

WHAT IS THE WAY FORWARD FOR EU-CHINA RELATIONS?

Views from European business



WHO ARE WE?

BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance.

A recognised social partner, we speak for enterprises of all sizes in 36 European countries whose national business federations are our direct members.

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FOREWORD

EU-China relations continue to evolve in an environment of increased geopolitical tensions, economic and industrial competition. As the world's second largest economy, China is a crucial market for European companies, just as the European market is for Chinese companies. However, this relationship is off-balance. China's export-oriented economic model, driven by state policies, is becoming a source of systemic risks, dangerous dependencies and market distortions, impacting Europe's industrial capacity and economic growth.

The EU can respond to these challenges by pursuing a more targeted and effective dual-track approach vis-à-vis China. We should be able to defend our interests, shielding our companies from unfair competition and upholding genuine economic security objectives. At the same time, dialogue and cooperation should be maintained where possible.

The EU needs to be transparent about the cost attached to these efforts and ensure strong solidarity and unity among all member states. It is also critical for the EU to better identify what is strategic from a security and from a competitiveness point of view, and which instruments are best suited to safeguard each of these interests. It is our firm belief that establishing a structured dialogue with the private sector will play a critical part in developing credible and effective solutions.

We hope that this position paper will contribute to an informed discussion about EU-China trade and economic relations offering the perspective of European businesses, ultimately contributing to a more balanced and mutually beneficial trade and economic relationship.



A stylized blue ink signature of Maciej Witucki.

Maciej Witucki
President



A stylized blue ink signature of Markus J. Beyrer.

Markus J. Beyrer
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KEY MESSAGES

1

The EU's dual-track approach to China – firm where necessary, open where possible – must be implemented more effectively.

China remains a major market and source of innovation for European businesses. At the same time, China now competes with Europe in high-value sectors, often on unfair terms. Systemic risks, dependencies and market distortions have increased significantly. The EU should therefore implement its de-risking agenda more consistently, by strengthening competitiveness, reducing critical dependencies and defending against market distortions through effective use of its trade toolbox, while also actively shaping cooperation where interests align.

2

Not all trade with China carries the same risk. The EU must build explicit criteria in dialogue with business to separate security-sensitive trade from ordinary competitive challenges and implement its toolbox accordingly.

Security tools - FDI screening, export controls, anti-coercion - should be deployed to address security risks, while instruments such as Trade Defence Instruments, Foreign Subsidies Regulation and International Procurement Instrument - should be used to deal with competitive distortions. Existing instruments should be used to their full potential and strengthened where necessary, including with more resources, before new tools are created. Using the EU's toolbox effectively would also help strengthen the EU's leverage.

3

The EU must be transparent about where costs fall and be prepared to bear them.

A credible European response to the current challenges will not be cost-free. China has signalled it will retaliate against EU action. Yet, the cost of inaction - in lost competitiveness, deepening dependency and industrial erosion - is also high. The current trajectory is not sustainable. BusinessEurope supports proportionate, WTO-consistent, targeted measures, paired with a genuine European competitiveness agenda. Any diversification instrument or support mechanism for retaliation-hit sectors requires further assessment and wider consultation, including with businesses.



THE EU SHOULD FOLLOW A DUAL-TRACK APPROACH TOWARDS CHINA

The EU-China economic relationship has reached an inflection point. China now competes with Europe in high value sectors. This is not a problem as such, as European industry welcomes competition. The concerns outlined have to do with the fact that this competition is often based on unfair conditions. China's growing assertiveness, its deepening industrial overcapacity, and its increasing willingness to weaponise economic dependencies as a tool of political and strategic leverage, all demand a clear and confident European response. At the same time, China remains a major market, supplier and source for innovation for European business. Neither confrontation nor accommodation, taken alone, serve European interests. BusinessEurope's position is that the EU needs a dual-track approach: one that firmly reasserts and defends European interests where necessary, while remaining open to cooperation and dialogue where possible. The credibility of the strategy depends on Europe's ability to speak with one voice both in implementing the strategy through different policies and instruments as well as when it comes to dealing with China's retaliatory measures. The challenges posed are too significant for any single Member State to address alone, and the EU will remain vulnerable to the exploitation of internal divergences for as long as a coordinated and unified approach is missing.

Reasserting and defending European interests

The first track is about defending the conditions under which European companies compete: at home, in China, and in third markets. This requires using the EU's trade defence toolbox to its full extent where genuinely warranted, applied proportionately, and working with like-minded partners to coordinate policy responses

where possible, diversify markets and secure supplies away from excessive dependency on any single country. It also means recognising that this track entails costs: China has already signaled that it will respond to EU action with retaliation of its own. At the same time, efforts to diversify supply chains and strengthen resilience require significant investments and adjustments by European businesses. To be able to adjust and absorb costs requires a high level of readiness by businesses and governments alike.

But defending Europe's interest cannot be only about defensive instruments aimed at shielding the market from unfair competition. More importantly, it must be about strengthening Europe's long-term competitiveness, as BusinessEurope set out in its position paper *From Ambition to Delivery*¹. This means closing the energy cost gap that undercuts European industry, completing the Single Market so companies can scale freely across borders, reduce the regulatory burden, improve access of businesses to finance and creating the investment conditions needed to keep European innovation and capital at home. Trade defence and de-risking can manage exposure to China, but they cannot replace the structural reforms needed to restore the EU's competitiveness. A truly resilient Europe is far better placed to withstand competitive pressure from China — and from any other partner — than one that relies solely on defensive measures. Europe should not aim to reduce engagement with China as an objective in itself, but rather to engage from a position of greater strength, competitiveness and reciprocity.

Additionally, investing in strengthening its practical knowledge of China, including through legal and economic expertise, but also linguistic

¹ <https://www.business-europe.eu/publications/from-ambition-to-delivery-stocktaking-june-2026/>

capabilities, cultural understanding and a deeper appreciation of how business decisions are implemented across different regions of China, will also contribute to improving the effectiveness of the EU's China strategy.

Maintaining dialogue and cooperation

The second track is dialogue. Defending European interests is not the same as seeking confrontation with China, nor does it imply a desire to disengage from the relationship. Business cooperation in China continues to rely heavily on long-term trust, continuity of relationships and institutional dialogue. Stable engagement between governments, business organizations and companies remains essential to reduce misunderstandings and facilitate commercial cooperation. The EU and China share a genuine interest in areas such as multilateral trade reform, decarbonisation, global health preparedness, and international standard-setting, where continued engagement serves both sides. Both the EU and China also see trade as something fundamentally positive and not a zero-sum game. The two sides need to maintain an open channel for dialogue to discuss common approaches whenever possible but also to discuss problems and ways of addressing them when the views diverge. In this regard, we welcome the first meeting of the EU-China Trade and Investment Consultations (TIC) that took place on 29 June 2026 in Brussels, which led to the identification of four initial workstreams, namely: (1) trade and investment rebalancing; (2) export controls; (3) intellectual property rights; and (4) the reform of the World Trade Organisation (WTO)². We hope that the TIC will provide a fertile ground for the rebalancing of EU-China trade relations and enhance cooperation with a view to reinforcing rules-based trade. In this context, it remains crucial for businesses to be actively involved and provide the practical insights that underpin these vital dialogues.

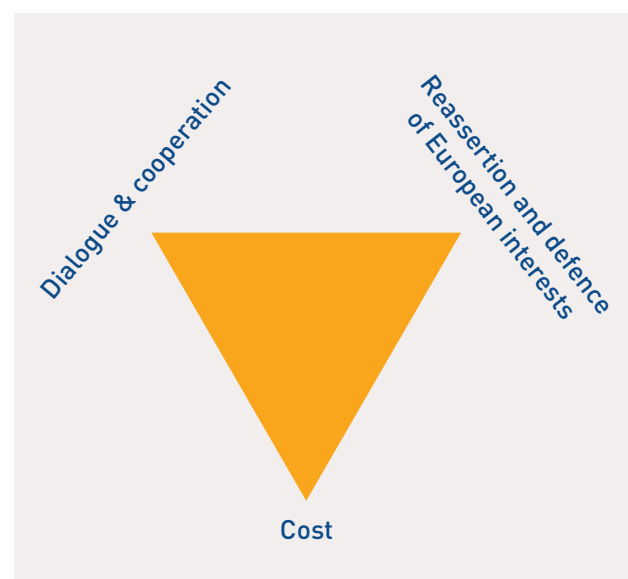
Being clear and transparent about cost/implications

There will be cost irrespective of the policy option the EU chooses to follow – deciding against implementing measures – “do nothing

scenario” – or adopting trade measures aimed at promoting European economic interests. We are of the view that maintaining the status quo in the current context of EU-China trade relations is neither sustainable nor desirable. At the same time, it is also clear that implementing measures can result in reciprocal actions by China that affect those same European economic interests. Building European resilience equally requires real investment and, in some cases, near-term costs that the market alone will not absorb. While de-risking and diversification measures may be deemed necessary from a resilience perspective, they come with a cost. In practice, every additional supplier increases supply chain complexity, compliance efforts and operational costs. A joined-up approach must ensure that as the European market is able to absorb these costs, non-EU operators are subject to equivalent rules, while the broader impact on business competitiveness and consumer affordability are carefully assessed.

BusinessEurope's position is not to avoid action, but to be deliberate and transparent about where these costs fall and how they can be distributed in a way that avoids a devastating impact on the EU economy as a whole.

This is the spirit in which the remainder of this paper should be read: a Europe confident to defend its interests, competitive to do so from a position of strength, and pragmatic to keep the door to dialogue open.



² https://ec.europa.eu/commission/presscorner/detail/en/statement_26_1480

01

THE EVOLVING EU-CHINA RELATIONSHIP

EU-China relations continue to develop in an increasingly complex and challenging geopolitical and geoeconomic environment. The relationship is no longer limited to a simple trade relationship: it is now defined simultaneously by deep economic interdependence, structural competitive asymmetries, and a growing number of political and strategic fault lines. At the same time, China is the second largest country in the world in terms of Gross Domestic Product (GDP)³, with an increasing capacity to innovate and a market that remains attractive for many sectors.

1.1 A MORE CONTESTED GEOPOLITICAL CONTEXT

China's stance in Russia's war of aggression against Ukraine remains a major point of contention with the EU. China-Russia bilateral trade has risen sharply since the start of the conflict and China has become a significant supplier of dual-use goods to Russia, including components subject to Western export controls. Over the past few years, Chinese companies have become a target of EU sanctions. While this approach is widely accepted as part of the EU's efforts to cut support for Russia's military-industrial complex, the implementation of the measures is not without challenges, as some of these companies are embedded in global value chains, affecting the production of civilian goods in the EU. Therefore, we need the EU to have a well-calibrated approach, assessing the impact of these measures before they are adopted, including a dialogue with European businesses.

Tensions in Asia-Pacific — around the Taiwan Strait and the South China Sea — add further

risks for European businesses and global trade, as it is one of the busiest shipping lanes, with 50% of the world's container traffic passing through the Strait on an annual basis⁴.

At the same time, the ongoing trade conflict between the United States and China is reshaping global supply chains and placing the EU in a difficult position, subjected to conflicting pressures from both sides. For instance, export controls adopted over the past years by the U.S. against China as well as by China against the U.S. have significantly impacted European companies that often have to separate operations to avoid being caught in either the U.S. or China's nexus. Authorisations take time to be granted, leading to disruptions of production and elevated costs. In the case of export controls imposed by China, European companies face additional complexities related to the amount and type of information requested by the Chinese authorities before licences are approved, while a broader concern is the fact that these export controls go beyond the traditional space of dual-use items. This is particularly worrying trend that the EU should strive to address.

1.2 CHINA'S GROWTH MODEL GENERATES STRUCTURAL CHALLENGES

The global footprint of China's industrial and economic model has grown significantly over the past three years. Its export-oriented growth model, supported by state-driven subsidies and weak domestic consumption, has generated overcapacities across a widening range of sectors⁵. There are varying estimates of the size of the Chinese subsidies, depending on definition and methodology, but all conclude

³ <https://www.worldometers.info/gdp/gdp-by-country/>

⁴ <https://www.chathamhouse.org/publications/the-world-today/2026-06/maritime-chokepoints-could-be-worse-hormuz>

⁵ [https://www.europarl.europa.eu/RegData/etudes/STUD/2026/783610/EXPO_STU\(2026\)783610_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2026/783610/EXPO_STU(2026)783610_EN.pdf)

that China subsidize much more than Western countries. According to an OECD report, Chinese companies benefit from state support — including subsidies and cheap loans, at levels averaging between 4-8 times those of their counterparts in OECD countries — with approximately 60% of market share growth among expanding Chinese firms over the past two decades attributable to subsidies⁶. The IMF puts total industrial subsidies at 4.4% of China's GDP, amounting to roughly \$800 billion a year.⁷ This has created considerable imbalances⁸. China now also accounts for around 30% of global manufacturing output⁹ while representing only 17% of global GDP.¹⁰ At the same time, it only accounts for 13% of global consumption as of 2023¹¹. In 2025 the EU's bilateral goods trade deficit with China reached €360 billion and continues to widen¹².

While official gross domestic product (GDP) figures showed that China grew in the second quarter by 4.3%, the slowest pace in over three years, exports rose 17.6% in the first half of the year from a year earlier, and 27% in June, according to customs data¹³. Weak domestic demand contributes to turning industrial overcapacity into a global export problem. With household consumption accounting for around 40% of GDP¹⁴ — compared to an OECD average of approximately 60%¹⁵ — China's home market cannot absorb the volume of output generated by state-backed investment. The surplus is instead channelled into global markets, often at prices that domestic and international competitors cannot match.

Trade diversion and the Chinese currency policy are further amplifying competitive pressure on European industry.

As U.S. tariffs restrict Chinese access to one major outlet, surplus production increasingly flows toward the EU. Between January and April 2026, Chinese exports to the U.S. fell 10.2% while exports to the EU rose by 19% year-on-year¹⁶. Other major economies and EU's trade partners — including India, Brazil, Mexico and Türkiye — have also implemented new trade barriers against Chinese goods, further narrowing the available outlets for surplus production.

Another factor contributing to China's competitiveness and resulting pressures is its exchange rate policy. It actively restrains the appreciation of the renminbi that a surplus of this size would normally trigger, keeping exports artificially competitive. The People's Bank of China (PBOC) and other Chinese state banks have intervened to counter appreciation pressure, keeping the renminbi weak and exports competitive. Estimates of the resulting undervaluation range from 16% to 30%, amounting to a structural subsidy to Chinese exporters that compounds direct state support¹⁷. At the same time, currency depreciation is not driven solely by PBOC policy. It is also influenced by broader structural factors within the Chinese economy. For instance, capital outflows in search of higher returns abroad, driven by interest rate differentials and the slowdown in China's economy, have exerted downward pressure on the currency. There is an interaction between capital outflows, capital controls and

⁶ <https://www.oecd.org/en/about/news/press-releases/2026/06/industrial-subsidies-reach-highest-levels-since-the-global-financial-crisis-says-oecd.html>

⁷ <https://www.cer.eu/publications/archive/policy-brief/2026/china-shock-20-cost-germanys-complacency>

⁸ <https://www.oecd.org/en/about/news/press-releases/2026/06/industrial-subsidies-reach-highest-levels-since-the-global-financial-crisis-says-oecd.html>

⁹ <https://www.mfat.govt.nz/en/trade/mfat-market-reports/made-in-china-2025-from-assembly-line-to-advanced-manufacturing-june-2026>

¹⁰ <https://www.cfr.org/articles/chinas-massive-surplus-everywhere-yet-imf-still-has-trouble-seeing-it-clearly>

¹¹ <https://www.reuters.com/breakingviews/china-will-struggle-deal-with-its-overcapacity-2025-04-08/>

¹² <https://www.china-briefing.com/news/china-manufacturing-industry-tracker/>

¹³ <https://apnews.com/article/china-trade-ai-tech-economy-29da1a43eba2961b57f6cfbe6f936e42>

¹⁴ <https://www.reuters.com/business/finance/calls-grow-chinas-household-sector-be-bigger-economic-driver-2025-07-07/>

¹⁵ <https://data.worldbank.org/indicator/NE.CON.PRVT.ZS?locations=OE>

¹⁶ <http://english.customs.gov.cn/Statics/ad8e96d8-c573-4828-9232-25f075935841.html>

¹⁷ <https://www.reuters.com/markets/europe/chinas-yuan-is-undervalued-maybe-not-much-you-think-2026-04-21/>



China's persistent trade surplus, which in a still only partially liberalised financial system can contribute to exchange rate undervaluation. Other contributing factors include weak domestic consumption and broader structural imbalances, including persistently high household savings rates¹⁸.

There are some positive signals that China has taken note that it needs to transition toward more sustainable, quality-driven growth, as stated in their 15th Five-Year Plan. It calls for national treatment for foreign-invested enterprises and identifies domestic consumption growth and a more balanced approach to imports and exports as policy objectives. However, the scope and pace of the announced reforms have so far remained insufficient to address the identified structural imbalances.

On the contrary, China's 15th Five-Year Plan still sets ambitious targets for GDP growth while doubling down on growing its industrial power and manufacturing base, increasing technological self-reliance, advancing energy security through systemic decarbonization and investments in AI and beyond, such as quantum technology, robotics, nuclear fusion energy and the low altitude economy. Many analysts expect these to be the next areas of overcapacity creation.¹⁹ The EU's policy response has become more assertive as a result, including both through the increased use of instruments that seek to address distortions linked to third-country practices, such as Trade Defence the operationalisation of the Foreign Subsidies Regulation and other tools, as well as through the development of instruments aiming at strengthening Europe's resilience and industrial capacity, such as the proposed Industrial Accelerator Act.

China's competitive expansion is no longer limited to finished goods. European industries face growing pressure in upstream segments of global value chains — including in sectors such as chemicals, machinery and industrial

equipment — where advanced economies have traditionally held strong positions. Chinese inputs and capital goods are also increasingly embedded in products that third countries manufacture and export, generating indirect dependencies that are hard to trace and difficult to address through conventional trade policy tools. As Chinese producer prices have been falling, volume-based market share gains are roughly twice as large as value-based figures suggest for many product categories²⁰.

Moreover, exposure to Chinese competition is steadily increasing in third-country export markets, putting growing pressure on European producers abroad^{21,22}. Simultaneously, China has become more willing to use its economic position as a source of strategic leverage. It is actively working to consolidate its position and raise the cost of diversification for firms and governments seeking alternatives. Controls on critical minerals and processing technologies have been tightened, restrictions have been extended to downstream products through extraterritorial rules, and new legal instruments have been introduced specifically designed to deter de-risking from China. The recent imposition of export controls on rare earth elements is a clear example of how dependencies can be weaponised.

China has also reinforced the "Regulations of the State Council on the Security of Industrial and Supply Chains" and the "Regulations of the People's Republic of China on Countering Improper Extraterritorial Jurisdiction by Foreign States", which has already been invoked in the context of the EU's Foreign Subsidies Regulation in the NucTech case. As competing legal and regulatory requirements increasingly create compliance challenges for European companies, this issue deserves greater attention in the context of EU-China dialogue, in close coordination with businesses that face compliance challenges when implementing EU legislation such as the Corporate Sustainability Due Diligence Directive, the Corporate Sustainability Reporting Directive,

¹⁸ <https://rhg.com/wp-content/uploads/2025/12/Malign-Indifference.pdf>

¹⁹ <https://merics.org/en/comment/four-key-points-keep-view-china-implements-its-15th-five-year-plan>

²⁰ <https://rhg.com/research/chinas-next-generation-industrial-policy/>

²¹ <https://www.strategie-plan.gouv.fr/publications/lindustrie-europeenne-face-au-rouleau-compresseur-chinois>

²² https://www.ecb.europa.eu/press/economic-bulletin/focus/2025/html/ecb.ebbox202505_02~6755747435.ga.html?

the EU Deforestation-Free Products Regulations and the EU Forced Labour Regulation.

1.3 THE BUSINESS ENVIRONMENT IN CHINA

The business environment in China has become increasingly challenging for European companies over the past several years. Market access barriers, a growing politicisation of business, discriminatory procurement practices, intellectual property enforcement issues, and an unpredictable regulatory environment have all contributed to a steady erosion of confidence. According to the European Chamber of Commerce in China's 2026 Business Confidence Survey, 68% of European companies reported that doing business in China became more difficult in 2025 — the fifth consecutive year that a majority has said so²³.

The structural causes of this deterioration are well-documented. China's push for domestic supplier capabilities and for technological self-reliance has come at a direct cost to European firms operating in sectors designated as strategic. Ambiguous rules and regulations remain the most consistently cited challenge, identified as a top three obstacle by 36% of companies for the tenth consecutive year. The broader legislative landscape — including data localisation requirements, national security legislation with loosely defined scope, and cross-border data transfer rules — creates persistent compliance uncertainty, particularly for companies operating across both Chinese and international regulatory frameworks.

China's use of export controls as a strategic instrument has added a further layer of operational risk. The EU relies on China for over 90 percent of its rare earth supplies.²⁴ The 2025 imposition of controls on rare earth elements, followed by an expansion to lithium-ion battery technology and related equipment, directly impacted nearly a third of European Chamber of Commerce in China members. For many, this marked a shift in how they assess their China

exposure — not simply as a commercial question but as a structural risk management issue.

1.4 CHINA REMAINS AN IMPORTANT ECONOMIC PARTNER

Despite these challenges, China remains a crucial market for European companies. It is the EU's second-largest trading partner for goods, with bilateral trade exceeding €759 billion in 2025²⁵, and a significant destination for investment. For many sectors, China's well-developed industrial ecosystem, growing middle class and vibrant Research & Development environment continue to make it an attractive market. The EU continues to maintain trade surpluses with China in selected segments, including pharmaceuticals, food and agricultural products²⁶.

China retains significant strengths as a business and sourcing destination. It remains a profitable market for the majority of European companies, and three quarters of respondents to the European Chamber of Commerce in China survey characterise their China production as more efficient than production elsewhere in the world. Chinese inputs such as critical raw materials, intermediate goods and components across pharmaceuticals, clean technology and electronics remain deeply embedded in European supply chains. The supply of these products is also an asset for the competitiveness of EU industries more broadly. This dependency is a structural reality that cannot be unwound rapidly without significant economic cost.

China should not only be viewed as a manufacturing base but increasingly as a global innovation ecosystem. In sectors such as electric mobility, AI, digital platforms, biotechnology and advanced manufacturing, European companies increasingly cooperate with highly innovative Chinese partners. Maintaining access to these innovation ecosystems remains strategically important. China's R&D ecosystem has also matured rapidly: 48% of European companies now view Chinese firms in their industry as more

²³ European Chamber of Commerce in China, Business Confidence Survey 2026

²⁴ https://www.ecb.europa.eu/press/economic-bulletin/focus/2025/html/ecb.ebbox202506_01~44d432008e.en.html

²⁵ <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20260410-2>

²⁶ European Commission, Eurostat, "Trade in goods with China in 2025", 10 April 2026, <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20260410-2>



innovative than their European counterparts. These are not marginal considerations, and they explain why — despite the challenges — majority of European companies operating in China continue to regard China as a top three destination for present and future investments²⁷.

1.5 BUSINESSEUROPE'S STARTING POINT

The competitive challenge and the market opportunity are not contradictions to be resolved, but they are distinct realities that European policy must manage in parallel. BusinessEurope's view is that any credible EU approach to China must be built on this recognition and follow a dual approach.

The EU's approach should not be perceived as an effort to penalise China for its economic success. It must be seen as an effort to ensure that European industry can continue to compete on a level playing field, at home, in China and in global markets. That means that the EU and China must address the structural asymmetries that currently define the relationship: European companies operating in China face market access barriers, discriminatory procurement practices and regulatory conditions that Chinese companies operating in the EU do not face in reverse – an example being in the area of public procurement requirements in China for the participation of foreign companies. At the same time, Chinese companies benefit from state support at a scale that distorts competition not only in the EU Single Market but in third markets where both sides compete.

European companies frequently face challenges not only because of legislation itself, but also because of inconsistent interpretation and implementation at local level. Predictability, transparency and administrative consistency remain as important as market access commitments. Moreover, China is not a homogeneous market. Provinces, municipalities and industrial clusters often apply national policies differently, while local governments maintain significant influence over investment, procurement and business facilitation. An effective EU strategy should therefore combine

engagement at central government level with a better understanding of regional dynamics and local implementation.

Reciprocity should therefore be central to Europe's China strategy. The objective should not be to close Europe off, but to ensure that openness is mutual. Reciprocity should extend beyond market access and include the competitive conditions under which firms operate, including access to affordable, secure and predictable energy, financing, state support and regulatory compliance obligations. Where equivalent conditions do not exist, the EU has both the right and the responsibility to act — through targeted and proportionate approaches, bringing together industrial policy, trade instruments, and sustained diplomatic engagement with China in a coherent and mutually reinforcing manner. This also means that any decision affecting EU-China economic and trade relations must be preceded by a comprehensive view of the overall market, balancing not just trade in goods, but ensuring the broader ecosystem – spanning services, digital trade, intellectual property regulations, copyright, patent and trademark examination, public procurement, and trade secrets – is not unintentionally disrupted. A Europe that remains open without defending the conditions of that openness will find both its competitiveness and its strategic position eroded over time.

²⁷ European Chamber of Commerce in China, Business Confidence Survey 2026

02

SEPARATING SECURITY FROM COMPETITIVENESS



THE EU MUST DISTINGUISH SECURITY RISK FROM COMPETITIVE CHALLENGE

The most important structural question in EU-China trade policy is how to distinguish dependencies and trade relationships that pose a real security risk from those that represent standard competitive challenges. That means that the EU must identify the sectors that are most relevant from a strategic perspective, in consultation with the business community. It must also decide if there are tolerable levels of supply chain dependence, in which sectors²⁸, and if so, what this level should be. Finally, the EU should identify areas in the economy where trade with China is low-risk and can continue to flow unperturbed. The priority should be to build resilience where it matters most and remain open in areas that present little or no risk. While Member States naturally maintain their own economic and diplomatic ties, ensuring strong cooperation and a shared assessment of risk is vital to preserving European competitiveness. A fragmented approach, where individual Member States pursue bilateral arrangements with Beijing or diverge on key questions of risk, will only weaken the EU's overall position. Businesses need to be part of the process too. Companies are at the forefront both in terms of retaliation as well as engagement and cooperation. A successful approach will need the private sector's active engagement.

Making this distinction requires explicit criteria, systematic assessment, and meaningful input from business. It cannot be resolved

through top-down political designation alone. It is necessary to get the balance between assertiveness and openness right. This is key to ensuring that potential costs imposed on European competitiveness through our own legislation will not come without comparable benefits. Likewise, measures must be targeted and avoid unintended impacts on supply chains, business costs and consumers.

For BusinessEurope, it is clear that more assertive actions from the EU to defend its interests will likely provoke a reaction from China, and that this reaction will carry a real cost for European business, including for low-risk sectors. This is a real risk, and businesses need to be prepared for it, while national governments and the European Commission must actively prepare to mitigate these impacts and support companies. Ahead of the 29 May 2026 orientation debate held by the European Commission on China and the discussion on trade imbalances and industrial overcapacity during the June 2026 EU Summit, Beijing had already warned of possible retaliation targeting EU cosmetics, wine, meat and luxury goods, alongside the prospect of anti-discrimination investigations under Article 7 of China's Foreign Trade Law and probes under its recently issued supply chain security regulations. The EU must factor this dynamic into its decision-making from the outset and so must European businesses.²⁹

²⁸ The EU has already adopted a number of Regulations that define resilience benchmarks, such as the Critical Raw Materials Act and the Net Zero Industry Act. At the same time, the EU's Economic Security Strategy defines a general de-risking policy objective and identifies some risk categories, while the Chips Act includes resilience requirements, although without quantified benchmarks.

²⁹ <https://mp.weixin.qq.com/s/9XwleNKf5XgJB-9lmyq6lw>



2.1 NOT ALL TRADE WITH CHINA CARRIES THE SAME RISK

Across the range of goods, services, technologies and inputs that European companies source from, sell to, or co-develop with Chinese partners, the risk profile varies enormously.

Dependency on Chinese inputs for critical pharmaceuticals or rare earth elements used in defence applications raises different concerns than reliance on consumer electronics components. Equally, China remains a significant sourcing location across a wide range of sectors. While some businesses face distinct risks from restrictive procurement and the persistent threat of intellectual property theft, others view China primarily as a critical market for export diversification.

EU policy architecture must be sensitive to these differences, as applying security-level scrutiny to non-security commercial relationships generates unnecessary costs. It remains fundamental that businesses facing the highest risk of trade retaliation are adequately supported domestically and at European level.

2.2 BUSINESS MUST BE INVOLVED IN DEFINING RISK

Companies know best their supply chains, technology exposure, competitive landscape, and the practical implications of dependency on Chinese inputs or markets. A purely top-down, government designation of risk categories without structured consultation with industry risks being unsuccessful.

Therefore, BusinessEurope calls for structured consultation mechanisms between EU institutions and industry for the identification of strategic dependencies and risk-relevant technologies; clear and transparent criteria for classifying trade relationships as security-relevant, distinct from those that are commercially sensitive; regular review of risk classifications to reflect evolving technology landscapes; and close consultation with industry before major economic security measures are introduced to assess their practical implications.

We recognise that this is not an easy discussion, yet a necessary one to have at EU level as it will define what kind of future we envisage for Europe.

2.3 A DUAL-TRACK APPROACH EMBEDDING THE QUESTION OF THE COST

BusinessEurope is not opposed to the use of protective tools where genuinely warranted. What we cannot accept is applying security-level responses across the full breadth of EU-China trade relations.

We therefore support a dual-track approach:

1. **Security-sensitive trade:** involving dual-use technologies, critical infrastructure inputs, or dependencies that could be weaponised should be subject to scrutiny and, where warranted, restrictions proportionate to the risk involved. This process must be based on thorough impact assessments that also look into the existence of own European assets/capacities/expertise or from trusted allies, with business involvement.
2. **Commercially sensitive trade:** cases where the primary challenge is unfair competition, market access barriers, or asymmetric treatment, should be addressed through trade policy and diplomatic tools.

At the same time, low-risk trade should be allowed to flow without restrictions.

Maintaining this distinction matters not only for competitiveness but for the credibility of the EU's external trade policy. Overreach undermines the legitimacy of the security rationale; under-reach leaves vulnerabilities unaddressed.

2.4 DE-RISKING, NOT DECOUPLING

BusinessEurope supports the EU's objective of de-risking rather than decoupling. De-risking is not limited to supply chain sourcing, it covers the full range of exposure to the China relationship: market revenue concentration, technology transfer risk, regulatory and legal risk for companies operating in China, and dependency on Chinese inputs. The objective is

to reduce vulnerability where it is demonstrable and significant, not to minimise the relationship as such.

The pace and scope of de-risking must be realistic. Mandating rapid diversification without viable alternatives in supply chains, markets or technology partnerships transfers the cost of geopolitical risk management directly onto European industry. Effective de-risking requires investment in European capacity, credible partnerships, and realistic transition timelines. It also requires avoiding measures that inadvertently deepen the dependencies they are meant to address. A one-size-fits-all de-risking approach applied uniformly across all sectors should also be avoided.

Furthermore, the EU must maintain a channel of communication with China and provide guidance to businesses on how to deal with Chinese export restrictions. In particular, the restrictions which were suspended in 2025 and are due to come back into force in November 2026 pose an enormous challenge for European industry. These restrictions leave considerable room for interpretation and lead to further uncertainties. The EU should also seek assurances that any reintroduction of these measures will not entail extraterritorial effects that would disproportionately affect European companies and further strain EU-China business relations. The EU and China need to find a negotiated solution as soon as possible.

A central part of the de-risking effort is deepening the EU's trade and investment relationships with willing trading partners. Diversification away from strategic dependencies on China is only credible if there are viable alternatives to turn to — and building those alternatives requires an ambitious and proactive trade agenda. BusinessEurope therefore strongly supports the adoption of trade agreements, following the path of the recently concluded agreements with India, Indonesia and Australia and the modernisation of the Mexico agreement. The provisional implementation of the interim Trade Agreement with Mercosur is a cornerstone of this diversification strategy. These agreements expand market access, create alternative

sourcing and investment destinations, and strengthen the EU's economic relationships with partners that share an interest in a rules-based trading system. The EU should continue to pursue this agenda with urgency, ensuring that agreements are concluded, ratified and implemented without delay, and that they are not overloaded with policy objectives better pursued through other instruments.

Diversification efforts should prioritise trusted and closely economically integrated partners that are already deeply embedded in European industrial value chains and aligned with the EU's regulatory ecosystem, including EEA/EFTA countries, the UK and Türkiye, as well as all countries in the process of accession to the EU. To avoid straining these vital ties, the European Commission must conduct impact assessments and engage closely with these partners through the process.

2.5 EMBEDDING THE COST IN THE DISCUSSION

A discussion on the cost of de-risking and how it shall be distributed is a critical part of the broader strategic debate on China. As mentioned earlier, both the “do nothing scenario” and any EU initiative or measure will be faced with a reaction by China. Chinese retaliation can be direct and public, targeting specific sectors, companies and individuals, but it can also be covert, making it extremely difficult to calculate in terms of economic or reputational cost. At the same time, the EU's own legislation may entail costs for economic operators. A possible legislative initiative (Diversification Instrument) that entails forced de-risking, for instance by limiting the number of suppliers a company can source from in the absence of reliable alternatives, will result in increased costs that companies may not be in a position to (fully) internalise, loss of competitiveness, significant distortions in the supply chains and less of export capacity. Therefore, any action needs to be adopted in close consultation with business.

BusinessEurope recognises that some costs are unavoidable, especially in the short-term, as part of managing genuine security risks and



addressing persistent distortions. At the same time, Europe must ensure it gains leadership in the technologies of the future and maintains its current competitive edge, while minimising unnecessary costs and burdens for businesses. The costs of a common European response should not fall disproportionately on individual Member States, sectors or companies that are targeted by retaliation. The EU and Member States should consider appropriate and proportionate ways of mitigating concentrated impacts, while the need for and design of any specific mechanism require further assessment and member consultation.

2.6 THE EU SHOULD CONTINUE TO ENGAGE WITH CHINA

De-risking does not mean disengagement. The EU should maintain and where possible strengthen channels of economic and political dialogue with China, even when bilateral tensions are high. Dialogue is the primary mechanism for managing escalation, signaling intentions, and identifying areas of mutual interest.

One such area is the reform of the multilateral trading system. Despite challenges, the rules-based trading system continues to underpin to a large extent the stability and predictability that European industry depends on. With 72% of global trade still conducted on the standard Most-Favoured-Nation (MFN) terms under WTO rules³⁰, the EU has a strong interest in upholding the framework and lead the efforts to reform the multilateral trading system in a way that reflects the reality of the global economy. China, who has tremendously benefited from the current rules should share this objective and recognise their increasing important role in international trade and seek to assume responsibilities commensurate with its actual economic, industrial and technological capabilities, as a developed economy, in supporting a more effective multilateral trading system.

Climate action and the pursuit of an ambitious decarbonisation agenda should also be part of a bilateral dialogue. China's commitment is fundamental to ensure that we set high standards for others to follow. Having set ambitious

decarbonisation goals for itself, the EU has also introduced multiple pieces of legislation such as the Carbon Border Adjustment Mechanism (CBAM) which apply similar standards on imports from our partners, in the hopes of encouraging them to increase their sustainability efforts while preventing the risk of environmental leakage. BusinessEurope believes the EU should maintain close engagement and cooperation with international partners like China to ensure that these initiatives accomplish their legitimate goals without creating unnecessary friction in our trading relationship. Imbalances in the level playing field in clean tech manufacturing and energy intensive industries must nevertheless be addressed in order to maintain European industrial competitiveness.

Other concrete areas where cooperation is both feasible and in the mutual interest of the EU and China include practical cooperation on pandemic preparedness, consistent with agreed international frameworks and cooperation in the fight against counterfeiting, including online copyright infringement and the illegal distribution and exploitation of protected content.

Further engagement in international standards bodies to avoid regulatory divergence that raises costs for all parties should be also pursued. This is critical to increase interoperability and facilitate trade. Standardisation is, however, also increasingly becoming an arena of strategic competition, in which China is pursuing a deliberate agenda to shape global standards in line with its industrial priorities. For instance, to maintain European leadership at ISO and IEC, the EU and its Member States need a more proactive approach to international standardsetting. Europe should support the participation of European experts and promote highquality, globally interoperable standards. This will help ensure that international standards provide a balanced framework for both European and Chinese companies and avoid fragmentation that would undermine our industrial competitiveness.

³⁰ https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf

03

THE EU TOOLBOX: INSTRUMENTS, EFFECTIVENESS AND PRIORITIES



THE EU SHOULD USE ITS TOOLBOX EFFECTIVELY

Over the past several years, the EU has developed a substantially expanded toolkit to address competitive distortions and strategic risks that can be particularly relevant in its relationship with China. BusinessEurope's position, supported by members in our 2026 China survey, is that existing tools should be deployed to their full potential and make sure that they are fit for purpose before new ones are created.

Some of these instruments, such as the EU's Foreign Subsidies Regulation (FSR) and the International Procurement Instrument (IPI) have been used to address concerns related to Chinese policies, while others, for instance the EU's Anti-Coercion Instrument (ACI) have not been triggered. At the same time, the use of traditional trade policy instruments such as in the case of trade defence is increasing. The EU is currently assessing the use of the instruments, their effectiveness, and their limitations. Their compatibility with different EU policies and how they all interact with one another should be also part of this assessment. This is a necessary exercise to improve them, and to arrive at a clear understanding of whether these tools should be complemented with new ones. In our view, measures must remain WTO-compliant, targeted and proportionate to avoid unintended consequences, including vis-à-vis EU's trading partners. Moreover, securing adequate institutional resources is a key prerequisite for the successful implementation of the tools.

Effective use of this toolbox ultimately depends on the depth of the EU's own knowledge both of China and of itself. The EU's research and analytical capacity on China should be strengthened to support informed and timely policymaking, with resources enhanced to systematically track the economic, political and security implications of Chinese policy developments. This needs to be matched by a clearer picture of the EU's own exposure: where European supply chains, technologies and markets are genuinely dependent on China, and to what degree. Achieving this requires a whole-of-government approach, with regular high-level dialogue between EU institutions, Member States and business. This would also give the Commission access to the kind of detailed business information it needs to take effective enforcement action. Conscious of the sensitive nature of this information, necessary safeguards should be taken to ensure its protection. SMEs in particular would benefit from clearer guidance on identifying political and geopolitical risk factors in the Chinese market, drawing on expertise that the Commission, Member States and business associations can pool and share more systematically than is currently the case.

3.1 TRADE DEFENCE INSTRUMENTS

Anti-Dumping and Anti-Subsidy Measures

Trade Defence Instruments (TDIs), including anti-dumping and anti-subsidy (countervailing)



measures, are the EU's primary mechanism for addressing unfair pricing and subsidisation in imports from third countries. Their use against Chinese imports has increased significantly in recent years across a widening range of sectors, from steel and ceramics to electric vehicles and solar panels.

BusinessEurope members broadly support the continued and effective use of TDIs where the conditions are met following thorough investigation. However, the current framework has structural weaknesses and many systemic challenges posed by China's economic model are not properly addressed by these instruments. They are quite targeted, measures take time to materialise and remain susceptible to circumvention, and they do not adequately account value chain implications - upstream or downstream products.

In BusinessEurope's March 2026 survey on China, members raised the following concerns on TDIs:

- Speed and agility: full investigations can take 12 to 15 months, during which affected industries continue to suffer material injury. Options to accelerate timelines in the most acute cases should be examined without undermining procedural care.
- Collateral damage: measures can affect supply chains and trading partners beyond their intended targets. Closer calibration to specific objectives is needed.
- Institutional capacity: the growing volume of cases requires proportionate resourcing of the European Commission's Directorate of Trade and Economic Security. Under-resourcing risks both slower proceedings and lower quality analysis.

Safeguard measures

Safeguard measures apply to imports regardless of origin and are a blunter instrument than targeted anti-dumping or anti-subsidy duties as they are imposed on all imports of a given product regardless of whether it is produced fairly or unfairly. Their indiscriminate use undermines relations with key trading partners that are important European suppliers, jeopardises the integrity of the internal market and further

erodes the competitiveness of European industries that depend on the inputs in question. BusinessEurope therefore encourages careful case-by-case assessment of any such measure, built on a baseline that well reflects pre-surge trade flows, country-specific quotas to preserve normal trade with unaffected partners, and a clear focus on sectors where Europe still has capacity worth defending.

Particular care is warranted where abrupt restrictions on imports or sourcing patterns could raise production costs, undermine competitiveness, and weaken the resilience of EU value chains. Quota design must guarantee predictable access to critical inputs. Used in a targeted way, safeguards can offer immediate defence while limiting collateral damage, aligning the EU with steps other major economies are already taking.

Possible improvements

Although changes in the legislation can be envisaged, they will likely take time to materialise. One key and urgent priority is to allocate additional resources to support the increasing number of investigations. Additional improvements can include better monitoring of evolving state-driven trade practices, and more proactive use of ex-officio powers. Investigations should, where appropriate, take a value chain approach, examining unfair practices across an entire supply chain simultaneously rather than product by product, which would help address the upstream and downstream gaps in the current framework.

Smaller companies face a disproportionate burden in trade defence proceedings. The European Commission, with the support of Member States, should establish dedicated support for SME-dominated sectors helping in filing complaints, as well as introducing simplifications namely in the injury questionnaire. This counts particularly for the transaction-by-transaction reporting requirement, which is often impractical for smaller firms to complete.

3.2 THE FOREIGN SUBSIDIES REGULATION

The Foreign Subsidies Regulation (FSR), in force since 2023, fills an important gap by enabling the European Commission to investigate and where

necessary restrict the participation of foreign-subsidised entities in EU public procurement and M&A activity. BusinessEurope's assessment of the instrument is broadly positive, as it addresses a genuine market distortion that trade defence tools cannot reach.

Early implementation has however revealed limitations. Cases are taking considerable time to progress: the Nuctech investigation took more than 18 months to reach a full investigation³¹, and the Commission's most high-profile case to date — concerning Chinese carmaker BYD's investment in Hungary, opened in March 2025³² — remains without a decision. Where cases have concluded, remedies have in some instances been modest. The instrument's credibility will depend on its ability to deliver substantive outcomes in reasonable timeframes.

BusinessEurope has identified three implementation concerns.

First, proportionality: the administrative burden associated with FSR notifications is significant and investigative resources should be concentrated on cases where material distortion of competition is genuinely plausible, rather than applied routinely to commercial transactions.

Second, legal certainty: companies need clearer guidance on what constitutes a notifiable subsidy and how the Commission will exercise its investigative discretion.

Third, retaliatory risk: China has already challenged the FSR through its extraterritorial jurisdiction framework in the Nuctech case.³³ The Commission should anticipate and prepare for retaliatory responses when deploying the instrument, and factor this into its case selection and communication strategy.

3.3 THE INTERNATIONAL PROCUREMENT INSTRUMENT

Adopted and entered into force in 2022, the EU's International Procurement Instrument (IPI) has an objective to improve access in third countries'

public procurement markets for EU companies. Following investigations (after a request or by the European Commission's own initiative) and the engagement in consultations with the country concerned, and if consultations fail and restrictions are not removed, the IPI restricts access to the EU procurement market for foreign companies originating in these countries. The IPI does not apply to public procurement covered by the EU's international commitments under the World Trade Organisation (WTO) Government Procurement Agreement (GPA) and its Trade Agreements.

So far, the IPI has been triggered once – in the case against restrictions in the Chinese public procurement market for medical devices. Launched in 2024, the European Commission's investigation found significant and recurring legal and administrative barriers to the procurement market on medical devices in China³⁴. More specifically, 87% of public procurement contracts for medical devices in China were subject to exclusionary and discriminatory measures and practices against EU-made medical devices and EU suppliers. Based on these results, the European Commission raised the issue with the Chinese authorities aiming for a solution that would allow EU companies to enjoy access to the procurement market for medical devices in China that is on the same terms as Chinese companies. No specific commitments have been made by China. On these grounds, in June 2025, the European Commission decided to exclude Chinese companies from EU government purchases of medical devices exceeding €5 million and allows no more than 50% of inputs from China for successful bids. While the conditions to trigger the IPI, such as the systematic and well-documented discrimination against European suppliers in the medical devices sector in China, were satisfied, it is not clear whether the implementation of the instrument has ultimately improved the situation. The Commission should reassess the IPI's effectiveness and consider whether further action is warranted.

³¹ https://ec.europa.eu/commission/presscorner/detail/en/ip_25_3019

³² <https://www.ft.com/content/0ef28741-6194-4ee6-8f23-945415de7458>

³³ http://en.moj.gov.cn/2026-05/18/c_1183998.htm

³⁴ https://policy.trade.ec.europa.eu/help-exporters-and-importers/accessing-markets/public-procurement/international-procurement-instrument/china-medical-devices_en



3.4 TOOLS IN THE CONTEXT OF ECONOMIC SECURITY

Foreign Direct Investment Screening

The EU's reinforced FDI screening framework, expected to enter into implementation in January 2028, provides a more streamlined approach to FDI screening in the EU through a strengthened coordination mechanism at EU level and a common minimum scope of application. At the same time, it is mandatory for all EU Member States to have an FDI screening mechanism in place, while they retain primary competence over investment screening decisions.

Although not China-specific, FDI screening allows for a filtering of investments under the lenses of national security and public order. For BusinessEurope, these are instruments central to the efforts of addressing security-related risks that may be posed from investments that target critical technologies, assets and infrastructures, including of course when those risks come from Chinese investors. The European Commission's annual FDI screening reports point towards increased use of the instruments and we expect this trend to continue.

There is a vivid debate concerning the FDI screening's legal basis and the respective scope, namely whether it should also reflect competitiveness objectives. This is particularly relevant in the context of the European Commission's proposal for an Industrial Accelerator Act (IAA), which introduces conditions for investments in specific areas related to clean technologies. The measure is supposed to be based in the single market principle instead of national security. BusinessEurope's view is that at a time when FDI is most needed in the EU to grow, innovate and create jobs, it is important to uphold the EU's attractiveness as an investment destination. While we agree with the premise of ensuring that FDI creates added value in the EU, the provisions as currently designed are overly prescriptive and risk developing a second, parallel system for FDI screening in the EU, leading to duplications and legal discrepancies and increased administrative burden for both authorities and investors. We support one system for the screening of FDI in the EU based

on a single, clear and predictable set of rules and a coherent review process³⁵.

Export Controls

The EU has initiated the discussion on a more coordinated approach to export controls on sensitive technologies as part of the broader economic security debate. BusinessEurope recognises the security rationale for restricting exports of certain dual-use and emerging technologies to China, where there is a legitimate security or proliferation concern. Export controls must, however, be calibrated with care, as they impose direct costs on European exporters and technology developers.

Key principles for BusinessEurope on export controls:

- Controls should target technologies with demonstrable dual-use or security risk, based on rigorous technical assessment; not be used as a broad competitive measure.
- When considering export controls as a measure of economic security potential, unintended effects must always be accounted for. Restricting China's access to advanced technologies in the short term may accelerate China's domestic substitution and technological self-reliance.
- A more coordinated approach at EU level is key especially when multilateral systems are dysfunctional. This is important to ensure solidarity and avoid overwhelming pressure on specific companies/countries. At the same time, increased streamlining within the EU, under clear and predictable procedures, would also help avoid unnecessary burden and delays for companies.
- To the extent possible, maintain and strengthen multilateral coordination in order to avoid situations where European industry bears competitive costs while competitors in other jurisdictions are not subject to equivalent restrictions.
- Transparency and predictability are essential. Companies need adequate lead time and clear guidance to adjust their commercial strategies.

³⁵ <https://www.businesseurope.eu/publications/the-industrial-accelerator-act-businesseurope-comments/>

The Anti-Coercion Instrument

The Anti-Coercion Instrument (ACI), adopted in 2023, empowers the EU to respond to economic coercion by third countries. To date, the ACI has not been formally triggered.

China's recent export controls on rare earth elements, and its retaliatory anti-dumping investigations against EU sectors including spirits, pork and dairy, could represent the type of coercive economic pressure the ACI was designed to address and there were voices calling for the triggering of the ACI in this case. If there are grounds for suspected coercive activity, the European Commission should be able to launch its assessment process and if coercion is indeed identified, to take all the necessary steps under the ACI to address it in consultation with Member States.

At the same time, we recognise that there is risk of retaliation. The ACI provides a long list of countermeasures the EU can choose to apply. Notably, some of these target areas such as services, public procurement and the protection of intellectual property, go beyond the more traditional list of measures related to goods. Some of these measures may be difficult to implement in practice, while there is a concern that if these options are used in a discretionary manner, they may cause unintended consequences and will lead to increased unpredictability for businesses. In our view, the way the EU will decide and implement countermeasures would be key for its credibility. It is therefore important that this is done in close dialogue with the private sector.

Finally, BusinessEurope would like to raise a broader question on coercion, which we consider pertinent in the current global environment of increased instability. Economic coercion can take different forms, both overt and covert. It can target countries but also companies, seeking to alter decisions over their management, operations and (future) investments. This latter type seems to be missing from the scope of the ACI. While we agree that this is more difficult to capture and address, we believe that it warrants a discussion as companies increasingly find themselves being targeted by foreign governments.

3.5 POTENTIAL NEW MEASURES UNDER DISCUSSION

Beyond the existing toolkit, the Commission is reportedly considering additional instruments to address China-related risks.

A number of different ideas have been floated, including an "overcapacity tool" modelled after the U.S. section 301 framework, which would allow the European Commission to impose tariffs on national security grounds, rather than through the standard trade defence instruments process.

Chinese excess capacity, driven by state subsidies and an export-oriented growth model, is generating competitive pressure across an expanding range of EU industries. Anti-dumping and anti-subsidy duties can address specific instances of unfairly priced imports, but they are not well-suited to the structural overcapacity problem: they operate product by product and are inherently reactive.

There is a growing debate about whether the EU requires a dedicated overcapacity instrument, one that is capable of identifying and responding to systemic excess capacity across sectors more proactively. BusinessEurope is open to examining this option. Any new instrument would need to be assessed against existing TDIs and WTO rules, and the risk of retaliatory responses and collateral damage on European downstream sectors must be carefully evaluated. A possible way forward would be to look into quantitative restrictions on trade.

The priority, in the first instance, is to use existing tools better and ensure they are adequately resourced. A new instrument should complement and not substitute for the effective use of existing mechanisms.

The second idea is a "diversification instrument," which would require companies in sensitive sectors — for instance those dependent on semiconductors and rare earths — to maintain at least two suppliers for every critical component, in order to reduce dependency on single sources of supply. BusinessEurope understands the underlying objective and shares the goal of reducing exposure to critical single-source

dependencies. However, a blanket sourcing-diversity mandate raises significant concerns, including the impact on companies' freedom to pursue business. For many components, viable alternative suppliers simply do not yet exist at the required scale or quality, meaning the obligation could not realistically be met. Mandating diversification before alternatives are available would raise costs and create compliance burdens without delivering the intended resilience. Resilience requirements should be risk- and outcome-based rather than prescribing two suppliers for every input. Companies should be able to demonstrate resilience through combinations of multi-sourcing, stockpiling, substitution, product redesign, recycling and refining, long-term offtake agreements, fallback capacity and partnerships with trusted countries. Moreover, any such instrument would need to be narrowly targeted at genuinely critical inputs, accompanied by parallel investment in alternative supply, and phased in on a realistic timeline that reflects actual market conditions rather than policy ambition alone.

3.6 THE PROPOSED INDUSTRIAL ACCELERATOR ACT

The proposed Industrial Accelerator Act (IAA) is the EU's most recent initiative to strengthen European industrial competitiveness in strategic sectors. BusinessEurope broadly supports its objectives, safeguarding EU manufacturing, accelerating investment and reducing risky overdependencies on other regions for clean technologies, and creating conditions for European industry to compete effectively.

Achieving these objectives, however, will also depend on preserving the resilience and efficiency of Europe's existing industrial ecosystem. In this regard, the implementation of the IAA should be designed in a way that strengthens Europe's industrial competitiveness without creating unintended disruptions to deeply integrated European value chains and by avoiding excessive administrative burden.

It is noteworthy that China has already made warnings to the EU in reaction to the IAA proposal that especially focus on the provisions related to the Union origin concept and the conditions for investment in Europe. This underscores

that the EU's industrial policy choices carry real diplomatic and economic consequences. BusinessEurope urges the Commission to proceed with the IAA while managing escalation risks through continued dialogue.

3.7 THE EU'S CYBERSECURITY ACT

The proposed revised Cybersecurity Act (CSA2), published in January 2026, is a key element of the EU's cybersecurity framework, aimed at strengthening resilience and capabilities, and includes a Framework for Trusted ICT Supply Chain. BusinessEurope considers that any restrictions and prohibitions on suppliers of "key ICT assets" that have been designated as high-risk should remain exceptional, proportionate, and a measure of last resort. Priority should be given to less intrusive, technically and legally feasible mitigation measures that reflect sector-specific realities. In this context, the potential impact of a narrowly interpreted trusted ICT supply chain framework has international implications, including in relation to China, even if the CSA2 is country-agnostic. Overall, the CSA2 should seek to reinforce Europe's global competitiveness, align with international standards, and avoid undermining investment, trade, and cross-border operations.

3.8 CHALLENGES DUE TO RISING E-COMMERCE

The growing volume of low-value parcels imported through online platforms, particularly from China, risks undermining the effectiveness of EU trade, customs and product safety rules. The EU has recently introduced changes in the legislation via the elimination of the de minimis rule and the imposition of a 2-euro handling fee for small parcels. It is critical that these rules are implemented effectively throughout the EU, following clear operational guidance, realistic timelines, and minimal administrative friction. The EU should strengthen enforcement and customs controls to ensure that imported products comply with the same standards and obligations as those imposed on businesses operating within the EU, thereby helping to preserve a level playing field. This level-playing-field principle should also extend to the protection and enforcement of intellectual property

rights in the digital environment. Operators accessing the EU market should be subject to effective and equivalent obligations to prevent the distribution, facilitation and monetisation of infringing content, in accordance with applicable EU legislation.

3.9 CROSS-CUTTING PRINCIPLES FOR USE OF THE TOOLBOX

Across all instruments, BusinessEurope's position is:

1. **Use existing tools better and more efficiently before creating new ones.** The EU's current arsenal is substantial. Effective use requires adequate institutional capacity, faster procedures and better interagency coordination.
2. **Ensure WTO compliance.** All measures must be grounded in and consistent with WTO disciplines. Departures from multilateral rules undermine the rules-based trading system that European industry depends on.
3. **Calibrate proportionately.** Security tools for security risks; trade policy tools for competitive distortions. Over-deployment of security-framed measures risks being both ineffective and economically costly and cannot be used as a substitute for addressing competitiveness problems or market distortions.
4. **Maintain dialogue.** Defensive instruments are more credible and more effective when embedded in an active diplomatic framework with China. They are tools of leverage, not substitutes for engagement.
5. **Protect competitiveness.** No instrument should be deployed in a way that imposes costs on European downstream industries or consumers disproportionate to the benefits achieved. The cost of retaliation should also be factored in.
6. **Maintain close consultation with likeminded neighbouring countries** and close economic partners to maintain the integrity of the Internal Market and avoid unintended impacts on integrated supply chains.

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