

Trade Policy Dimension of Green Industrial Policy

What should EU do to address this *casse-têtes*?

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Chinese Industrial Policy and Reaction by US and EU – protecting their own bases and reducing dependence on China, “de-risking”

- ▶ On May 14, the United States announced that it will increase Section 301 tariffs on Chinese EVs and certain hybrids to 100 per cent. (just announced to be implemented on 27 September.)
- ▶ On June 12, the European Commission announced that it will begin to apply provisional countervailing duties on Chinese-made EVs on July 4, with final duty rates expected to be finalized in the fall. (remained to be finalized. China is trying to persuade some of EU member states to block the green light.)

US Industrial Policy and Reaction by China and EU – concerned about US “on-shoring”

- ▶ On July 15, China requested to the WTO Dispute Settlement Body to establish a panel on the US IRA, arguing that local content requirements (LCRs) of the Clean Vehicle Credit (assembly, critical minerals, battery) are inconsistent with the non-discriminatory principles (GATT Art. I, III, SCM Art. 3). (DS623)
- ▶ It seems EU has not done anything significant to address the IRA’s problems so far. EU did not join the DS623. EU negotiated with US for exceptional treatment on LCRs, but apparently unsuccessful. (EU is not the US’ FTA partner. TTIP failed in 2016. The primary reason may be that US rejected the EU’s request to accept the latter’s higher standards and regulations.)

Everybody is sinner, but... EU could be reform leader

- ▶ US and EU are “de-risking” the relationship with China. China and EU are concerned about the US’s “on-shoring” trend. Then, US and China are evils and EU is good? Not necessarily.
- ▶ CBAM, the measure assuring the level playing field (LPF) between domestic players paying the ETS price and importing players not paying the price. If carefully structured and applied, it should not be against the WTO rules. And its real impact seems limited. However, the *esprit* felt in the CBAM, pervasive through the EU trade policy, is not liked by others. (“race to top or *civilized*” imposed. the scent of “weaponization”.)
- ▶ But EU’s basic positions (such as respecting WTO system, making the effort to assure LPF, and (let alone) being serious about carbon neutrality) could make EU best qualified to be a reform leader, working with other like minded countries, in spite of its tremendous obstacles.

EU cannot afford the same as US and China

- ▶ EU will not have “common industrial policy” anytime soon due to the lack of consensus among 27 member states on allocation of competencies between Brussels and member states. (see. e.g., Members’ resistance to post-RRF. Draghi report insists on common debt instruments) Also mindful of the emergence of Euro-sceptics everywhere, pushed by EU citizens’ concern about the immigration problem.
- ▶ Member states simply have little money to copy IRA. Draghi report insists on additional investment of €800billion/year. (But...e.g., If France is to contribute 20-25% thereof, it would be €160-200billion/year. France is now implementing “France 2030” €54billion/5years(2021-25). Pension reform (saving €10-15billion/year) is on the verge of back-pedaling. Still searching the money for military support to Ukraine (€3billion/2024). Let alone, France must be accountable to EU process on fiscal deficit and public debt.

What should EU do?

1. Negotiate again with US to reduce negative impact of IRA's LCR so that the EU may be the part of the EV Supply Chain built by IRA's massive investment. For it, EU may consider initiating WTO case against the LCRs of IRA (like DS 623).
2. Launch the initiative to establish new rules distinguishing “bad subsidy” and “good subsidy”, referring to SCM Art.8 (non-actionable subsidy. Expired) and GATT 20 (general exception) among others.
3. Launch the initiative to consider the idea of capping the amount of industrial subsidy, referring to WTO Agriculture Agreement.
4. For 2 and 3 above, EU should work like-minded countries such as CPTPP (note: 9 out of 12 members have FTA with EU) and to construct “friend-shoring” regime, large enough to enjoy scale economy as well as to get leverage to involve US eventually. OECD may be also utilized.

Thank you! Dankeschön!