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Wonderwall? The UK Eyes Barriers to Chinese Car Imports

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Pressure is mounting on the UK to follow the EU in imposing barriers to Chinese car imports. The compromise on auto policy that was agreed between Germany and France in October explicitly links UK access to the EU's "Made in Europe" regime to British alignment with EU trade and investment policies. Although the precise terms of that alignment remain unclear, our expectation is that the UK will end up accepting this quid pro quo. The stakes for European and Chinese carmakers are considerable. The UK is now the fourth-largest destination for Chinese car exports after the EU, Russia, and Brazil. One in three new cars sold in the UK in recent months was Chinese-made. British alignment with EU trade policies would close off another important growth market for struggling Chinese carmakers. It would also send a powerful signal about joint European action to respond to widening trade imbalances with China, while increasing the risk of Chinese retaliation.

You've heard it all before

In 1974, Sir Raymond Brookes of the UK automotive industry association, the Society of Motor Manufacturers and Traders (SMMT), asked the Commission of European Communities, the EU Commission's predecessor, to conduct an anti-dumping investigation into Japanese cars. The Commission declined, arguing that the problem was specific to the UK. Britain subsequently pursued its own restrictions, which led Japan to impose voluntary export restraints.

Five decades later, the roles are reversed. It is the EU, led by France and Germany, that is pressing a reluctant UK to impose import barriers on cars, this time from China. In exchange for mirroring EU trade and investment measures, the EU would include the UK in its emerging 'Made in Europe' local content regime. Under the proposed framework, eligibility for certain public support schemes, including EV grants and corporate fleet incentives, could depend on production in the EU or designated partner countries.

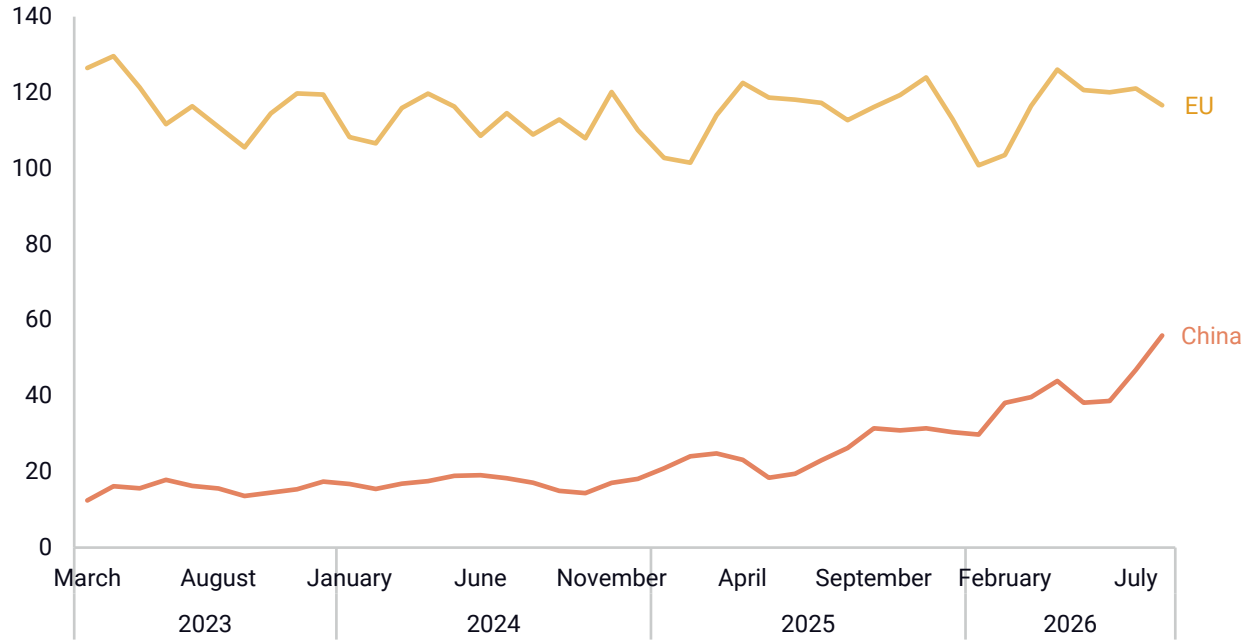
The EU has a direct commercial interest in securing UK alignment. Britain accounts for 25% of EU car exports, ahead of both the US (20%) and China (4%). And a surge in UK car imports from China (they have risen 93% year-on-year in the January–August 2026 period)

has come at the expense of EU exporters. EU car exports rose just 1% over this period, well below the 10% expansion in the overall UK market, suggesting a loss of market share. UK imports from Turkey and Japan declined even more sharply, by 38% and 20%, respectively. Sustained Chinese gains would further threaten EU carmakers' sales in their largest automotive export market (see Figure 1). European carmakers with manufacturing sites in the UK also have an interest in the other side of the quid pro quo: including the UK in the bloc's Made in Europe scheme. Companies like BMW want to avoid a situation where the cars they produce in the UK are excluded from EU local content rules.

FIGURE 1

Chinese gains in the UK pose a threat to EU car exports

UK car imports from the EU and China, three-month rolling average, thousand units



Source: UK customs data

By linking UK trade measures against China to its local content scheme, the EU is flexing its economic muscle to force a top trading partner to align with its policies. The bloc introduced duties on imports of battery electric vehicles (BEVs) from China in 2024 and is poised to introduce safeguards on hybrid vehicle imports, which will put a 350,000 annual quota on imports from China starting next month. If the EU and UK were moving in tandem, it would increase Brussels' leverage with Beijing and reduce China's ability to drive a wedge between the bloc and Britain when it comes to trade and investment.

The EU's approach echoes an effort by Washington to pressure Canada and Mexico into aligning their trade policies toward China with that of the US. Under previous US administrations, there was alignment on trade measures against China, but Donald Trump's more aggressive approach over the past year has met resistance, notably in Canada. There are limits to such leverage, particularly when demands for alignment are not matched by sufficiently attractive promises of market access. The EU may find that it has a better chance with the UK, provided its Made in Europe offer is appealing to London.

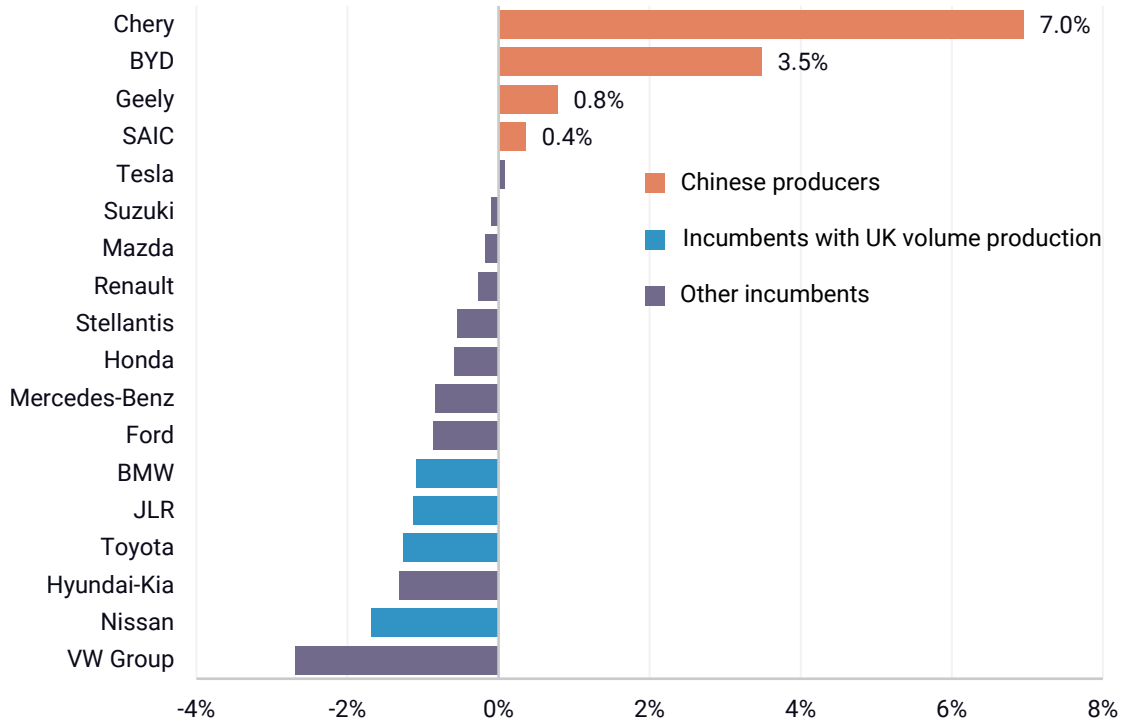
Maybe, you're gonna be the one that saves me

When the EU imposed duties on Chinese BEVs in 2024, the UK opted not to match these tariffs, leaving its market broadly open. Chinese cars continue to face the UK's standard 10% MFN tariff, and their rapid market share gains in Britain over the past few years reflect that (see Figure 2). Three considerations explain the caution of British policymakers when it comes to restricting car imports from China.

FIGURE 2

Chinese OEMs gain share as established brands lose ground

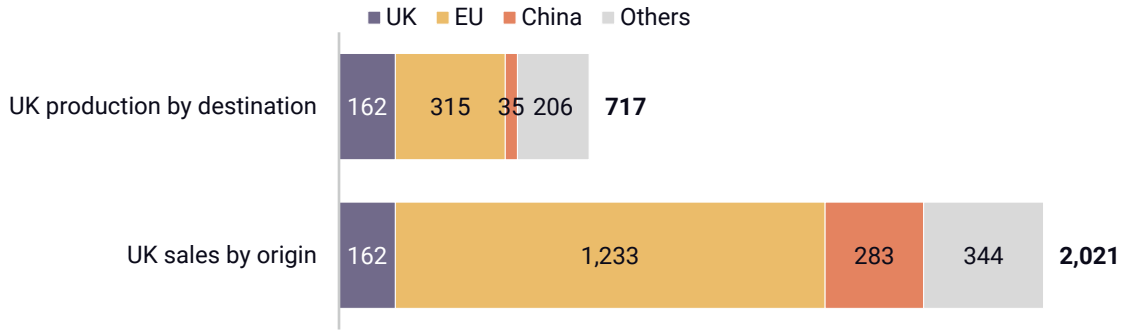
Market share change in percentage points 2024 vs. 2026 (Jan-Aug ytd)



Source: Rhodium Group based on Marklines

First, unlike the EU, Britain relies heavily on imported vehicles. Those companies that do produce in the UK at volume, such as JLR, Mini, Nissan and Toyota, cannot meet domestic demand on their own. Between January and September 2026, the UK produced around 543,000 cars, of which only 23% were sold domestically, compared with total UK sales of 1.7 million (see Figure 3 for 2025 data). The main beneficiaries of British import restrictions on China would likely be EU-based producers that dominate sales in the UK and therefore compete more directly with Chinese imports, rather than Britain-based export-oriented car manufacturers and domestic employment.

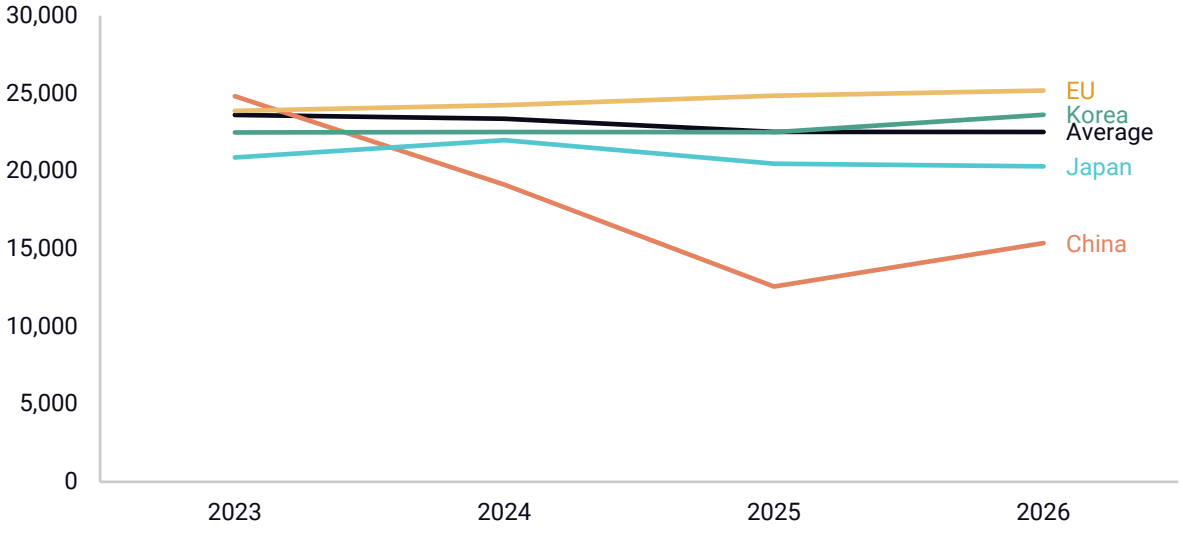
FIGURE 3
Three in, one out: The UK sells nearly three times as many cars as it produces
UK passenger car sales by manufacturing origin and domestic production by destination, 2025, thousand vehicles



Source: Rhodium Group based on ACEA and SMMT

Second, affordability is a concern. Amid continued cost-of-living crisis pressures, duties or quotas could raise car prices and limit consumer choice. The UK's trade policy framework explicitly takes wider economic interests into consideration, including those of consumers. This played a role in the Trade Remedies Authority's recommendation to remove tariffs on Chinese e-bikes in 2025. Trade restrictions on cars could prove even harder to justify politically, particularly as Chinese manufacturers have helped expand the supply of competitively priced vehicles (see Figure 4).

FIGURE 4
Average prices of China-made cars imported to the UK have fallen sharply
Average unit import price by exporting country, GBP



Source: Rhodium Group based on UK customs data

Third, London is concerned about retaliation and the consequences for Chinese investment. Under the recently departed prime minister Keir Starmer, the UK pursued a reset of its relationship with Beijing, including agreeing to a limited trade agreement in early 2026. The benefits of that reset, including tariff cuts on Scotch whisky, could be put at risk if the UK moves in tandem with the EU. British Business Secretary Jonathan

Reynolds has warned that British restrictions could invite reciprocal action and damage UK automotive and Scotch exports. London also hopes to attract Chinese investment, with carmaker Chery expressing interest in co-producing with Nissan in Sunderland. Yet China has previously restricted auto investment in countries that have erected barriers to its exports to avoid rewarding restrictive measures.

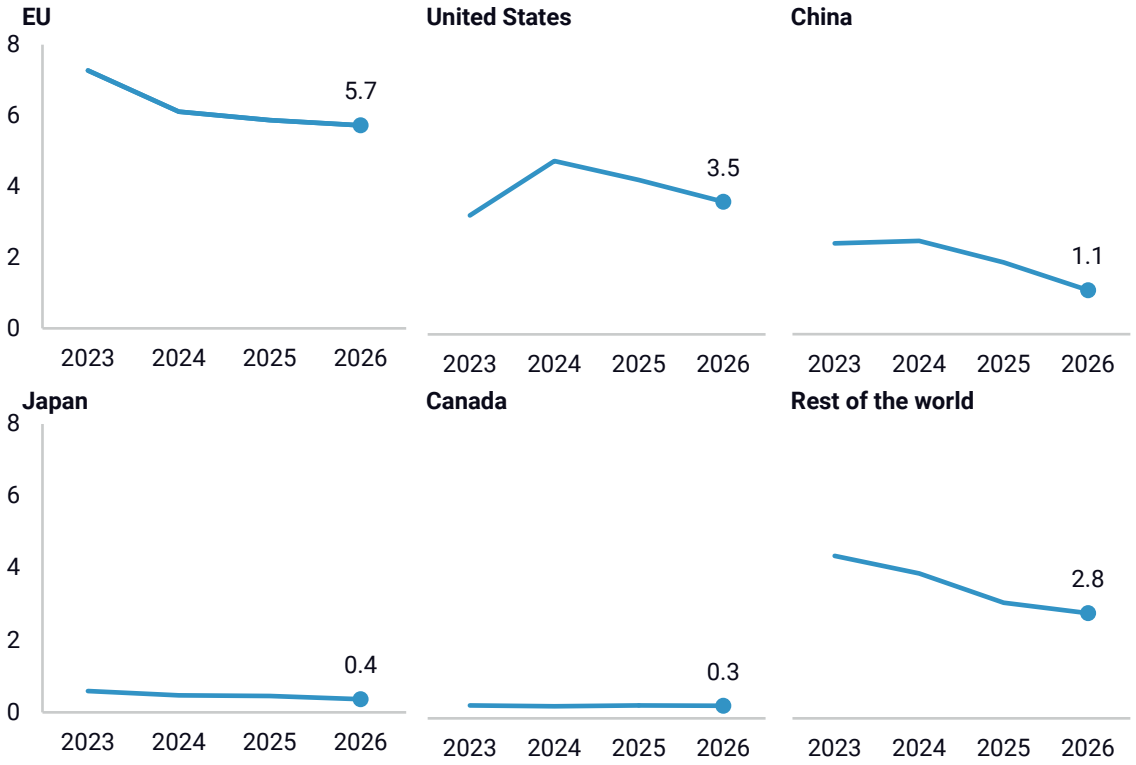
UK automakers themselves have a mixed set of interests. EU duties have slowed, rather than stopped, Chinese vehicle imports, which means that even with trade action, protection is not guaranteed. Several UK-based producers such as JLR, Mini and potentially Nissan have plans or options to source more vehicles from China. No major UK automaker has so far formally requested a trade-remedies investigation. The inclusion of Chinese OEMs in SMMT, the UK's motor trade association, further complicates any industry-wide push for protection.

Made in Europe is likely to change that equation. Roughly 50% to 60% of UK-built cars go to the EU, making access to that market essential, especially for high-volume producers like Nissan and Mini (see Figure 5). China is the UK's third-largest auto export market, but a distant third behind the EU and US. JLR executive Murray Paul has warned that the exclusion of the UK from the Made in Europe scheme could put GBP 2.5-3.5 billion in annual sales at risk, more than the UK's total car exports to China. Access to the EU could also prove decisive for attracting Chinese automotive investment: without preferential access to the much larger EU market, Chinese OEMs may prefer to invest inside the bloc rather than in Britain.

FIGURE 5

EU market access is central to the UK automotive industry

UK car exports by destination, GBP billion, Jan-Aug of each year



Source: UK customs

All the roads are winding

The first test will be whether the Franco-German compromise survives negotiations among EU member states, the Commission and Parliament in November and December (see Table 1). An informal European Council meeting in Dublin on November 13 could provide an early signal. German Chancellor Friedrich Merz will arrive after hearing stark criticism during his recent trip to Tokyo and Seoul of the proposal to exclude trading partners other than the UK from local content provisions in the Industrial Accelerator Act (IAA), a position Berlin accepted as part of its compromise deal with Paris in exchange for a loosening of CO2 emission regulations.

The EU-UK summit on November 20 is another important signpost. London is expected to push for participation in Made in Europe, while also seeking another delay to the tightening of rules of origin for UK-EU EV trade, scheduled for January 2027. The stricter requirements risk raising costs on both sides of the Channel. A draft summit statement points to cooperation on diversified and resilient steel and EV supply chains, alongside closer alignment of economic security policies toward third countries.

TABLE 1
Timeline of key events

Timing	Key development
Nov-Dec 2026	Council, Parliament discussions on Franco-German auto paper
Nov 20, 2026	EU-UK Summit
Dec 2026–Apr 2027	Chinese OEMs are aiming to fill the EU safeguard quota and fully utilize full VAT export tax rebate, may reduce hybrid exports to UK
Jan 2027	Full rules of origin for UK-EU auto trade due to kick in
Q1 2027	Trilogue between Commission, Parliament and Council on IAA and Auto Package to begin
From Apr	Chinese OEMs likely to pivot to alternative export markets, including the UK after using up EU hybrid quota
Apr/May	French presidential election

Source: Rhodium Group

For now, we expect London to proceed cautiously. The UK has an incentive to signal a willingness to align with the EU while stopping short of imposing immediate restrictions on Chinese imports, not least given Beijing's threats of retaliation. This calculus could change if UK industry comes forward with a formal request for trade action. But acting before the terms of Made in Europe access are settled would weaken London's negotiating leverage. Mexico offers a cautionary example: it raised tariffs on Chinese cars and other products in January 2026, at least in part in the hope of securing more favorable treatment from the US. Nearly a year later, that deal has yet to materialize, and China retaliated by initiating an anti-dumping probe into Mexican and US pecan imports.

London may also wait to see whether the EU expands its proposed partner-country category beyond the UK to include Japan, Korea, Canada, Turkey or Morocco. The broader and more diverse this group, the harder it would be for the EU to impose demanding trade and investment policy alignment requirements. While these countries may be able to coordinate certain trade restrictions, aligning public support schemes and investment screening would be much harder given their different economic interests and relationships with China. A wider arrangement could give the UK access while reducing pressure to mirror EU trade restrictions.

The definition of alignment will be decisive in any case. At the narrowest end, London could be asked to match the EU's China-specific countervailing duties on BEVs. A broader interpretation could include hybrid safeguards or trade measures in other sectors. At the most demanding end, the UK might be asked to introduce mechanisms to scrutinize subsidized foreign investment, comparable to the EU's Foreign Subsidies Regulation, and deploy its own local-content conditions.

We therefore expect London to wait until the terms of Made in Europe become clearer—possibly until trilogue negotiations begin in early 2027—before announcing trade restrictions. An earlier investigation cannot be ruled out, however, particularly if the UK wants to demonstrate its commitment to aligning policy and encourage Brussels to move forward. Either way, our baseline is that some form of UK trade action on Chinese vehicles will come in the next 12 months.

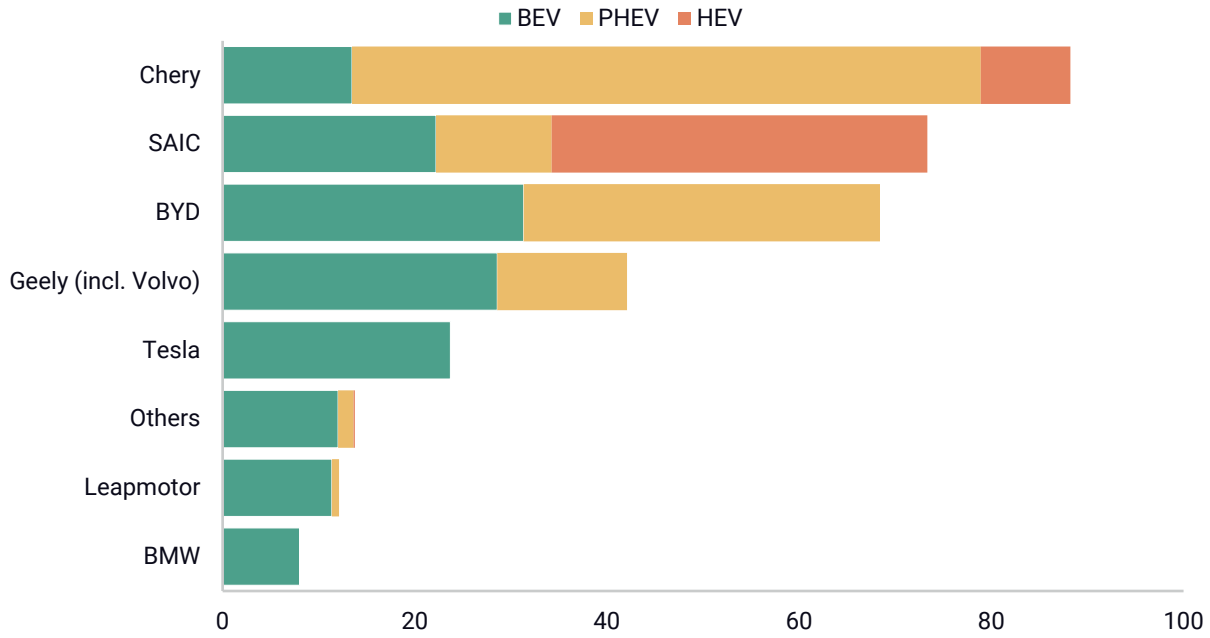
By now, you should've somehow realized what you gotta do

The winners and losers depend not just on whether the UK decides to align with the EU, but also when and with which instruments it might do so. We see three options on the trade side, which could be pursued individually or in tandem: China-specific duties on BEVs, safeguards to limit hybrid imports, and Made-in-Europe-style eligibility requirements for public support. Of the three, safeguards could have the largest impact on trade volumes, given the rapid growth of Chinese hybrid exports to the UK.

China-based manufacturers face the greatest direct exposure, but the impact would vary considerably depending on the instrument or instruments chosen. BEV duties would primarily affect BYD, Geely and Western OEMs like BMW, Tesla and Volkswagen. Stellantis would be affected through its affiliate Leapmotor. Tighter local-content conditions could also become problematic for Western producers, as they may struggle to meet European content requirements.

Hybrid safeguards would hit Chinese OEMs more directly, especially BYD, Chery, and SAIC (see Figure 6). These three accounted for 163,000 of UK hybrid sales in the January-September 2026 period, with Chery alone making up nearly half of the total at 75,000 units. A safeguard would constrain these super fast-growing Chinese brands while creating opportunities for established manufacturers.

FIGURE 6
BYD, Chery, and SAIC most exposed to UK hybrid trade action
Jan-Sep sales in the UK by OEM, China produced (thousands)



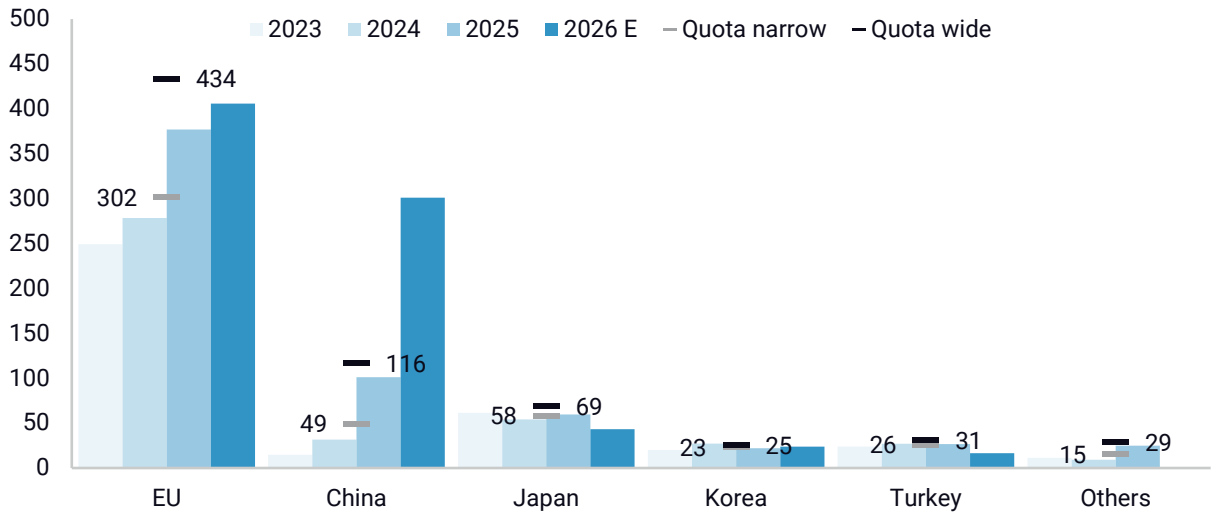
Source: Rhodium Group based on EV Volumes

The design of a possible UK safeguard would matter, in terms of both China's response and the impact on other partners. A narrowly calculated quota based on historical imports could end up constraining trading partners including the EU, which has ramped up hybrid exports to Britain (see Figure 7). London may therefore prefer a more generous quota arrangement, both to avoid disrupting trade with partners and to limit the risk of Chinese retaliation. Indeed, London could seek to emulate the EU-China hybrid deal, though Beijing could be reluctant to grant the UK the same non-retaliation assurances it gave Brussels. Safeguards on BEVs appear less likely, despite the fact that they make up a large share of UK car imports from China, given the impact on other trading partners and the UK's decarbonization goals (see Figure 8).

FIGURE 7

UK likely to favor generous quotas to protect EU trade

UK hybrid vehicle imports in thousand units by trade partner and potential safeguard quota



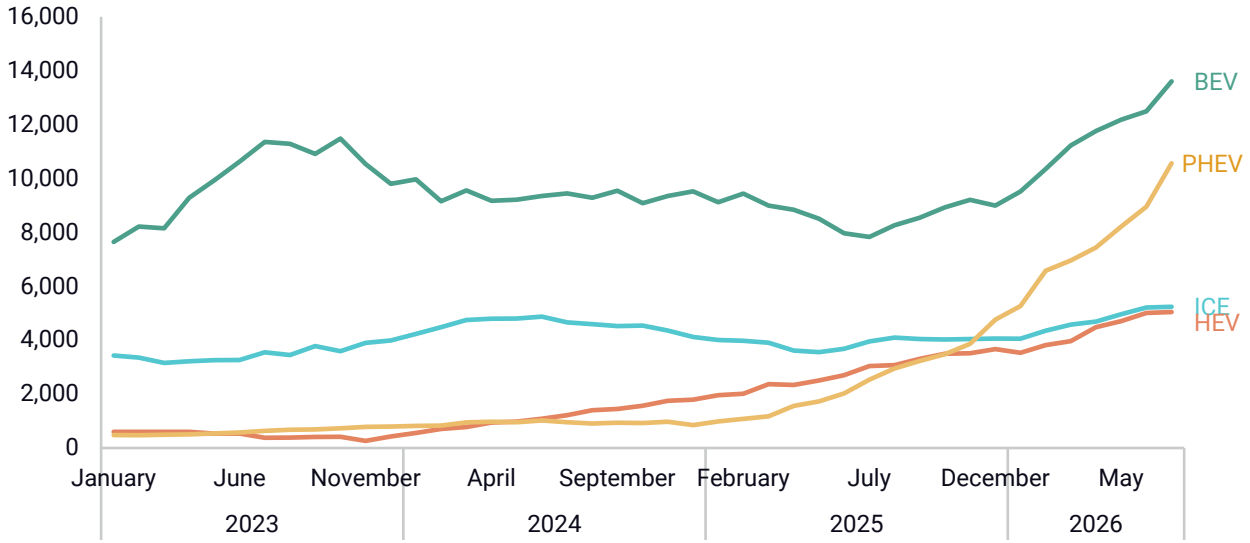
Source: Rhodium Group based on UK customs data

The impact of new hybrid restrictions on Chinese sales would be substantial. Chinese hybrid exports to the EU are on track to reach an estimated 750,000-800,000 units in 2026, and would probably rise to between 900,000 and 1 million in 2027 were it not for the looming hybrid safeguards. UK imports could increase from around 300,000 in 2026 to 350,000-400,000 units in 2027 absent trade measures. Against that unrestricted outlook, a dual EU-UK quota regime, assuming annual ceilings of 350,000 and 116,000 units (based on the EU calculation of 2025 export levels + 15%), respectively, could displace around 800,000-900,000 vehicles annually or two-thirds of potential exports to the two markets. The size of the reduction would depend on the timing of UK implementation. Some of the displaced exports would find alternative markets, but the shortfall could reach the annual output of two to three Chinese car plants, adding pressure to China's struggling auto industry and strengthening the case for consolidation.

FIGURE 8

Hybrids now account for nearly half of UK vehicle imports from China

UK passenger car imports from China in units, twelfth month average



Source: UK customs data

Beyond the immediate impact on car export volumes, EU-UK alignment would have broader repercussions for China's relationship with Europe. An export cap deal with the EU is manageable for Beijing as long as other markets are able to absorb displaced shipments. But if Brussels succeeds in persuading other countries to impose similar restrictions, it would pose a much broader challenge to China's export strategy. While we would not expect Beijing to blow up its hybrid deal with the EU, such coordination could dampen its appetite for making additional concessions to Brussels and increase its willingness to take retaliatory measures. The UK would be an obvious target, allowing Beijing to signal to other countries, such as Canada, Japan, Korea and Turkey, that alignment with Brussels comes at an economic cost. The EU, meanwhile, may be emboldened to pursue more arrangements of this kind. After all, preferential market access through free trade agreements offers limited advantages if Chinese exporters enjoy similarly open access to the same markets. Securing preferential access to markets that also restrict Chinese competition could prove far more valuable to European manufacturers.

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