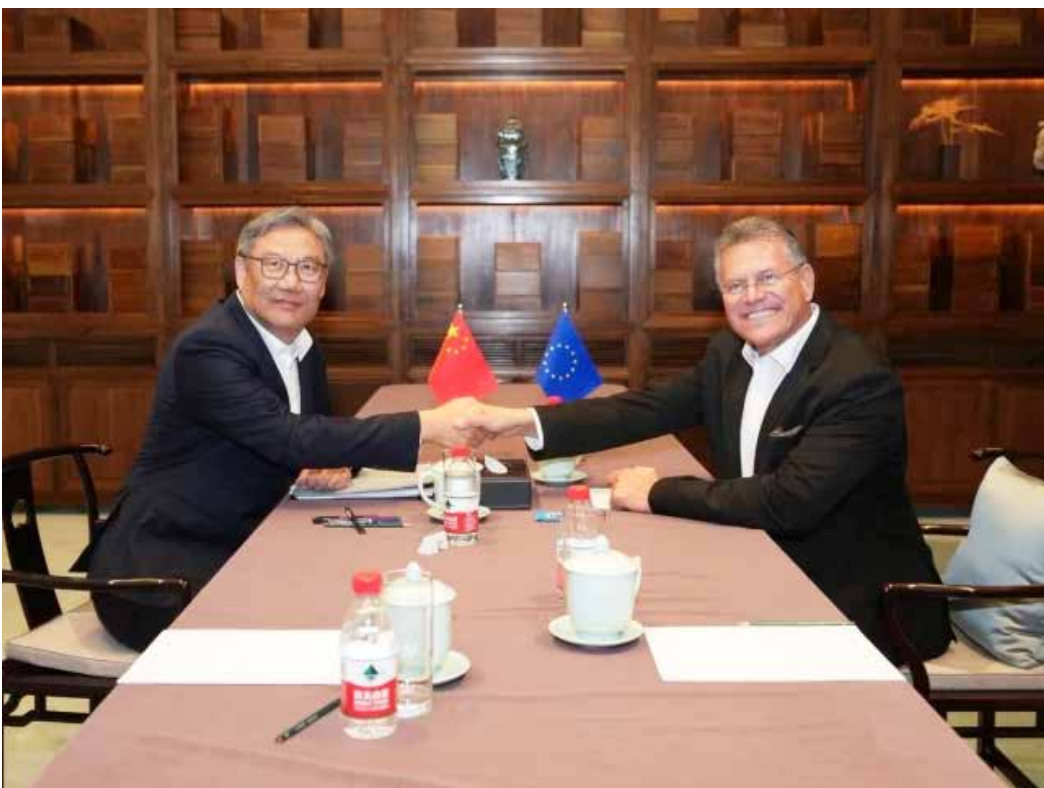


lithography, a critical component for advanced AI chips. This could limit the EU's most important leverage in trade with China. Beijing also secured a technical dialogue on the EU Foreign Subsidies Regulation (Regulation (EU) 2022/2560), which can be deployed to block or penalise foreign companies that receive trade-distorting state subsidies. This is one of the key tools the EU has to protect the single market from Chinese subsidies. Finally, China has also managed to reopen the EU's block on the use of solar inverters in EU-funded projects, put in place due to cybersecurity risks from certain 'high-risk' suppliers (mainly Chinese companies). In sum, it is difficult to say whether the EU received more than it gave. It got trade relief in one sector and goodwill on rare earth exports. But China still has the opportunity to up the pressure on technology controls, subsidy screening and cybersecurity measures. Regardless of any 'final score,' Europe's gains are too small to address the stated aim of rebalancing the trade relationship. Beyond the tactical wins, what really matters to Beijing is that it may have managed to influence the October 15–16 European Council meeting. China's main interest is preventing the



European Commissioner for Trade and Economic Security Maroš Šefčovič (R) and Chinese Minister of Commerce Wang Wentao shake hands before a bilateral meeting at the Forbidden City in Beijing, China, on October 8, 2026.

European Council from implementing its trade tools, and the agreement in Beijing, made just before the summit, is designed to do exactly that. If European leaders consider this deal to be a good start and thus postpone additional measures, this will be

China's most important gain. Yet a joint letter sent on October 5 by German Chancellor Friedrich Merz and French President Emmanuel Macron to European Commission President Ursula von der Leyen states that the existing trade-defence toolbox is

no longer fit for purpose. They propose an instrument akin to Section 301 in the United States, capable of restricting or cutting off access to the European single market if a partner causes severe and systematic trade distortions. They also want a

diversification tool to reduce dependence on single suppliers of critical inputs, and trade investigations by sector rather than by product. This is a U-turn for Germany, which opposed duties on Chinese electric vehicles in the European Council in October 2024, thus avoiding retaliation against its carmakers. But German industry is now on the receiving end of the same overcapacity it once thought it could manage through exports to China. Beijing did not wait for Macron and Merz's letter to be officially sent. One week before the letter was published, China's Ministry of Commerce called the proposed instrument 'protectionist and unilateral' and warned it would respond firmly to any discriminatory restrictions. The reality is that Europe does not need another dialogue that produces shared understandings and a negligible change in the trade trajectory. It needs instruments that give it real leverage. The outcome from Šefčovič's trip to Beijing is simply not enough — especially on balance with what China gained — to justify the European Council not taking stronger measures to mitigate the EU's trade imbalance with China.

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Beijing's own readout of the meeting spells out the lack of Chinese concessions more clearly than the joint statement published by the EU. In particular, the Chinese readout makes it clear that the softening of export controls must be reciprocal. Even the EU-issued joint statement mentions potentially softening European export controls on dual-use sectors.

EU-China trade, investment understanding

A welcome buying of time

By Ignacio García Bercero
Former head of legal affairs at the WTO

OPINION

From the European Union's point of view, a 'common understanding' reached with China on October 9 on the EU-China trade and investment relationship, is primarily about the car industry. In particular, although details are still to be made public, there seems to be agreement that Chinese exports to the EU of hybrid electric cars will be halved for four years. The agreement will likely be implemented via an EU safeguard investigation, on the basis of which China will be allocated a quota in line with the common understanding. Trade in electric vehicles will continue to be regulated through the application of either countervailing duties or price undertakings. This approach is consistent with World Trade Organization (WTO) rules and makes sense as part of a coherent trade and industrial policy for the EU car sector. Also relevant for the car sector are trade-facilitating steps on export controls and a dialogue on investment. More broadly, the European Commission, which is responsible for the trade talks, has stated that the discussion on hybrids was introduced as a "proof of concept". Similar approaches are likely to be followed in other sectors affected by surging Chinese imports. In such cases, safeguards can justify the introduction of quotas allocated on the basis of import



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shares over a recent representative period. Even if measures are applied to all imports, the impact on the trade of established suppliers is thus normally limited. Seeking early agreement with China on quota allocation can help diffuse tensions. Any safeguard measure should be temporary and progressively relaxed as a way to maintain incentives for EU industry to adjust to the new competitive environment. If the agreement on hybrids is indeed replicated in other sectors, it would represent a major breakthrough in managing import competition from China while avoiding escalation and respecting international commitments. From China's point of view, it would also introduce an element of

stability and predictability in relations with the EU. EU leaders will discuss the agreement with China at an October 15–16 summit. The reliance on WTO-consistent tools embodied in the agreement is in line with Franco-German recommendations circulated in a so-called 'non-paper' on October 5. This calls for the EU to "fully leverage the existing trade defence toolbox by deploying trade defence instruments (TDI) more swiftly and more efficiently" — in other words, to use WTO-consistent instruments as the first line of action. In case a third country seeks to counter application of the trade-defence toolbox through political or economic means, causing "severe and systematic distortions," France and Ger-

many suggest a new EU trade instrument that could result in rapid closure to that country of parts of the single market. This proposal intends to cover a particularly pernicious form of coercion in which measures such as export restrictions on critical supplies are threatened, potentially with a particularly negative impact on the EU economy. Guarding against this could be more effectively achieved by reforming decision-making under the EU Anti-Coercion Instrument (Regulation (EU) 2023/2675), which sets out a process for the EU to follow in case of trade or investment threats. The instrument should be amended so its application is triggered unless there is a qualified majority of EU countries against. This could be combined with the introduc-

tion of a fast-track procedure in case of coercive threats with a major impact on the EU economy. Another important part of the October 9 common understanding relates to export controls, in particular the commitment by China to facilitate export licences for the supply to the EU of rare earths and permanent magnets. While both sides make commitments on export controls, the EU's do not go beyond transparency or readiness to enter into dialogues. The good-faith implementation of the commitment on export controls will have to be monitored closely. It should in no way detract from the urgent need to reduce the EU's dependencies, in cooperation with trusted partners. It is worth noting that the EU and China have emphasised that their differences should be managed within the framework of WTO rules. The common understanding provides for enhanced bilateral cooperation on WTO reform. This should prioritise the level playing field. It is critical to test the extent to which China is ready to engage in good-faith negotiations on issues such as industrial subsidies or the role of state-controlled enterprises. These lay at the root of the competitive distortions in sectors in which EU imports from China have surged. While safeguards can facilitate EU adjustment in the next three to four years, a more structural solution will require both macroeconomic adjustments and improved disciplines on industrial subsidies.

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