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US raises tariffs on EV imports from China to 100% from 2024

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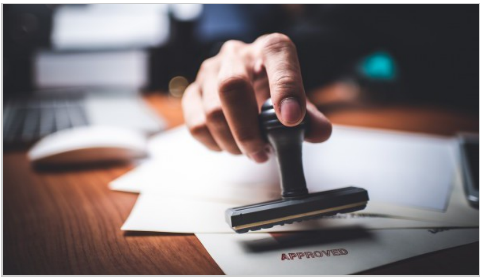
The US government also plans to raise the tariff rate on semiconductors from currently applicable 25% to 50% by 2025



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US president Joe Biden has announced new increased tariffs on a number of goods imported from mainland China, including electric cars, batteries, critical minerals, semiconductors, steel and aluminum, solar cells, medical products, among other product categories. The US administration has raised the tariff rate on electric vehicles (EVs) imported from mainland China under Section 301 from 25% to 100% in 2024, the White House said on May 14.

"[We will impose] a 100% tariff on electric vehicles made in China, because we're not going to let China flood our market, making it impossible for American automakers — automobile — auto manufacturers to compete fairly. We're also implementing a 25% tariff on electric vehicle batteries from China and a 25% tariff on the critical minerals that make those batteries," Biden said Tuesday as he spoke on his government's actions against China's 'unfair trade practices.'

The US government's move, which risks further escalating the ongoing trade tensions between the two countries, has come almost five months after the US administration had recognized mainland China as a foreign entity of concern (FEOC) to discourage EV companies from sourcing batteries and raw materials from China-based suppliers.

The new tariff war between the US and mainland China also follows a temporary graphite export control measure imposed by the world's largest EV market in December 2023. Notably, graphite is a critical raw material used for producing batteries. Mainland China's move to contain graphite exports was widely seen as a countermeasure to respond to the US' export restriction of AI chips and semiconductor manufacturing equipment to mainland China to contain the latter's rapidly growing artificial intelligence or AI capabilities.

Interestingly, Biden administration's tariff hike on China-made EVs accompanies European Commission's ongoing investigation of the competitively priced made-in-China electric cars flooding the European market. The European Commission, which had announced the probe on Chinese EVs last year, alleges that heavy government subsidies have helped the Chinese automakers to keep the price of their EVs artificially low and that these low-priced EVs are significantly undercutting the price of EVs manufactured by the European carmakers thereby distorting the market in the EU region.

"A 100% tariff rate on EVs will protect American manufacturers from China's unfair trade practices," the White House said, adding that it is incentivizing the development of a reliable EV supply chain including batteries and critical mineral through tax credits under policies such as the Inflation Reduction Act, Bipartisan Infrastructure Law (BIL), among others.

On the front of batteries, the tariff rate on lithium-ion EV batteries will increase from 7.5% to 25% in 2024, while the tariff rate on lithium-ion non-EV batteries will increase from 7.5% to 25% in 2026. The tariff rate on battery parts will increase from 7.5% to 25% in 2024.

Meanwhile, the tariff rate on natural graphite and permanent magnets will increase from zero to 25% in 2026.

Notably, despite the recent progress made by the US in onshoring the EV and EV battery manufacturing investments, mainland China continues to dominate the EV supply chain with more than 80% control on certain segments of the battery supply chain, such as mining and processing of natural and artificial graphite, among several other critical minerals.

“Concentration of critical minerals mining and refining capacity in [mainland] China leaves our supply chains vulnerable and our national security and clean energy goals at risk,” the White House said in its press note.

The US administration claims that through the Bipartisan Infrastructure Law, the Defense Production Act, and the Inflation Reduction Act, it has invested nearly $20 billion in grants and loans to expand domestic production capacity of advanced batteries and battery materials.

The US government also plans to raise the tariff rate on semiconductors from currently applicable 25% to 50% by 2025.

While it is known that the chip shortage post-COVID-19 lockdowns became a major supply chain roadblock, resulting in massive production cuts and factory shutdowns globally, the US government’s CHIPS and Science Act plans to invest nearly $53 billion in American semiconductor manufacturing capacity, research, innovation and workforce to course correct the global chip supply chain.

The said policy, according to the government, will help in terms of counteracting decades of disinvestment and offshoring that has reduced the US capacity to manufacture semiconductors domestically. Notably, the CHIPS and Science Act includes $39 billion in direct incentives to build, modernize and expand semiconductor manufacturing fabrication facilities as well as a 25% investment tax credit for semiconductor companies.

The US government’s tariff hike will also impact steel and aluminum products where the duty will be increased from the current range of 0%-7.5% to 25% in 2024. For solar cells — increasingly used in EV charging infrastructure — the tariff rate will be increased to 50% in 2024.

Alliance for Automotive Innovation (AAI), the auto lobby body in the US, supported the Biden administration’s move to raise tariffs on the import of made-in-China electric cars and batteries.

“Mainland China has a major EV overcapacity problem. They’re building too heavily subsidized EVs for the domestic market and have no choice but to look abroad to offload those vehicles at budget prices. It’s happening already in Europe. Chinese overcapacity, combined with a healthy Chinese government subsidy, is a recipe for dumping. That concerns automakers and it should concern the administration and Congress,” said John Bozzella, president and CEO, AAI.

He further added, “Automakers embrace fair competition. We’re not shrinking from it, but China’s EV overcapacity and subsidy issue is real. The competitiveness of the auto industry in the U.S. will be harmed if heavily subsidized Chinese EVs can be sold at below-market prices to US consumers. It’s appropriate for the White House to be looking at tools to prevent the US from becoming a dumping ground for subsidized Chinese EVs. We can’t let China’s EV overcapacity problem turn into a U.S. auto industry problem.”

That said, Bozzella acknowledged that the inbound and outbound trade between the US and mainland China supports American auto employment and auto affordability, and that localization of EV supply chains in the US will not happen overnight.

“China [has] got a 15-year head start on electrification and cornered the market on major parts of the global EV supply chain – including mining and processing of critical minerals like lithium, cobalt and graphite used in EV batteries. That's changing as we localize EV supply chains and partner with allies to source and process raw materials. The change is picking up speed. [However], it just can't happen overnight. It takes time for complex global supply chains to form. But it will happen," he said in a statement Tuesday.

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