Pax Automotiva?

How the EU, UK, Japan and S. Korea may collectively act on Chinese automotive overcapacity

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According to recent press reports (examples available here and here), the European Union may be quietly assembling an economic security bloc with the United Kingdom, Japan and South Korea to shield their automotive sectors from Chinese overcapacity. No official statement made yet, and the Commission declined to confirm. This note sets out, from an EU and WTO perspective, what an "alliance" could actually mean in law, which of its plausible building blocks are already in place, and where the difficulty lies.

Background

Multiple sources report that the European Union *(EU)* may be exploring a new industrial and economic alliance with the United Kingdom ***(UK)***, Japan and South Korea to protect domestic automotive markets and counter Chinese manufacturing overcapacity. The proposed alliance combines preferential and broader market access for the automotive industry within the framework of the Industrial Acceleration Act *(IAA)*, a new trade defence tool like the steel overcapacity measure; and closer cooperation on critical raw materials. The European Commission *(Commission)* declined to comment, stressing that trade defence policy follows strict legal rules and is not coordinated with third countries.

The automotive sector has become a focal point of industrial and trade policy across all four potential members. Although the instruments differ, recent developments pursue a common objective: strengthening domestic automotive and battery value chains while reducing exposure to Chinese competition, subsidies and supply-chain dependencies. The EU's countervailing duties against battery electric vehicles *(BEV)* from China, its December 2025 Automotive Package (including the proposed Regulation on Clean Corporate Vehicles *(CCVR)* and the Industrial Accelerator Act *(IAA)*, the EU-Japan and EU-Korea competitiveness partnerships, and the tightening EU-UK rules of origin for electric vehicles all move in the same direction: encouraging investment in trusted supply chains and local manufacturing capacity. Seen through that lens, the reported alliance appears less as a new trade arrangement and more as the consolidation of a broader industrial strategy centred on vehicles, batteries and critical raw materials.

Preferential IAA Treatment between the Alliance Members

The EU already maintains preferential trade agreements with each of the three partners: the Trade and Cooperation Agreement with the UK, the Economic Partnership Agreement with Japan and the Free Trade Agreement with Korea. These agreements already

cover a large share of automotive trade and supply chains. Tariff liberalisation for automotive trade between the four blocs is therefore substantially in place. What a Trusted Partner Alliance would add is a coordinated origin architecture inside the EU's new industrial-policy tools, *inter alia*, the IAA, where a "trusted partner" generally refers to a country whose products and components may be treated as equivalent to Union-origin content for certain procurement and support measures, subject to certain conditions.

The IAA is the principal tool for such an alliance because its architecture already anticipates one. Rather than granting per country preferences, the Commission's IAA proposal applies a two-tier origin construct, i.e., (i) content of Union origin and (ii) content equivalent to Union origin for products and components originating in countries covered by relevant preferential trade agreements. For further information please refer to our briefing of 24 March 2026 (Industrial Policy through FDI Screening). That potentially benefits the UK, Japan and South Korea, but the scope of equivalence depends on the product and intervention concerned and is materially narrower for qualifying vehicles.

What would a four-party alliance add, then? On our reading, mainly two specific points:

First, closing the electric-vehicle assembly gap. The IAA proposal appears to leave an important gap for complete vehicles assembled outside the EU. Even where components originating in a treaty partner may count towards relevant content requirements, a vehicle assembled in a non-EU location may fail an EU final-assembly requirement. The precise consequence must, however, be assessed separately for procurement, national purchase support, corporate-fleet measures and the proposed CO_2 flexibilities, because those instruments do not necessarily use identical eligibility rules. Closing that gap would require the relevant provisions to be amended during the ongoing ordinary legislative procedure. Recent political reporting on the proposed alliance suggests support for such a change. However, it remains to be seen whether the parliamentary committee will adopt a position that includes this specific amendment.

Second, an alliance could deliver a symmetry. Under the Commission's highly debated IAA proposal, the Commission could withdraw the partner-origin equivalence by delegated act where a partner fails the reciprocity test or where reliance on that partner would create strategic dependencies. Therefore, the four partners have an objective interest in a harder form of recognition. Furthermore, the IAA is a unilateral EU measure. While it gives trusted partners access to EU procurement and subsidy programmes, it does not automatically provide EU content with equivalent access in the UK, Japan or South Korea. Achieving real reciprocity would therefore require these partners to review their own procurement and automotive support rules. Depending on the programme, this could involve legislative or regulatory changes, updated procurement guidance, or revised grant and incentive criteria.

An Automotive Overcapacity Instrument

The second instrument under discussion appears to be an overcapacity measure for automotive sector-related products, be it under the recently adopted Regulation (EU) 2026/1384 of 17 June 2026 *(EU Steel Overcapacity Regulation),* or standalone. In our view, it might prove difficult to cover a wide range of automotive products under the EU Steel Overcapacity Measure without a fresh legislative process for several reasons.

The EU Steel Overpcacity Regulation has been adopted under Article 207(2) of the Treaty on the Functioning of the European Union *(TFEU)* as an autonomous measure (expressly outside the framework of the WTO Agreement on Safeguards). It replaced the 2018 EU steel safeguard from 1 July 2026 with a tariff rate quota *(TRQ)* system with no fixed expiry date. For further information please refer to our briefings of 25 June 2026 (Steel, Still Standing) and of 26 August 2026 (Don't Stop Expandin').

The EU Steel Overcapacity Regulation includes a scope-review clause under which downstream products "made of, or containing, a significant amount of steel" can in principle be brought within its coverage. The Commission must assess that question for downstream iron and steel products by 30 June 2027 and conduct a broader biennial review from 30 June 2029. On paper, that offers a shortcut: pull automotive products in under the "steel derivatives" limb, without new primary legislation. In practice, the shortcut may not be that available.

First, the Annex I product scope is drafted around Chapters 72 & 73 of the Combined Nomenclature *(CN)* mainly covering flat products, longs, tubes and pipes. Even the widest steel derivatives reading, echoing the US Section 232 model extended in 2024 to over 400 downstream steel derivatives, targets only components (mechanical parts, fabricated steel assemblies, tools), not complete motor vehicles under CN Chapter 87.

Second, the Regulation's recitals and its Article 13 review clause speak specifically of "iron and steel products" and "downstream iron and steel products". A passenger car is a finished motor vehicle regulated under a different EU acquis (type approval, CO2 standards, the Automotive Package).

Third, the "melt and pour" origin logic is calibrated for products where steel is the product, not for goods in which steel is one input among many. Even for genuinely steel intensive automotive components (chassis parts, bodies in white, exhaust systems), reaching them by delegated act would require a Commission determination that they contain a "significant amount" of steel, a call that is politically and evidentially very difficult.

The practical consequence is that a genuine automotive overcapacity instrument would likely need to go through the ordinary legislative procedure again as the EU Steel Overcapacity Regulation itself did.

Coordinated Trade Defence Action

At first sight, a coordinated trade defence action may be the path the Commission is most likely to publicly distance itself from. Trade defence cases must follow strict legal rules and cannot be coordinated with third countries. That is legally correct, and the Commission must preserve that position to avoid due-process challenges. But it does not mean trade defence instruments are irrelevant. In practice, it may be one of the fastest existing policy tools available, particularly when compared with creating a new legislative instrument.

Anti-dumping *(AD)* and anti-subsidy *(AS)* investigations focus on specific countries, exporters and unfair practices, and they usually follow fixed statutory timelines. The Commission may initiate a case on the basis of a complaint or on its own initiative ***(ex officio)***. Where the conditions are met, provisional measures can generally be adopted within eight months and definitive measures within thirteen months of initiation. This is much faster than creating a new autonomous instrument, which would require new legislation. The BEV proceeding nevertheless illustrates how rapidly trade-defence instruments can be deployed where the Commission considers that sufficient evidence of subsidisation or dumping exists. It was initiated *ex officio* in October 2023, provisional duties applied in July 2024, and definitive duties followed in October 2024. Should similar concerns arise in other automotive segments, the same procedure would be available.

Furthermore, the 2018 steel safeguard shows how this can work without formal coordination. After the United States imposed Section 232 tariffs on steel and aluminium, the Commission opened its own safeguard investigation three days later, citing the risk of trade diversion into the EU. Türkiye, Canada and others acted in the same period. These steps were not coordinated, but they responded to the same market pressure: once one major market closes, diverted exports quickly create pressure elsewhere. A similar scenario could emerge in automotive. The preferential agreements do not provide a legal basis for coordinated trade-defence action; any investigation would still need to be initiated and conducted independently under each jurisdiction's own rules. However, the common political dialogue may contribute to a shared understanding of market developments, including concerns on overcapacity and trade diversion. As a result, separate authorities could independently decide to examine similar issues at the same time.

In practical terms, OECD's June 2026 MAGIC database *(MAGIC)* may shorten the runway for new *ex officio* investigations. MAGIC covers 525 major industrial firms across fifteen manufacturing sectors, including automotive, from 2005 to 2024. The report indicates that Chinese firms received substantially higher government support than OECD peers, and that automotive is the largest sector in the dataset. For the Commission, this provides a useful evidence base for any future anti-subsidy case, especially where support is indirect or channelled through State-owned banks.

Businesses should therefore prepare for three possible scenarios over the next twelve to twenty-four months: new automotive trade defence investigations in the EU, possibly mirrored by the UK, Japan or Korea; deeper preferential treatment among the four partners; and growing pressure from other sectors for measures modelled on the EU steel overcapacity instrument.

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BLOMSTEIN will closely monitor further developments and keep you informed. If you have any questions on the topic, Leonard von Rummel and Uğur Can Hekim and the entire team is ready to assist you.

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