EU-China agreement provides some breathing room

- **The trade talks between Chinese Minister of Commerce Wang Wentao and European Commission Trade Chief Maroš Šefčovič concluded on 9 October in Beijing. The outcome appears to be more constructive than expected, lowering the risks of further trade tension escalations between the two which would also help manage growth downside to both China and EU.**

- **The joint 16-point statement establishes a dialogue framework to manage trade tensions in specific sectors. Key outcomes include an arrangement around Chinese hybrid vehicle exports, tariff reductions on EU exports, an expedited "green channel" for rare earth exports and commitments on intellectual property, export controls & market access.**

- **This week, at the European Council leaders' summit (15-16 October), there will be discussions around the results of the talks with Beijing, as the European Commission seeks instruction on how to form a united response to the widening imbalance with China. The EU will hold additional consultations with Beijing in January and March 2027.**



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Trade imbalance driving an assertive EU response

The EU-China talks in Beijing produced a more constructive outcome than expected, providing several concrete avenues to reduce trade tensions in sensitive sectors. According to EU officials cited in the *Financial Times*, the EU will impose an import quota on Chinese hybrid vehicles – an initial 2027 limit of 350k vehicles with a 6% annual increase. Šefčovič projects it will cut Chinese hybrid vehicle exports by over 50% in four years. In his remarks, Šefčovič also said the two sides proposed tariff reductions on EUR4bn in EU exports (worth c.EUR225m annually to European exporters), which would be a notable commitment if fully realised.

Other agreements, such as a rare earth "green channel" mechanism and market access provisions for medical devices, cosmetics & pharmaceuticals are more aspirational and depend on continued consultations. There was limited progress on battery electric vehicles, foreign subsidies and the EU's Foreign Subsidies Regulation (FSR) investigations. The question is whether this agreement is sufficient for the EU or if the bloc will still impose new trade restrictions. Šefčovič described the joint statement as a "crucial first step" but warned if dialogue does not deliver results, the EU will "use its tools to ensure a rebalancing".

The upcoming EU leaders' summit on 15-16 October will be key to understanding the direction of the EU-China relationship. EU leaders will hear from Šefčovič on how the EU-China agreement can help address the EU's trade concerns, and at the same time they will debate imposing new trade restriction mechanisms. This includes a recent proposal by France and Germany to create a Section 301-type mechanism that would allow the EU to block market access within days in response to systemic distortions. The summit will likely signal a continuation of this dual-track approach: continued dialogue with Beijing paired with preparations for more assertive trade measures if there are not concrete results.

Key outcomes of the EU-China joint statement

The agreement is a positive step toward avoiding a trade war with several concrete wins for EU industry and exporters. However, the long-term success hinges on the EU seeing tangible results in 2027. Further details on the tariff reductions and specific measures to increase EU market access in China will also determine the effectiveness of the agreement in the long term. It offers EU-China tensions some breathing room, but it is not a permanent solution to the EU's grievances.

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Reduction in hybrid and plug-in hybrid vehicles

One of the most notable outcomes was that China agreed to moderate the growth of Chinese hybrid and plug-in hybrid vehicle exports to the EU. According to EU officials, the proposed arrangement could reduce projected exports by more than 50% compared with what they would otherwise be over the next four years. The initial 2027 quota is set at 350k vehicles, reducing predicted imports by 500-700k vehicles and reducing the EU's expected trade deficit by EUR10-14bn. The quota will increase by 6% annually for the next three years, reducing the number of Chinese hybrid imports by "several million" vehicles according to Šefčovič.

Since 2024, Chinese hybrid imports exploded from just 2% of the EU market to 25% for plug-in hybrids and 14% for other hybrids by mid-2026. According to the *Financial Times*, imports jumped from 300k units in 2025 to a projected 800k by the end of 2026. Unlike BEVs, hybrid vehicles are not currently subject to countervailing duties and generally face only the EU's standard 10% import tariff.

Export Controls & Supply Chain Security

On export control listings and delisting procedures, the two sides agreed to provide advance notification before adding entities to control lists, improve transparency, and support delisting procedures within their respective legal frameworks. The two sides also discussed the possibility of establishing more stable, longer-term facilitation arrangements, although these ideas are still in the discussion stage.

- **Rare earth export controls:** China agreed to continue facilitating export licences for rare earths and permanent magnets destined for the EU through an existing fast-track mechanism.
- **Dual use export licenses:** the EU will work with EU member states to facilitate delisting and licensing cases for China in dual use goods and sectors.

Market access

China made several commitments regarding tariff reductions and improved market access for EU exports to China. These help address the EU's concern over declining exports to China but they remain largely dependent on continued consultations and regulatory alignment.

- **Tariff reductions:** the two sides agreed to work on improving market access for selected EU products in China through reductions in China's most-favoured-nation (MFN) tariffs. This may include automotive components, olive oil and footwear, representing nearly EUR4bn in current EU exports to China. Šefčovič said the proposed tariff reductions could save European exporters at least EUR225m annually, though exact tariff changes and implementation schedules have yet to be confirmed.
- **Medical devices:** China agreed to organise a procurement matchmaking event for EU medical devices at the ninth China International Import Expo (5-10 November) and will accelerate recognition of regionalisation arrangements for eligible EU member states.
- **Other market access:** the two sides will continue regulatory consultations on cosmetics, pharmaceuticals and computer reservation systems. Discussions on lifting certain agricultural import restrictions related to bluetongue disease are also ongoing.

Other issues will require more consultations

There was no major breakthrough on the EU's Foreign Subsidies Regulation (FSR) or restrictions affecting inverter projects. Both sides agreed to continue technical discussions on these issues, but the EU did not announce the suspension of investigations or withdrawal of financing conditions. Discussions on intellectual property, investment cooperation and WTO reform will also continue into 2027.

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