Working group on Automotive Industry
Minutes of the meeting of Tuesday 27 January 2009 on
"State of play: The economic situation of the car industry in the EU"

Chaired by Jorgo Chatzimarkakis MEP

Introduction by

- Jorgo CHATZIMARKAKIS MEP, Chairman of the Kangaroo Group Working Group Automotive Industry

Speakers:

- Georgette LALIS, Director for consumer goods, DG Enterprise and Industry, European Commission
- Malcolm HARBOUR MEP, EPP-ED Group Coordinator for internal market and consumer protection affairs in the European Parliament
- Ivan HODAC, Secretary General of ACEA, the European Automobile Manufacturers Association

1. Introduction by

- *Jorgo Chatzimarkakis MEP, Chairman of the Kangaroo Group Automotive*

Mr. Chatzimarkakis first wondered whether the opening of new car museums recently was symptomatic of the situation or a sign of times to come. What is the state of play for the automotive industry, he asked. After the adoption of a major piece of legislation on CO2 last December the industry has no time to relax, it had a hard time in 2008 and will face a harder one in 2009. Forecast predict dramatic sales drops (-20%) for passenger cars and more dramatic ones for commercial vehicles (-30%). This already affects and will affect further the value chain. It is a painful time for suppliers. The question is therefore: what can we do for the car industry?

2. Presentation by Georgette Lalis

- *Director for consumer goods, DG Enterprise and Industry, European Commission*

Ms. Lalis started by outlining the main priorities of the Recovery Plan for the car industry: namely increased access to finance, speeding up research on green technologies, steering demand, and follow-up of CARS 21.

The industry is facing a liquidity problem. The European Investment Bank (EIB) is setting up dedicated funds for research and infrastructure. €4 billion should be available per year for four years. Ministers during a meeting on 16 January 2009 called for €9 billion to be available. The EIB is setting caps on funding per project (€400 million) to avoid a "1st come 1st serve" situation.

The Commission is also proposing public private partnerships for research purposes (into green technologies). About €5 billion should be available jointly financed by the Commission, the EIB and the industry. Ms. Lalis stressed that the crisis should not impede manufacturers' efforts to meet their C02 targets (short and long-term).

Concerning steering demand, most actions are taking place at national level (green taxation, financial incentives to renew fleet, scrapping schemes, etc.). But the EU is involved as all measures must be notified to the Commission, who has thus the possibility to coordinate the different actions. Another topic is the impact of national social legislation on the decisions that industry will have to take. The Member States have different legislation concerning unemployment, short-term lay-offs, etc. which might affect the ability of manufacturers to retain skilled labour where needed. Many national action plans have state aid components. During the exchange of views by Ministers on 16 January 2008, the Commission was asked to coordinate the interventions to keep a level playing field in order to avoid competition distortion and a subsidy race.

The Commission will also keep an eye on international relations (e.g. EU-US, FTA negotiations, etc.) as measures non-EU countries take will affect the EU industry. There is a need for international coordination too.

Ms. Lalis then went on to stress the importance of the CARS 21 mid-term review which provided a roadmap to take the car industry to 2020 and beyond (decarbonised cars by 2050). The review and follow-up focus on infrastructure, training, how to implement the integrated approach better and how to take better account of the impact of eco-driving, infrastructure, etc. (through developing measurement methodology for example).

To conclude Ms. Lalis said that the roadmap and financial facilities were in place. The Commission hopes that this will be enough to help the car industry and that the money made available will be well used.

3. Presentation by Malcolm Harbour MEP

- *EPP-ED Group Coordinator for internal market and consumer protection affairs in the European Parliament*

Mr. Harbour chose to reflect on "the politics of where we are". He paid tribute to Ms. Lalis and Commissioner Verheugen for the CARS 21 initiative which brought together all stakeholders and enabled a more strategic view of the policies needed in the sector.

He pointed out though that the Member States have most of the tools to bring the car industry further. The car industry has changed a lot (restructuring, investments in new models, etc.). The European car industry does not need - and is not asking for - a bailout contrary to what the press might say. The problem is the dramatic sales drop in the past months and foreseen for 2009. Two sectors are affected most than others: housing/construction and automobile. It becomes very difficult to predict upcoming sales and as a result it disrupts the whole production chain (workers, suppliers, etc.). Moreover manufacturers have important fixed costs (such as R&D investments) which they need to cover and maintain. The effects are magnified down the value chain. Small suppliers are suffering and if they disappear there will be a shortage of labour later on.

Manufacturers facing liquidity problems would normally go to banks to borrow until situation improves but today they will not get the necessary funds from banks. Governments must step in to bridge the gap. Money must be available for research too as the EU cannot afford to leave research projects stuck in the pipeline.

Mr. Harbour stressed the importance of steering demand as currently the credit crunch prevents willing customers to invest in new vehicles. He sees a role for public authorities, big consumers of vehicles, which could be encourage to invest in greener vehicles (cars, vans, trucks) for example.

Mr. Harbour would like to see more ministers making these points and acting on them. Special actions are needed because of the special circumstances the industry is facing.

4. Presentation by Ivan Hodac

- *Secretary General of ACEA, the European Automobile Manufacturers Association*

Mr. Hodac first stressed how unprecedented the current crisis is. The drop in sales in 2008 might have only been 5% but the figure is not representative of the situation as the sales during the six first months of 2008 were excellent. The industry expects a drop in sales of at least 15% in 2009. The situation is worse for commercial vehicle manufacturers facing empty order books. The industry is using the flexibilities it has to absorb the shock such as short-term unemployment but these flexibilities will run their course and the next step will be to close down plants.

Mr. Hodac reminded the audience of the multiplier effect on unemployment, stating that one job lost in the car industry can lead to up 6 jobs lost at supplier level. He also reminded that after construction, the car industry is the most important sector for economic growth and its problems would have a devastating snowball effect, yet governments are not reacting.

The manufacturers are taking action, reducing stocks, adapting production levels, laying-off consultants and stopping outsourcing, helping small suppliers but it is not sufficient. The industry needs help.

It needs quick actions. Manufacturers won't have access to money rapidly enough with the Recovery Plan. Some governments are acting now, e.g. France, Germany, Sweden, Spain but most are not intervening at all. Are the UK and Italy finally waking up to the extent of the crisis, he asked. The industry is told that measures such as scrapping schemes are not possible at EU level. It would like to see the Czech Presidency working closely with the Commission to come up with solutions.

Mr. Hodac also pointed out the cumulative cost of legislation. Without asking for a moratorium on new legislation, he urged the Commission to take cumulative costs of existing and upcoming legislation into account.

So far the most tangible action has come from the EIB, i.e. from the Council. The industry can count on €16 billion (or €28 billion according to some calculations) to develop green cars but the industry estimates its needs at €40 billion. Mr. Hodac hopes that the next Finance Council meeting will make more funds available. The EIB should finance up to 75% of projects (not 50% as is currently the case) and the administrative procedures should be sped up. The EU Globalisation funds could be used as well for training projects but only if its rules and procedure are reviewed and simplified. The bottom line is that the EU is not equipped to deal with such a crisis.

Mr. Hodac went on to stress the importance of steering demand. Access to credit and consumer confidence must be restored. Scrapping schemes exist in some countries; guidelines could be drafted at EU level based on successes at national level. Taxation has a role to play too.

Mr. Hodac then referred to the negotiations with South-Korea for a free trade agreement (FTA). He pointed out that South Korea exports about 700 000 cars to the EU while the EU only export about 20 000 cars to that country. The FTA as currently negotiated will only force the EU to open its market further. The same can be said of the Doha Round. The EU opens its market without getting anything in return.

To conclude Mr. Hodac repeated the key demands of the industry: swift action, harmonised action and concrete measures.

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Opening the discussion, **Jorgo Chatzimarkakis MEP** pointed out that the EU might be naïve in its negotiations with South Korea. He also suggested to look into the possibility of extending scrapping schemes based on successful experiences at national level. Finally underlining that there was for example no link between the EIB and the ECB, he agreed with Hodac that the EU is not equipped. Taking the floor, **Den Dover MEP** (EPP-ED, UK) mentioned a Volkswagen dealer in Liverpool which hasn't sold a car in the last 3 months to illustrate the extent of the crisis. He suggested the European Parliament writes a letter to Commissioner Ashton, confident that she would take the Parliament's concerns about the FAT negotiations into account. **Roger Helmer MEP** (NI, UK) stressed that the main issue in South Korea are the non-tariff barriers (NTBs). A FTA will not be sufficient to liberalise trade if NTBs are not tackled. While he generally welcomes an FTA with South-Korea, he agreed that the time and circumstances were not right. **Christof-Sebastian Klitz** (VW) urged the EP to call on the Member States to act. While he welcomed the green car initiative he stressed that if it is carried through usual frameworks (FP7, etc.) it won't work as the procedures are too bureaucratic and lengthy. Rules must be simplified. **Clemens Doepgen** (Ford of Europe) repeated that the industry needs help now. Ford, he said, has 500 suppliers. 50 are already on a distress list. When they go bankrupt the whole supply chain will be broken. Yet small suppliers cannot go directly to the EIB for funding but must go through other banks. It takes too long! Member States took actions to help banks but the credit branch of the automotive sector is not covered by the measures. Moreover the banks and insurance companies which received state funds haven't started again to lend. The EU, he concluded, should also push for scrapping schemes. Germany set one up but the UK refuses for example. **Jorgo Chatzimarkakis MEP** called on UK MEPs to pressure their government. The UK government is championing the fight climate change, he pointed out, it should support a scheme that can bring down CO2 emissions. **Georgette Lalis** mentioned the European Social Fund as a possible source of funding to help restructuring, training or against unemployment. Replying to remarks that the EU was not responding adequately to the crisis, she reminded the audience that the times were over when the EU would advocate an interventionist industrial policy, as was the case with the Coal and Steel Community. There is no political will for interventionist actions, especially if after the car sector there was a call to extend them to others. She also insisted that Commissioner Ashton adopted a very collegial approach and worked closely with Commissioner Verheugen. Finally she stressed that the car industry had a problem of overcapacity before the crisis and should use the present context to solve structural issues to emerge from the crisis more competitive. Rescue aid, if any, would normally be accompanied by closing down plants she said. **Hanns Glatz** (Daimler) expressed some doubts about scrapping schemes. They do stimulate demands but usually for the vehicles of non-EU manufacturers. Such schemes might therefore not help the EU industry. He also questioned the criteria. If the schemes are based on euro norms, the effect might be less pollution but more CO_2 for example. **Jean-Claude Lahaut** (CEFIC) stressed that the car industry was the main downstream consumer of the chemical sector. The industry must be helped soon because the repercussions would be felt up the supply chain as well down. **Jorgo Chatzimarkakis MEP** called on the EU to devise a strategy and answer the question "where do we want to go" leaving aside ideology. The US or China do not bother with ideology he said, they act. The EU needs to decide if it wants to keep its competitive industries on its soil. Commission President Barroso must come up with a strategy. **Ivan Hodac** welcomed the idea of a letter to Commissioner Ashton arguing in favour of a balanced FTA. He called for a serious and in-depth debate in the Parliament on the situation. He also called for measures to make financial markets work again. If the tools do not exist, they must be created. **Malcolm Harbour MEP** concluded the breakfast debate agreeing that large scale public interventions were outdated. While he welcomed calls for more coordination, he pointed out it would be pointless to consider taxation. Member States will resist any attempts. They would also disregard a Parliamentary debate. Concrete measures however could include looking onto the credit branch of the sector or measures for commercial vehicles such as corporate tax incentives for the renewal of the fleet. He emitted doubts about scrapping schemes. They are erratic policy instruments which can distort competition. Instead he called for imaginative solutions, pointing out that experts were available to help. Social funds and globalisation funds should be put to good use to prepare for the post-crisis era (restructuring, training, etc.) and make sure that the industry is more competitive. If the industry could fare well, it would give optimism to the whole economy.

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Céline DOMECQ, January 2009