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What's Been Happening

1 — EU Announces Proposed Countervailing Duty Rate on Chinese EVs — 1

[**In One Sentence**]

- The European Commission announced plans to impose additional tariffs of 17.4% (BYD), 20% (Geely) and 38.1% (SAIC) on made-in-China battery electric vehicles (BEVs) starting from July.
- China warned that it will "take all measures necessary to firmly defend our lawful rights and interests," criticizing the anti-subsidy probe as "typical protectionism" and urging the EU to support free trade.
- Industry experts argue that Chinese automakers will likely be able to survive the rise in EU tariffs and make a profit even with a 25% tariff rate due to their "high profit margins."
- German and Swedish policymakers had lobbied intensely against additional tariffs on Chinese EVs, especially a cumulative tariff rate beyond 15%—China's current tariff rate on all car imports.

[**Mark the Essentials**]

- The imposition of provisional duties stem from an anti-subsidy investigation on Chinese passenger BEV's that was initiated in October 2023. Definitive (final) duties are due by November 2024.
- Compared with one year ago, the number of Chinese-made electric vehicles in Europe rose 23% and in the first quarter of 2024, there were 119,300 Chinese-made battery electric vehicles (BEVs), representing one in five EVs imported into the EU.
- Chinese BEV company BYD recently disclosed its intention to establish a second automobile factory in Europe, following the successful establishment of its first factory in Hungary. This second BYD factory will produce plug-in hybrid vehicles so as to cater to a wider range of customer preferences including those who have complained about the relative lack of EV charging stations.
- The European automobile industry—especially German carmakers BMW, Volkswagen and Mercedes-Benz—have been much less supportive of the European Commission's probe, given their heavy reliance on the Chinese market. In the first quarter of 2024, BMW's China business accounted for almost a third of its total sales.
- During an industry summit in Chongqing, China, BYD Chairman Wang Chuanfu noted that the takeover of combustion engines by eclectic and hybrid vehicles was an "overriding and unstoppable trend."

[**Keeping an Eye On…**]

- The European Commission's provisional countervailing duties on Chinese battery electric vehicles (BEVs) have finally dropped. BYD will be hit with a duty of 17.4%, Geely with 20%, and SAIC with 38.1%. Other Chinese BEV producers that did not cooperate with the investigation are to face a 38.1% duty, the highest rate. The provisional duties kick-in on July 4. So, are we in a EU-China 'trade war' now? Judging by China's Commerce Ministry's overwrought response (which notably directs the EU to "immediately correct its wrong practices"), one might be forgiven in thinking so. Well, that may be the case…or maybe not. At this fevered moment in supposed 'trade war' politics, it is well worth recapitulating an earlier episode of provisional anti-dumping duties imposed by the EU to stem an import deluge of a Chinese green good, and how the ensuing events played out thereafter. Eleven years ago, in early June 2013, the European Commission imposed provisional anti-dumping duties, set at an average of 47.7% (which incidentally is higher than the current EV duties), on imports of solar panels and components (cells and wafers) from China, following a nine-month anti-dumping probe and a seven-month anti-subsidy probe. The investigation had found that Chinese imports of solar panels and components represented 80% of the European market in 2011-12, with local EU players accounting for just a 13% market share—which itself was down from 19% as late as 2009. Left to its own devices, the EU industry would "quickly cease to operate altogether." The investigation also found that in terms of production capacity, Chinese production of solar panels and components represented around 150% of global consumption, with excess production capacity amounting to 90% of global demand in 2012. China's production capacity, furthermore, had increased ten-fold over a short three-year period—in turn, leading to numerous insolvencies and production stoppages among EU-based players. China's BEV production and export figures are nowhere as extreme today. Two months after the imposition of provisional anti-dumping duties in June 2013, however, a mutually satisfactory arrangement was hammered out by Brussels and the Chinese side. In early August, a group of cooperating Chinese export producers of solar panels and components, together with the China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME), reached a joint price undertaking with the European Commission. As per the undertaking, a (gradually declining) minimum import price for solar panels and cells and wafers was set, and their annual import volume levels were capped too, which in essence removed the injurious effects of dumping. Chinese exporters participating in the undertaking would be exempt from paying the anti-dumping duty, with the exemption extended to the anti-subsidy proceedings too. The provisional anti-dumping duties averaging 47.7% would continue to apply only on exports above the annual volume ceiling as well as on the minority of non-cooperating Chinese solar panel exporters (who were to be hit with a higher tariff). On this basis, the provisional duties, unchanged at an average of 47.7%, were confirmed later that December as the definitive anti-dumping and countervailing duty. The downward spiral of prices on solar panels was arrested and present and future investment decisions based on stabilized prices were facilitated. Five years later, in August 2018, the duties were sunset, leading China's Commerce Ministry to anoint the understanding as a "model for successfully resolving trade frictions through consultation." Eleven years on, might this again be the playbook to amicably resolve the 'existential' level crisis facing the European EV industry in the face of the China challenge? Don't count it out.

[**Expanded Reading**]

- Electric vehicle value chains in China, European Commission, June 12, 2024
- EU to hit Chinese EVs with extra tariffs of up to 38%, *Reuters*, June 12, 2024

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- Foreign Ministry Spokesperson Lin Jian's Regular Press Conference on June 12, 2024, Ministry of Foreign Affairs of the People's Republic of China, June 12, 2024
- Chinese automakers committed to Europe despite EV tariff probe, industry group says, *Reuters*, June 11, 2024
- EU is expected to unveil tariff plans for Chinese EVs this week, *CNVS*, June 11, 2024
- EU set to disclose tariff rates for Chinese electric vehicles, *Reuters*, June 10, 2024
- European nations compete for Chinese EV factories, jobs even as EU weighs tariffs, *Reuters*, June 10, 2024
- Chinese industry to seek probe into EU dairy imports, Global Times reports, *Reuters*, June 8, 2024
- Europe, US Fearful of Chinese Electric Cars, Says BYD Founder, *Bloomberg*, June 7, 2024
- Mercedes chief expects EU decision on Chinese EVs tariffs soon, *Reuters*, June 6, 2024
- Chinese EV makers can survive EU tariff hike, experts say, *Automotive News Europe*, June 3, 2024
- EU-China EV tariffs: German carmakers fear backlash, *DW*, May 27, 2024

2 — Biden Administration Sees No Trade as Free, Especially with China — 2

[**In One Sentence**]

- U.S. Trade Representative Katherine Tai argued in an op-ed that trade policy must be transformed in order to counter the partnership between "short-term profit-driven businesses" and "non-market autocracy," and thereby "democratize economic opportunity" for workers.
- Ambassador Tai later said that she shared with her predecessor, Robert Lighthizer, "a lot of the same diagnoses" on China as well as a "commitment" to changing the United States' approach to trade amidst "significantly different" global economic dynamics.
- U.S. Secretary of Commerce Gina Raimondo reiterated that U.S. economic engagement in the Indo-Pacific "isn't about China" and does not seek to stop regional countries from trading with China, but added that if U.S. and partner countries "act together," it will "send a message to China."
- Arguing that unilateral tariffs only lead to superficial outcomes, a senior trade analyst has contended that Washington could get "tougher and more effective" on China by challenging "core Chinese policies that distort international trade" at the World Trade Organization.

[**Mark the Essentials**]

- At an event hosted by the Atlantic Council on the future of U.S.-EU trade, USTR Tai argued that China should no longer be considered "a cooperative partner" and is instead neither a democracy nor a "capitalist, market-based economy." Accordingly, the U.S. and the EU should "work together" to rethink traditional approaches to trade and bring about "another new world order" which incorporates both economic and security needs.
- Referring to the extension of the Section 301 tariffs on China, Ambassador Tai noted that the Biden administration does not seek to "constrain China's economic development" and that the recent expansion of U.S. tariffs on Chinese goods is "not about escalation." Instead, according to Ambassador Tai, the tariffs are "defensive in nature" and seek to "create the space" for U.S. firms to "survive," to "compete," and to "thrive."
- As one among the Biden administration's various trade enforcement actions to "protect American workers and businesses from China," the Department of Commerce made a preliminary finding that China is unfairly subsidizing its glass wine bottle industry, and is currently contemplating additional tariffs for all Chinese producers at a rate from 21.14% to 202.70%.
- The World Shipping Council—a trade association representing major international liner shipping companies—has told the Office of the U.S. Trade Representative (USTR) that imposing a port fee on Chinese-built ships that dock at U.S. ports would not "meaningfully" alter China's practices or market

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dynamics for shipbuilding. The port fee instead "appears designed to raise funds" to finance domestic shipbuilding in the United States. A group of major U.S. unions had earlier petitioned USTR to address China's "unfair trade practices" in shipbuilding, proposing as "remedies" the port fee as well as other measures such as the creation of a shipbuilding fund for U.S. shipbuilders.

[**Keeping an Eye On...**]

- With much of her trade agenda in the works (trade liberalization never got off the ground; trade enforcement is preoccupied with labor cases against Mexico and tariffs against China), U.S. Trade Representative Katherine Tai has been holding forth of late on all matters trade related. Two themes have stood out in her musings—both of which put into perspective the gap between the politics of trade in America and that in other advanced economies. First, for USTR Tai, trade is part of the social contract, and its role needs to be reworked so that economic opportunity can be "democratized" in favor of workers. For too long, trade resembled a form of "trickle down economic policy" that enriched the few (i.e., businesses) and kicked the many (i.e., the working classes) to the curb. Tai has it exactly backwards. Trade benefited the many (consumers who enjoyed lower prices) and hurt a few (job losses in concentrated industries or regions). Which is also the reason why almost every major economic area—be it the European Union, Japan or China (amounting to almost $40 trillion in GDP between the three) is still reducing or eliminating their tariff and non-tariff barriers. Perhaps, if U.S. administrations starting with the Clinton administration had expended greater political capital to champion the virtues of trade (and not just exports), and perhaps if the U.S. state had a more generous welfare system—as per the OECD's 'social spending' tracker the U.S. is a relative laggard—the populist predicament facing the political system might not have been as stark today. The second theme is just as damning. In her musings, USTR Tai noted that the U.S. and the EU should work together to rethink approaches to trade in the face of China's "incredibly large footprint." Harking back to the 1930s, she noted that the failure of democracies to find common ground on international economic issues had led to devastating consequences. To avoid a repetition of the past, the community of advanced democracies should start a rules-setting initiative that is essentially layered over the WTO system in order to rein in China's excesses (an exercise on these lines on industrial subsidies during the Trump administration came up short). It is nobody's case that China is an easy trade partner to manage. There is genuine anxiety about its competitive prowess and disgust regarding some of its underhand practices that President Xi Jinping vows to eradicate but somehow never comes around to eliminating. That said, every major advanced economy other than the U.S. would prefer to manage and resolve its differences with China within the framework of trade multilateralism and the four corners of treaty law—and, if need be, consensually build out that framework of treaty law. It is not surprising that the U.S. is the only major advanced economy that remains outside the Multi-Party Interim Appeal Arbitration Arrangement that countries have set up to resolve their trade disputes on the basis of WTO principles and law in the absence of a functioning WTO Appellate Body. An attempt to layer a rule-setting initiative over-and-above the WTO system and, in effect, treat China as a 'foreign entity of concern' may work in the technology arena but will find no purchase in the trade policy arena—including within the club of advanced democracies. The MFN principle and the 'national treatment' principle are too deeply baked into the system for them to be jettisoned on a whim. That the U.S. would even consider surrendering its intellectual patent so casually on the multilateral trade system that it so assiduously conceived and constructed is itself depressing. Be that as it may, the race to the top that USTR Robert Zoellick had challenged his advanced economy peers to, by way of his strategy of 'competitive liberalization' two decades ago, has long since passed. Under USTR's Tai and Lighthizer, a new

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race to the bottom has been inaugurated with the two parties vying to outdo each other in terms of 'competitive populism.'

[**Expanded Reading**]

- U.S. economic engagement in Indo-Pacific 'isn't about China,' Commerce Secretary Raimondo says, *CNBC*, June 7, 2024
- Katherine Tai on how US and EU trade approaches must 'evolve' to deal with China and other global challenges, Atlantic Council, June 4, 2024
- U.S. Department of Commerce Makes Affirmative Subsidy Determination in Trade Case on Glass Wine Bottles from China, Buchanan Ingersoll & Rooney PC, May 30, 2024
- Beyond US Unilateralism: Rethinking the Response to China's Trade Practices, Baker Institute for Public Policy, May 29, 2024
- Op-Ed by Ambassador Katherine Tai: Trade must transform its role in the social contract, Office of the United States Trade Representative, May 28, 2024
- PRC Must Not Be Allowed to Wipe Out Competition, *Voice of America*, May 28, 2024
- Press Briefing by Press Secretary Karine Jean-Pierre and United States Trade Representative Katherine Tai, The White House, May 14, 2024
- IPEF Starts To Demonstrate Results, Center for American Progress, June 10, 2024

On the Hill

[**Legislative Developments**]

- House Ways & Means Committee member Rep. Blake Moore (R-UT) has introduced a bill that would terminate permanent normal trade relations (PNTR) with China if China "engages in an act of military aggression or serious economic coercion…that violates the sovereignty or territorial integrity of Taiwan."
- U.S. Senators Tammy Baldwin (D-WI) and Marco Rubio (R-FL) introduced a bill to closely monitor China's "currency manipulation," including by using "the voice and vote of the U.S." at the International Monetary Fund.
- Rep. Elissa Slotkin (D-MI) introduced a bill to authorize the Department of Commerce to "review any sale, importation or other transaction" that involves a "connected vehicle designed, built or supplied" by Chinese companies or citizens.

[**Hearings and Statements**]

- Sen. Elizabeth Warren (D-MA) said that the renewal of the Generalized System of Preference (GSP) must be accompanied by Trade Adjustment Assistance (TAA), arguing that the mere renewal of GSP will provide a "windfall refund" to big business while neglecting the interests of U.S. workers who lost their job to trade.
- In two separate letters to the Department of Commerce and the U.S. International Trade Commission, a bipartisan and bicameral group of lawmakers called for investigations into "unfair trade practices by primarily Chinese-owned companies operating in Cambodia, Malaysia, Thailand and Vietnam," and address China's dominance in the solar industry.
- Senate Finance Committee Chair Ron Wyden questioned BMW for its failure to conduct adequate due diligence while importing "thousands of vehicles" that allegedly contain components made by Sichuan Jingweida Technology Group, a Chinese supplier that is banned under the Uyghur Forced Labor Prevention Act (UFLPA).

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[**Expanded Reading**]

- Finance Chair Wyden Questions BMW over its use of Components Made with Forced Labor, United States Senate Committee on Finance, June 10, 2024
- US Senate panel expands probe into BMW use of parts from banned Chinese supplier, *Reuters*, June 10, 2024
- At hearing, Warren Calls out Republicans for retroactive tariff cuts for big business, renewal of federal assistance for American workers affected by trade, Office of Sen. Elizabeth Warren (D-MA), June 5, 2024
- Congressman Blake Moore introduces bicameral legislation to deter Chinese aggression against Taiwan, Office of Rep. Blake Moore (R-UT), June 3, 2024
- Baldwin, Rubio Introduce Bipartisan Bill to Protect American Workers and Business from China, Office of Sen.Tammy Baldwin (D-WI), May 30, 2024
- Slotkin Announces Legislation Establishing National Security Review for Chinese Connected Vehicles, Office of Rep. Elissa Slotkin (D-MI), May 29, 2024

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