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COMMUNICATION FROM THE COMMISSION

"Responding to the crisis in the European automotive industry"

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Introduction

The European automotive industry is one of Europe's flagship industries. It is a key driver of growth, exports, innovation and jobs. Its impact filters down across a wide variety of other sectors. And it has a particularly important cross border reach, with suppliers, manufacturers and sales and servicing downstream creating a web of mutual interest that touches every one of the EU's Member States.

The Commission believes that the EU needs a dynamic and competitive automotive sector. The economic crisis has put the automotive sector under particular pressure. Properly targeted support is needed to help the industry and its workforce through the downturn and to address structural problems by making the sector more competitive and more in tune with the needs of the future.

The European automotive industry has a strong future. Its export performance shows it can make the right products for a global market that will continue to grow. Its workforce has the skills to maintain its technological edge. And it is already working to produce the new generation of motor vehicles needed for the low carbon age.

This communication sets out how the EU can bring policy levers into play to support the automotive industry. It represents a European framework for action: a framework which sets out how both the EU level and Member States can take the decisive measures needed. Different Member States will use different mixes of action to address the needs of manufacturers, suppliers, retailers and their workers. All can be most effective working with the confidence provided by a common EU framework.

The internal market has been a major cause of the vitality of the European automotive industry, the competitiveness of its manufacturing and the scale of its sales. It will be critical to the recovery phase. It is therefore essential that state aids and other measures are well directed, working to build the future strength of the industry rather than introducing short-term distortions that will damage long-term competitiveness. That means cooperation and working upstream of national decisions to ensure they fit in well with the EU's overall ambitions.

At the same time, the EU can offer a variety of other steps to build a platform to stabilise the industry and help it to recover. This includes measures to invest in strategic technologies. It includes steps to help workers whose jobs are at risk to retrain and find new work, as well as safeguarding and developing the key skills of some of the most valued technicians in Europe. It includes a determined and concerted effort to combat any move towards protectionism in global markets. And of course, the industry will benefit directly from the core measures of the European Economic Recovery Plan to get credit moving again, as well as from specific measures like the European green cars initiative.

This European framework for the automotive sector shows how the intelligent application of EU and national policies can not only offer a cushion for the automotive industry in a time of

intense pressure, but a springboard for the future. The common goal is a dynamic, competitive and sustainable automotive sector in the EU for the coming decades.

1. The particular situation of the automotive sector

The automotive industry is **central to Europe's prosperity**. The EU is the world's largest producer of motor vehicles, producing over 18 million vehicles a year and almost a third of the world's passenger cars. It is a huge employer of skilled workforce, directly employing over 2 million people but responsible for some 12 million jobs. It is a key driver of knowledge and innovation, investing more than € 20 billion a year in R&D, making it Europe's largest private investor in R&D. With an annual turnover of € 780 billion and a value added of over € 140 billion, it makes a major contribution to the EU's GDP. It exports far more than it imports, with a surplus of over € 60 billion on overall exports of € 125 billion. In addition, the sector plays a central part in tackling many of the key economic, social and environmental challenges faced by Europe today, such as sustainable mobility and safety.

Automotive manufacturing is closely linked with **many other sectors**. Electronics, mechanical and electrical engineering, information technology, steel, chemicals, plastics, metals and rubber are all key suppliers. 20% of the EU's steel and 36% of its aluminium production goes into automotive production. It also has a very significant **cross-border** dimension in Europe and globally. Within the EU, the 250 production lines are split between 16 Member States, and every single Member State is involved in the supply chain for manufacturing and the downstream chain for sales. Typically, there are around 50 upstream component suppliers for a car, spread all over Europe and around 75% of the value-added of a new car is generated by these suppliers. As a consequence, the value of intra-Community trade in automotive products is substantial with around € 360 billion in 2008. Any downturn in the automotive sector therefore strongly affects other sectors and all EU Member States.

The current economic crisis is being marked by a sudden downturn for manufacturing. EU industrial production slumped by 8.4% in the last quarter of 2008, and there is every sign that this drop is accelerating as orders already on the books start to dry up. As some 60-80% of new cars in Europe are purchased with the aid of credit, the financial crisis at the origin of the downturn has hit the automotive industry particularly hard: the 20% contraction seen is the largest recorded. Similar trends are to be observed for sectors with close links to the automotive industry like steel where consumption is expected to decline by 30% in the first quarter of this year and 16% in the second quarter. The difficult situation of the European automotive industry has three major reasons:

First, there has been a sharp and uniform **drop in demand for passenger and commercial vehicles** both in the EU and worldwide. Tight credit conditions, declining share and asset prices, and the uncertainty created by the global economic environment are translating into very low consumer confidence and declining purchasing power. In the last quarter of 2008 new car registrations in Europe declined by an average of 20%. New passenger car sales fell by 1.2 million in 2008. In January 2009, the European passenger car market was 27% lower than a year before. The producers of commercial vehicles were even harder hit with orders for heavy duty vehicles falling from 38.000 in January 2008 to 600 in November 2008, which is two thirds of the daily production capacity of an average heavy duty vehicle producer. The situation varies between individual Member States but the downturn has now reached every market in the EU, and all major producers on the European market are severely affected.

Second, parts of the automotive industry are reporting **problems with access to credit financing** and fears of **liquidity shortages**. Some companies are unable to get loans on reasonable terms, with credit ratings downgraded in light of market outlook. It is estimated that the five largest captive finance businesses of automotive producers in Europe will need to raise around € 10 billion in medium- to long-term debt during 2009. In addition, suppliers are expressing an additional concern about money not moving down the supply chain. The situation is particularly difficult for smaller lower-tier suppliers which are less capitalised and diversified than their larger counterparts.

Third, the industry suffers from longer-term **structural problems** pre-dating the crisis. Automotive companies already faced a very competitive business environment. High fixed costs, structural overcapacity and intensive price competition has meant that many automotive companies were already focusing on reducing costs and improving internal efficiency. There has also been significant consolidation in the supply sector. Recent falls in demand and production have made the situation worse and average overcapacity in Europe is estimated to be at least 20%. Globally, vehicle production capacity is currently at ca. 94 million per year at a time when demand for 2009 is estimated at ca. 55 million.

The situation is aggravated by the rising risk of **protectionism**, threatening reduced access to third country markets for European producers who have thrived on the export market. The first cases have come in the form of new import licensing requirements, e.g. in Argentina and Brazil, or rising import duties, e.g. in Russia.

Current forecasts for 2009 are not encouraging. Available forecasts suggest a further decline in the passenger car market of between 12% and 18% (ca. 1.5 – 2.5. million vehicles). Industry expects commercial vehicle demand to fall by around 30%. This is likely to put further pressure on the whole automotive value chain particularly in terms of production volumes, capacity utilisation, employment and research investment. A reduction in demand is likely to lead to continued production decreases, following estimates of reductions by 25% in the first two quarters of 2009 alone.

Falling production levels and subsequent cost-cutting by automotive firms has already led to reductions in **employment**. Up to now it has mainly affected temporary workers. But the industry has indicated that worsening market conditions could put 15 to 20% of its labour force at risk while as many as 1 out of 3 suppliers are vulnerable because of the crisis. Negative employment effects could be magnified as a result of regional impacts because of the clustered and geographically concentrated nature of the automotive industry. Additional pressure comes from potential spill-over effect from restructuring of GM and Chrysler. For example GM has announced that out of 47.000 jobs to be cut over the next years, 26.000 will fall outside the US.

However, the **long term global outlook** for the automotive industry is promising: world-wide demand for vehicles is projected to double or even triple in the next 20 years as a result of motorisation in emerging markets. The imperative of a "greener" car fleet will bring new opportunities for innovative technology. And since the current decline in demand in mature markets such as Europe and U.S. is lengthening the period needed for overall fleet renewal there will be even further room for a market upturn. This makes it particularly important for the EU automotive industry to be able to weather the downturn and be ready to take advantage when demand returns.

2. POLICY RESPONSE

Building on the re-launched Lisbon partnership for growth and jobs in 2005, which identified the automotive sector as a European asset, the **European Economic Recovery Plan**¹ identified the automotive sector as requiring a strong policy response. A key priority for the future is to ensure that European industry is able to respond to the current crisis and emerge from it in a stronger position to compete globally once market conditions improve. This will be notably the case if the automotive industry will master the triple challenge of technological leadership with an environmental and safety performance that is world class.

The Recovery Plan emphasises the importance not only of addressing the causes of the current problems of the automotive sector, but doing so in a way which will secure and further reinforce the longer-term competitiveness of the industry. This means in particular responding to evolving consumer demand – in Europe as well as globally - by speeding up the development and production of "green" cars through high levels of investments in R&D and innovation. Such an approach will in turn make a major contribution to make industry fit for the low-carbon economy and thus to achieving Europe's ambitions in reducing CO₂ emissions and improving energy security.

Primary responsibility for dealing with the crisis lies **with industry**, individual companies and their managements. Industry itself is called upon to address the structural problems of production efficiency and capacity utilisation in a way that improves its long-term competitiveness and sustainability.

In addition, as part of the overall industrial policy approach, the EU and its Member States can contribute to creating **framework conditions** in which industry can thrive. They can also promote fair competition in open global markets. Targeted and temporary **public sector support** at EU and Member State level can help to complement industry's efforts to withstand the crisis and cushion the negative employment effects of likely restructuring. This public support should preferably be covered by horizontal policy instruments applicable to industry as a whole and should be met through a combination of European and Member State level action. At an informal meeting with Ministers on 16 January, Member States shared these views and agreed to a number of key principles to guide their responses to the current situation, such as the need for open global markets, fair competition, respect of better regulation as well as cooperation and transparency.

It will be important to ensure that measures taken at Member State level be **coherent, efficient and co-ordinated**. As much of the importance of the European automotive industry is derived from its knock-on impact for the broader EU economy, it is particularly important to ensure the proper functioning of the internal market, and retain competitive neutrality and a level playing field, thus also ensuring solidarity between the Member States.

In the European Economic Recovery Plan, the Commission has set out the key elements of the public support relevant for the automotive sector. Some of these measures are general, while others target specifically the automotive industry. The main **objectives** of the proposed approach are: (1) to support demand in order to assist with remedying the effects of the credit squeeze; (2) to facilitate the adjustment by cushioning the costs associated with restructuring,

¹ Communication from the Commission to the European Council of 26.11.2008, "A European Economic Recovery Plan" - COM(2008) 800.

in particular for workers and upgrade their training (3) to encourage the modernisation of the plants with a view to ensure a sustainable competitiveness of this industry at world level and (4) to assist industry to implement the radical technological change required by the climate change challenge. While some progress has been achieved already, it is important to ensure that the objectives are fully met in an efficient and coherent way.