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This year, the West will fight China in the epic electric-vehicle trade war

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Standing back and looking at the today's global trading picture – destabilized by the wars in Ukraine and Gaza, by other conflicts, by the unsettled multilateral situation at the World Trade Organization and by innumerable regional trade disputes – it's the looming clash between the West and China over electric vehicles (EVs) that is set to dominate this year's trade agenda.

This fight is shaping up to be an epic battle, covering a wide swath of critically strategic minerals used in automotive production and with implications reaching deep into national decarbonization policies and supply chains, not only for the Canadian automotive industry but for a large array of businesses in the decarbonization sector.

A report by the *European Council on Foreign Relations* last December issued an ominous warning, saying that, "While China's early industrial policy may have been a global public good by allowing the commercialisation of a nascent clean technology, Beijing is now expanding its dominance. Its economic policy will produce overcapacities that could strangle the healthy global competition for the best EV technologies, business plans, and local value distribution and destroy markets elsewhere, burying any semblance of de-risking with it."

The Economist published a feature on China's growing share of the global EV market ("An influx of Chinese cars is terrifying the West", 11 January 2024), reporting that China has massively subsidized this sector and "brazenly disregarded global trading rules", going on to refer to China's "ransacking" Western carmakers' technology.

The EV fight was bubbling last fall when The *Globe and Mail's* Eric Reguly wrote about the impending European Union trade action against cheap, subsidized Chinese exports flooding the European market ("The EU and China are on the verge of a retaliatory trade war over EVs", 22 September 2023). That action was started in early October, the European Commission stating,

> "The investigation will first determine whether BEV [battery electric vehicle] value chains in China benefit from illegal subsidisation and whether this subsidisation causes or threatens to cause economic injury to EU BEV producers. . . . Based on the investigation's findings, the Commission will establish whether it is in the EU's interest to remedy the effects of the unfair trade practices found by imposing anti-subsidy duties on imports of battery electric vehicles from China."

The EU investigation a way to run but is indicative of Chinese imports "terrifying" Western countries, as *The Economist* put it, and the willingness to consider a variety of trade remedies to level the playing field and addressing national security interests. Counterproductive as protectionism may be, as *The Economist* claims, the EU case could well signal the start of actions by other Western countries, not only in the automotive sector but in other businesses in the net zero carbon space where Chinese subsidies are similarly massive.

Here in North America, the shape of the battle will be determined by what the Americans do. So far, the US government hasn't started an actual trade remedy action against subsidized Chinese vehicle imports, relying mostly on restricting exports of advanced microchips to China and on *Inflation Reduction Act* tax incentives for North American production. With pressure building from US business, however, the *New York Times* reported last week that "Administration officials appear likely to raise tariffs on electric vehicles and other strategic goods from China, as part of a review of levies that former President Donald J. Trump imposed on Chinas four years ago . . ."

If the US goes down the tariff route, Canada will certainly have to follow. Whether that takes the form of a long, complex countervailing duty investigation or other trade remedies based on national security interests remains to be seen. The Chinese EV issue is complicated by concerns by Canada's auto parts industry reported by Steve Chase in this paper, 6 November 2023, "about a string of investments by Chinese firms in Mexico's auto industry, moves it argues are designed to skirt rules in the United States-Mexico-Canada Agreement that give favourable tariff treatment to cars made mostly with North American parts".

All of this makes for a fraught international trading picture centred on Chinese EVs and related subsidized decarbonization technologies exported to Canada. The picture becomes more politically complicated given that 2024 is an election year in both the US and Mexico. As shown this past week, all eyes are focussed on the US primary season. Even at this stage, what seems fair to predict is that, regardless of

November's election result, Chinese EV exports and the slew of related supply chain factors will be brightly lit on the radar screen in the White House.

For Canadian business in the automotive and decarbonization sectors alike, developing strategic responses to the multi-dimensional Chinese EV challenge will be critical. This means working more closely than ever with the Federal government on this dominant and dominating trade file in the coming year.

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