global EV market, and Europe was seen as a crucial battleground. European manufacturers such as BMW and Volkswagen, which have large operations in China, expressed concerns about the potential fallout, both in terms of consumer prices and the risk of Chinese retaliation against their exports.

#### **July 2024: China's Agricultural Retaliation Intensifies**

Almost immediately after the EU's tariffs were formally imposed, China escalated its response by moving forward with its antisubsidy investigation into European dairy products.

On 21<sup>st</sup> August China also launched an investigation into European dairy products, signaling that its retaliatory strategy was designed to create political pressure within the EU. The dairy probe targeted products from several EU countries, including France, Italy, Denmark, and the Netherlands. These countries, particularly France, were already at odds with China over other trade issues, including the brandy investigation. By expanding its list of targeted products, China sought to fracture the EU's unified stance on the EV tariffs.

#### **August 2024: Broader Implications and Strategic Shifts**

As summer 2024 progressed, the broader implications of the EU-China trade conflict began to materialize. For one, the tariffs on Chinese EVs were expected to increase the price of electric vehicles for European consumers, potentially slowing the transition to cleaner transportation. On the other hand, European

automakers were likely to benefit from the reduced competition, although their costs were expected to rise as well.

Chinese companies, particularly in the automotive sector, responded by exploring options to localize production within Europe, building factories to circumvent the tariffs. This strategy mirrored earlier moves by Chinese solar panel manufacturers, who had faced similar restrictions a decade earlier. However, these actions would take time to implement, and the immediate impact of the tariffs was expected to cause significant disruptions.

Meanwhile, Chinese threats to reduce orders from European aviation giant Airbus were seen as less credible due to China's heavy reliance on Airbus for its aviation needs. Nevertheless, the mere threat was enough to cause unease in Europe, particularly in countries like France, which have strong trade ties with China.

### **Conclusion: Navigating an Uncertain Trade Landscape**

By August 2024, the EU and China were locked in a complex and escalating trade conflict, with no easy resolution in sight. China's retaliatory actions, particularly in the agricultural sector, demonstrated its willingness to leverage its economic power to push back against perceived trade injustices. The EU, for its part, was determined to protect its industries from the disruptive competition posed by China's heavily subsidized clean-tech products.

Both sides were now entering a period of strategic recalibration. European automakers and agricultural producers were forced to adjust their business models to deal with the new tariffs and trade barriers. At the same time, Chinese companies were seeking ways to maintain access to critical European markets through increased investment and localized production.

As the trade war continued to unfold, the global implications of this conflict remained significant. With the United States and other countries watching closely, the EU-China trade dispute over electric vehicles and agricultural products had the potential to reshape global supply chains, disrupt industries, and redefine the rules of international trade for years to come.

#### **QUESTIONS:**

- 1. What strategy did some Chinese companies adopt to deal with the tariffs imposed by the EU?**
- 2. Why were Spanish pork exports particularly significant in the context of the trade conflict?**
- 3. What did the EU's tariffs on Chinese EVs, implemented on July 4, 2024, aim to address?**
- 4. In your opinion, what are the potential long-term effects of this trade conflict on global supply chains?**
- 5. What impact do you think the tariffs on Chinese EVs could have on the transition to green technology in Europe?**

