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Press release

New CER study raises concerns about wasteful European subsidies, as shipping costs increasingly discourage imports from faraway countries

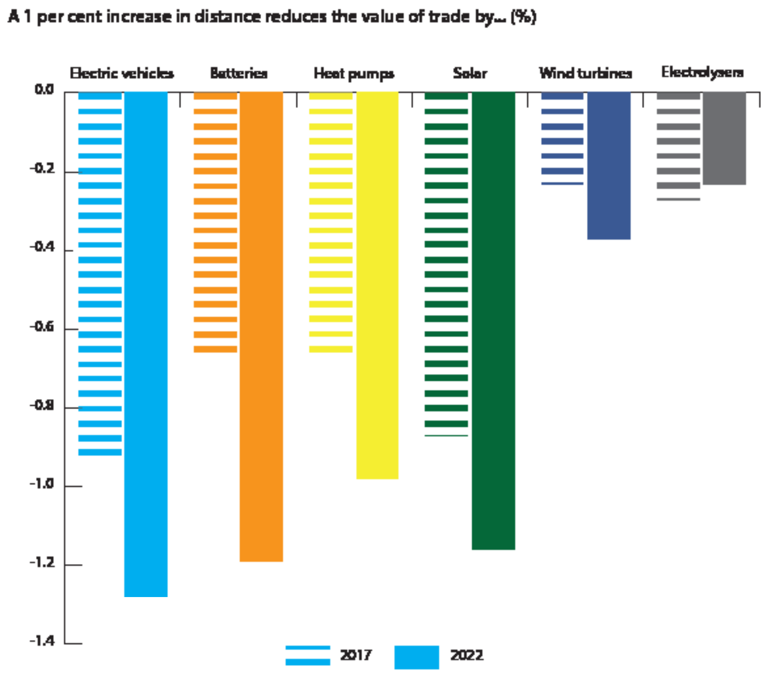
European policy-makers are worried about losing out to subsidised production in the US and China in the booming global market for green technologies. A new CER policy brief, '[Europe can withstand American and Chinese subsidies for green tech]', shows that the EU can be competitive in green goods and should use subsidies to producers with caution.

According to the analysis, the EU has a sizeable share of global exports in green goods, although not as large as China's – and the US is languishing behind both. China's share of global exports in 'low carbon technology (LCT)' goods has exploded, from 23 per cent in 2019 to 34 per cent last year, but the EU's share has also grown from 19 per cent to 23 per cent last year, while the US is stuck on 13 per cent of the global market.

The CER also shows that the EU should continue to excel in domestic production of some of these green technologies, because supply chains are shortening as technologies mature, and companies are expanding production nearer to consumers to reduce shipping costs. Across six key categories of green goods that are at the heart of US, Chinese and EU green industrial policy (electric vehicles, batteries, heat pumps, solar, wind turbines and electrolysers), the pull of geographical distance on trade increased significantly in almost all cases between 2017 and 2022. For example, for every 1 per cent increase in distance between two trade partners, exports of electric vehicles fell by 1.3 per cent in 2022, up from 0.9 per cent in 2017.

The EU should be cautious about directly subsidising green production, as the US and China are doing. In a world where distance between trade partners is increasingly important, and where markets for green technologies are rapidly maturing, money will be put into companies that would have robust demand for their products anyway. A subsidies race may also distort the EU single market, weaken incentives to innovate, and create excess production capacity, while any protectionist backlash risks slowing the green transition by driving up the prices of inputs that the EU needs to decarbonise.

Chart 3: Gravity matters: For several green technologies distance is increasingly reducing trade



Source: CER analysis of IMF, World Bank and UN Comtrade data.
*Note: The chart reports the estimated coefficients of a gravity model of trade for each good, indicating the percentage drop in trade due to a 1 per cent increase in distance between trade partners (β(log distance) in the model). The model is specified as: log export value between exporter i and importer j in good x = constant + β1(log distance in kilometres) + β2(GDPi*GDPj) + β3(log population (j)) + ε. All coefficients are significant at a p=0.05 level. Please contact the authors for more details.*

Commenting, one of the report's authors, John Springford, said:
"The market for many green goods are nascent, and it is unsurprising that the EU's policies to cut emissions has led to skyrocketing demand for green tech that EU manufacturers cannot yet fulfil – but they will over time."

Sander Tordoir, the other author, said:
"The EU should focus its subsidies on sectors where short-term help is needed to help infant European industries achieve scale, such as hydrogen, and to avoid dependencies on other countries in markets for goods in which global oligopoly or duopoly might arise, like wind turbines."

Notes for editors:
For further information on the new research and to request an interview with John Springford @JohnSpringford or Sander Tordoir @SanderTordoir, please contact Octavia Hughes in the CER press office on pressoffice@cer.eu or +44 (0) 20 7233 1199.

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