

Forum for the Automobile and Society

“The Competitiveness of the Automotive Industry and Climate Change”

Representation of the Free State of Bavaria to the EU
Rue Wiertz 77, 1000 Brussels

10 February 2009, 12.00-15.00h

Martin Callanan, Member of the European Parliament and moderator of the Forum, opened the meeting and addressed the welcome note to all guests and audience.

The floor was given to **Dr. Hans Schleicher**, Director General, Bavarian Transport Ministry, who welcomed the Forum for the Automobile and Society to the Bavarian Representation. He mentioned the severe impact of the crisis in the automotive industry and said that Europe showed interest in stabilizing the situation in the industry. He stressed the need for a concerted effort to develop joint solutions that would overcome the crisis. In finding the solutions, the speaker noted the need for reflection and evaluation and listed three important questions that required attention: “where do we stand”, “where do we want to go” and “how to get there”.

To the question of “where do we want to go”, the speaker said that the optimal situation would be to return to a dynamic, competitive industry which offered secure and attractive jobs. No formulas, however, could be used in finding solutions to “how to get there”. Measures that would encourage climate-friendly cars and viable regulations for the automotive industry were required, the speaker added.

He gave the example of Germany where the car tax reform envisaged the volume of CO2 emissions as one element of calculation. New cars with lower CO2 emissions would be tax exempted for up to two years. Great importance was attached to making environmental bonus and new car tax competitively neutral.

Dr. Schleicher saluted the European approaches for the future of the automotive industry: the results of CARS21 high level group of experts and the European Commission’s strategy for the sustainable development of the industry. As central feature of the strategy, he highlighted the need for cutting the CO2 emissions of new cars from 2012. The Bavarian State Government had supported such measure and wished for more balanced and fair regulations.

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The moderator invited **Mr. Philippe Jean**, Head of the Automotive Industry Unit, DG ENTR, to address the audience. The speaker pointed the need for competitiveness of the automotive industry. Speaking of the assumption that fleet would double worldwide, he noted the impact of such increase on the environment.

Mr. Jean raised two important questions: the length of the crisis and the state of the car industry at the end of the crisis. Short term issues seemed to prevail over the long term

ones in crisis situations, he added. Loosing momentum to focus on long term issues would represent a disadvantage for the car industry in his opinion.

The European Commission had looked at measures to overcome the crisis within the automotive industry and took into consideration both the short and long term aspects. The European Economic Recovery Plan, adopted by the Commission, had covered areas such as: research and development (especially for cleaner cars), European Investment Bank credit financing, demand side measures and public procurement.

The CO2 Regulation adopted at the end of 2008 included the long term target of 95 grams of CO2 per kilometer by 2020. For such targets, actions had to be taken already at present. The European Commission's position remained confident that the automotive industry represented a responsible partner, one that would be able to put forward actions that combat climate change, as well as bring up valuable contributions to ensure appropriate legislative measures.

In order to shorten the length of the crisis, medium term measures had to be adopted. Social and environmental objectives had to be considered, as well as the opening of the market, the speaker concluded.

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Martin Callanan introduced the keynote speaker, **Mr. Stavros Dimas**, European Commissioner for Environment. The guest began his intervention by referring to the existing challenges: the urgent need to address the current economic crisis and the need for immediate action to avoid the worst impacts of climate change.

He continued and noted the grapple faced by governments and industry to stabilise the banking system and avert the worst impacts of the economic crisis on households, businesses and jobs. The automobile industry, one of the hardest hit sectors, had encountered significant decrease of new cars sales in Europe - 8% drop in 2008. The situation had impacted many manufacturers, their employees and dependent businesses, such as automotive suppliers.

Although such crisis required prudent actions to preserve the competitiveness of the industry, measures to tackle climate change could not be put aside, the Commissioner added. The EU's agreed objective, based on the recommendations of the UN Intergovernmental Panel on Climate Change envisaged to limit the average global temperature increase to less than 2°C compared to pre-industrial levels.

He made reference to the indications of the 4th IPCC Assessment report that implied emissions reductions for developed countries in the range of 25-40% by 2020 and 80-95% by 2050. Substantial efforts would be absolutely required to reduce emissions from all sectors, including the transport sector.

In striking contrast to reductions made by all other sectors, Mr. Dimas pointed to the growth in emissions in the transport sector; between 1990 and 2005 from 17% to 25% of the EU total, three quarters represented the transport sector.

As mentioned already by the European Environment Agency, had transport sector emissions followed the same decreasing trend as other sectors over that period, total EU greenhouse gas emissions would have fallen by 14% instead of just 7.9%. The Commissioner expressed his regret for such a missed opportunity and placed emphasis on the need to reverse the trend.

Mr. Dimas spoke about the Member States' commitment to reducing emissions by 20% from 1990 levels by 2020. Such commitment could not be delivered without reductions in emissions from road transport. An important agreement reached last year included important measures to help reduce directly or indirectly road transport emissions, he added.

In addition, he referred to the follow-up proposal on efficiency standards for light commercial vehicles anticipated for later in 2009. Until 2020, the Regulation aimed to reduce the average emissions from cars registered in Europe to 130g/km and to 95g/km from 2020.

The Commissioner acknowledged the need to recognise the different social functions of vehicles and to preserve the diversity of the automobile manufacturers. According to the Regulation, a manufacturer's compliance with the standards would be assessed based on its fleet average rather than at the level of individual cars. In addition, provision had been made for manufacturers to pool together for compliance purposes and other special provision for small volume or niche manufacturers, he continued.

Mr. Dimas believed it was the right time to invest in innovation and to cultivate a workforce skilled in new technologies, which would make the European car industry more competitive.

In his opinion, the European Green Car Initiative announced by President Barroso in November 2008 would strengthen the industry's objectives. Within the initiative, an amount of €5 billion would be made available for research.

In conclusion, the Commissioner stressed that Europe could not afford a choice between addressing the economic crisis and tackling climate change; immediate action on both was required. Consequently, the long-term competitiveness of the industry could be assured by focusing on innovation and the development of high-tech solutions to increase fuel efficiency and reduce emissions.

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The Moderator thanked the Commissioner for his presentation and gave the floor to **Jorgo Chatzimarkakis**, MEP and former rapporteur on CARS21 report. The speaker referred to the car industry as to being a very competitive one and mentioned that more than 80% of the global market on premium cars was European. He could not understand

why everyone, including politicians and media, accepted without protesting when the car industry competitiveness was threatened by legislation. Due to the European legislation, he added, the European cars had become more competitive, environmental friendly, safe and secure, aspects which generated additional costs as well.

Mr. Chatzimarkakis agreed with the idea of having the car industry the greenest industry in Europe under the conditions that feasibility and affordability are met, as well as the appropriate market existed. In his view, the car industry was faced with a very aggressive environment when it came to legislation.

He mentioned the consumer-citizen paradox, which on the citizen's side had called for green cars, green legislation and changes into the green future, while the reality shows the consumers choice - SUV cars on streets.

In terms of actions to be taken to overcome the crisis, the speaker believed the EU was not equipped with appropriate tools to overcome it. Looking at the funds available from EIB, he noted the lack of staff to prepare applications. The need for stabilization within the banking system, as well as a clear European Commission strategy on scraping schemes was also mentioned.

Mr. Chatzimarkakis said in conclusion that more funds were needed and noticed the absence of an agreement between the EIB and the ECB.

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Martin Callanan introduced the next speaker, **Milan Hovorka**, Deputy Minister of Industry and Trade, Czech Republic. The speaker believed the automotive industry required time to adapt to existing changes and demanding conditions both on European market and world-wide.

Favorable investment conditions, appropriate regulatory framework, systemic impact assessment of proposed legislation were issues required by the industry, he added.

Mr. Hovorka addressed the European Commission and asked to consider the possibility of proposing a framework that would allow Member States and Commission to give in a more coordinated manner impetus to the policy objective of renewed European car fleet.

Speaking of additional measures to be taken in support of the automotive industry, he expressed believe that such measures had always to be in line with strict state aid and competition rules.

In conclusion, the speaker reassured the audience that the Czech Presidency had attached high importance to the competitiveness of the automotive industry and wished for the adoption of the conclusions within the March Competitiveness Council Meeting.

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Ivan Hodac, Secretary General of ACEA reminded the audience that the European car industry had already become a world leader in producing safe and environmental friendly cars. Looking at figures for vehicle production, 2008 seemed a bad year with 63 million cars produced, compared to 69 million in 2007 and a forecast of only 55 million for 2009. On the sales, a decrease of minus 26% was recorded in 2009 compared to 2008; of which the sales of commercial vehicles went down with 30-50%.

Solutions that would allow access to credits and low cost government guarantees for producers and suppliers were urgently needed, the speaker said. Solutions to the non functioning financial markets had to be found, he added.

With regards to the European Investment Bank, Mr. Hodac mentioned the 40 billion euro soft loans for projects that would develop and produce clean vehicles. Rapid decisions were required so that project could be approved, developed and implemented. Companies seemed to face severe problems in accessing the funds because of their incapacity to find guarantees.

The fleet renewal scheme represented a considerable way to stimulate demand, the speaker believed. The Czech Presidency had recently called upon a European fleet renewal scheme. Mr. Hodac hoped the European Commission would come up with guidelines and recommendations for Member States to introduce such schemes.

The European Commission had to apply the CARS21 conclusions when dealing with the CO2 legislation for light commercial vehicles, he added.

ACEA strongly opposed the Free Trade Agreement with Korea and asked explanations on why the European Commission continued discussions on a clearly imbalanced agreement. The European car industry, in ACEA's view, would suffer if such agreement got concluded. In terms of figures, Korea exported into Europe 700.000 cars, while only 20.000 were exported from Europe into Korea.

The speaker pointed towards the European Institutions as being unprepared to deal with the crisis, unequipped with appropriate instruments and money. He expressed his strong hopes that the European Commission would speed up its way and proposal to overcome the crisis and looked forward to a close cooperation between ACEA and the Czech Presidency.

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Martin Callanan thanked all expert panelists for their intervention and invited Malcolm Harbour, MEP and moderator of the second panel, to introduce and give the floor to the seven guests.

Wil Botman, Director General, FIA European Bureau, spoke from the consumer's perspective and mentioned the price evolution amongst the main reasons the car industry got impacted so hard by the crisis. In absence of official evidence on historical car price, the speaker made reference to a personal calculation based on car price and

inflation level in the past 37 years, which showed an unjustified 40% car price increase that existed nowadays on the market.

The speaker questioned the policy of funding the car industry with unsustainable production and price level. Amongst the actions to be taken, he mentioned the stimulation of consumer demand and noted initiatives taken already in certain Member States, such as scrapping premium or tax incentives on new cars in Germany.

Charles de Marcilly, European Public Affairs Director CECRA, acknowledged the strong link between investment and dealer's competitiveness. Investment had to take into consideration both the demand and purchasing power, he added.

The speaker drew attention on possible negative side effects on stock of used cars. With regards to credits, he explained the difficulties faced by dealers to obtain credit lines and hoped for an improved relationship between banks and the automotive sector. He concluded with his belief that fair legislative frameworks would be adopted for the future.

Lars Holmqvist, CEO, CLEPA, expressed strong concern with regards to crisis and company bankruptcy; of 5000 companies, some 10% were in danger if not surviving in short term due to liquidity problems. He focused on the speed pace of the crisis and quoted the CEO from Volvo, who referred to the second quarter of 2008 as the best in Volvo's history and the forth quarter of the same year as being the worse ever for his company.

The speaker called upon clarity and certainty for the block exemption regulation and hoped the consumer would have a real choice on the market.

Wolf Jäcklein, Policy Advisor EMF, spoke about the short term effects of the crisis, especially unemployment, the fact that most of the temporarily workers had been laid off in many European countries. In his opinion, the usage of the Globalization Fund should rather be used for preventing lay-offs then just dealing with laid off people. The sector had to be prepared for the upcoming technological changes and human resources had to already acquire new skills; the time of the crisis could be used to train new skills.

Another concern represented the recover packages, he added. Reality had proven the weakness of the European recover package. Member States had put forward their own packages, which included strong conditions for the sector with impact on the whole market. EMF called upon a coherent approach at European level and the Commission had to take action to prevent a possible crisis generated by the different recover packages.

Fazilet Cinaralp, Secretary General ETRMA, focused her intervention on the level playing field. The tire industry fought its technological battle in Europe. European customers seemed to be the most demanding in terms of performance, lifetime, service and innovation, which meant that successful companies within the European market had technological tools competitive anywhere else in the world.

The European market was the most segmented of any global markets and within a couple of years it could become the most regulated one, she added. Provided a level playing field existed, the speaker believed the sector's competitiveness could not be threatened by legislation.

Speaking on behalf of her organization, Mrs. Cinaralp expressed serious concerns about the level of the European tire imports and the legislative frameworks in such respect. On the other hand, the tire industry was against the signing of any agreement with Korea before the legislative framework had been finalized.

Isabelle Muller, Secretary General of EUROPIA stressed that the oil industry shared the EU's concern around green house gasses emissions and acknowledged the need to take action to reduce them. The three pillars of climate change, competitiveness and security of supplies had to be sufficiently balanced and given equal importance.

The speaker welcomed the successful conclusions of the negotiation of a climate and energy package in December 2008, which would have a significant impact on both the vehicle industry and fuel providers.

Mrs. Muller welcomed the agreement on Fuel Quality Directive, which had successfully moved towards an alignment with the provisions of the Renewable Directive. The reduction of the mandatory target of green house gas reduction for fuel from 10% to 6% acknowledged the fact that the fossil fuel could not contribute to net reduction and the limited extent to which biofuels could contribute.

It remained unclear whether renewable options, such as electric or hydrogen vehicles, would gain significant share in the fuel mix by 2020 or not. EUROPIA believed that biofuels had to deliver most of the target but challenges had already occurred.

EUROPIA stressed the importance of continued close cooperation with vehicle manufacturers and stakeholders to address challenges.

The growing demand for diesel fuel in the road transport represented a consequence of fuel taxation policy, continuous long-term growth of people and freight movements as well as the regulation on CO2 emissions from light duty vehicles. The speaker acknowledged that Europe was not self sufficient in diesel, 10% of consumption came from imports and the level was increasing.

Higher share of diesel imports were expected, mainly from Russia, with consequence on security of supply, she added. In conclusion, the increase of diesel demand would put pressure on diesel costs, which would influence the gasoline price.

Jason Anderson, Head of Climate Change Programme, IEEP, said the health of the industry and low carbon goals could go hand in hand. Investment and movement towards low carbon emission vehicles were required. The climate had no time to wait for appropriate actions, the urgency in the climate debate had increased, the speaker added.

In the context of decrease sales and demand for cars, two brands were the least challenged by the crisis – Smart and Mini – both having two elements in common: affordability and efficiency.

In moving forward, Mr. Anderson believed bankers and investors had to be convinced of the worth in investing in the car companies. Public procurement programs represented one example that could help achieving such challenge, he said.

The speaker concluded by calling for confidence and clarity on the direction ahead, especially when facilitating arguments towards potential investors while meeting climate change goals and creating a life-cycle of affordability for consumers.

Malcolm Harbour invited **Philippe Jean** to respond to some issues raised during the presentations. Mr. Jean reiterated the Commission's support for a system that would encourage the demand, such as the scraping scheme. The Commission strongly believed in the need for a better system for cooperation between Member States.

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Malcolm Harbour thanked all guests for their excellent contributions. In his concluding remarks he said that many more topics remained for discussion and he hoped for support from the Czech Presidency to continue the debate.

Mr. Harbour announced the Forum's break until after the European elections. Debates would be resumed in autumn, dates and topics remained to be made available through the Secretariat of the Forum and the website: www.autoandsociety.com

Martin Callanan closed the meeting, thanked again all guests and audience for their participation and invited everyone to put forward their feedback about the meeting and proposals for future meetings through the forms made available in the audience.

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