China plans to hit cognac in response to European tariffs on electric cars

Beijing is going tit-for-tat in the trade war: The Chinese government plans to target brandy days after Brussels decided to impose tariffs on Chinese electric vehicles.

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In the trade war between the European Union (EU) and China, the counter-attack has not been long in coming. Five days after Brussels' decision to impose tariffs of up to 35% on Chinese electric vehicles, Beijing announced on Tuesday, October 8, that importers of European brandy would have to lodge a security deposit with customs from Friday. It's a measure that particularly penalizes cognac, which accounts for 95% of brandies.

"From October 11," warned the Chinese ministry of commerce, "when importing brandies from the EU, importers must provide the corresponding deposit to customs in the People's Republic of China." This sum will be debited retroactively if Beijing decides to really hit these spirits, as it considers its domestic brandy industry "threatened with substantial damage" by its European competitors.

French Foreign Trade Minister Sophie Primas has declared that France, like the EU, will challenge these "incomprehensible measures" before the World Trade Organization (WTO), even though the organization has been struggling for years to settle disputes. In May, during the state visit of President Xi Jinping, his French counterpart Emmanuel Macron welcomed the fact that China was not imposing "provisional" taxes on spirits, and presented him with bottles of cognac, among other gifts.

'Notification of tax intentions'

This threat had been pending since January. That was when Beijing launched an investigation into wine-based spirits coming from the EU, in response to Brussels' investigation into Chinese state subsidies for electric cars, but also for other sectors such as photovoltaic solar energy and, above all, wind turbines – a sector in which Chinese manufacturers are jeopardizing major German, Spanish and Danish manufacturers.

In mid-September, nearly 1000 winegrowers, together with cognac merchants, marched through the southwestern French town of Cognac to the sub-prefecture, to alert the government about the "urgency" of the issue. In August, China claimed to have evidence of European dumping. Trading houses had also subsequently received "notification of tax intentions" which could be around 35% on average, noted Florent Morillon, president of the Bureau National Français Interprofessionnel du Cognac, a decision-making body for the cognac industry.

New

On Friday, October 4, despite strong opposition from Berlin, EU member states voted to impose customs duties on electric cars imported from China. This measure is due to come into force at the end of October, with Brussels having also set up a security deposit mechanism for Chinese manufacturers. The wine industry felt that it had been "sacrificed" by the government and the EU.

The trade war continues unabated

Anthony Brun is president of the Union Générale de Viticulteurs pour l'AOC Cognac (General Union of Winegrowers for the Cognac AOC). He fears that "as soon as Europe adopts a position on electric cars, the taxes will become definitive and will jeopardize the entire industry. This is an important area of activity in the Charente department, where it represents 15,000 direct jobs and 70,000 indirect jobs."

Almost all production (98%) is sold abroad. The Chinese market alone accounts for a quarter of cognac exports (€769 million in 2023), often consumed with meals, but behind the US. This measure comes against a difficult backdrop, marked by a 12.1% drop in export sales in 2023, mainly due to the sluggish US market. Unsurprisingly, the stock prices of companies in the sector took the blow on Tuesday. The Rémy Cointreau brand lost nearly 6% in that session, and that of Pernod Ricard 3.60%.
The trade war continues unabated. Announcing this bond on cognac, a major contributor to French foreign trade, the Chinese authorities recalled their "anti-dumping and compensatory investigations on pork, pork by-products and dairy products imported from the EU." But also "measures such as the increase in customs duties on imported large-capacity gasoline-powered vehicles," particularly targeting Mercedes, Porsche, BMW and Audi.