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PROGRESS REPORT – SHERPA MEETING OF 22 FEBRUARY 2017
GEAR 2030 – WORKING GROUP 3
Global competitiveness of the automotive industry

External competitiveness of the EU automotive industry is very important for the growth of the EU economy.

The global success of European automotive companies cannot be taken for granted. Increasing use of scarce natural resources, growing competition at each stage of the value chain from non-EU manufacturers, profound societal changes, changing consumers' perception of mobility solutions, increased awareness about the public-health and climate impacts of car transport, emergence of novel technologies and important environmental and safety requirements represent challenges which will force companies along the entire value chain to change their business models. Automotive companies, for the large part, will need sufficient scale to support investment in order to remain competitive globally.

Given the magnitude of shocks and developments that are external to a traditional environment in which the EU automotive industry performed satisfactory over decades, the internal competitiveness, which continues to be critical for the EU automotive industry, can no longer be viewed as an ultimate objective shaping the course of action on global markets. It is rather the other way around, with global competitiveness determining the conditions of internal competitiveness. WG1 rightly acknowledges that the way forward to reinforce the EU industry and its value chain is the ability to sell competitive technologies beyond the EU market. This is where the value creation for the industry is expected to materialize, and EU policies should be fully supportive of this strategic objective.

Global technical harmonisation and trade policy have historically contributed to strengthening the competitiveness of an export-intensive EU automotive industry that has prospered largely thanks to innovation triggered by advanced EU emission legislation. However, these policy instruments alone may no longer be sufficient for the EU industry to continue benefiting from unrestrained market access globally. Global technical harmonisation is becoming difficult to sell to third countries and trade policy may be soon shooting blank bullets, especially in the light of recent vehicle emissions' scandals.

There is a need to thoroughly reconsider the strategy that will guarantee undisputed access to global markets for EU automotive products.

Project Team 1 General discussion on global competitiveness

The group members continued to exchange views on how the broader policy agenda and developments outside the European Union shape the competitiveness of the European

automotive sector in the run up to 2030. The group agreed on the need to understand key challenges and risks the EU automotive sector is facing globally, and to provide answers on how to adapt the EU policy, its automotive industry and gain competitive advantage in the international market for new and cutting edge technologies.

Stakeholders made several presentations focusing on the different possible competitiveness factors of the automotive industry, inter alia focusing on the situation on the domestic market, the decreasing profitability of the sector in the EU, alleged leakage of investment and consequent low job creation in the EU and limited access to third markets to compensate a saturated European market. Different segments of the industry have identified different root causes for the current market access problems globally; however what was common to all was a request for better coordination of regulatory requirements, longer lead times for the industry and better market surveillance. A sound regulatory framework in the EU that is based on expectations that are derived from global trends and driven by global demand, is an essential enabler for the industry to grow both globally and internally. Only an ambitious while realistic EU regulatory framework can shape the regulatory framework outside the EU. R&D funding and promotion of global and systematic use of UNECE (and where applicable EU) regulations have been identified as key to securing foreign market access.

The group also discussed the trend towards alternative business models (often associated with new and alternative technologies) that could have positive effects for the investors, lead to competitiveness gains and improve EU's trade balance. This is particularly relevant as the EU industry has become vulnerable vis-a-vis the competitors from key global markets. This weakness has been amplified following the diesel scandal.

The group acknowledged the need for the EU automotive industry to be the first mover, to invest in new technologies and to watch closely the markets globally. The EU and the Member States should provide all the necessary support, including the financial one.

The discussions both at the level of the Project team and at the level of the Working Group so far identified several factors influencing the competitiveness of the European automotive industry, which remain to be further discussed and elaborated:

- i) External competitiveness ensures the competitiveness within the EU – internal competitiveness. If the European companies are successful and competitive outside the EU they will most likely be competitive within the EU. Sound competitive position of the EU companies globally implies that EU automotive products can be sold anywhere, including in the EU.
- ii) Global competitiveness depends largely on the framework conditions and regulatory environment in which the business operates globally. Therefore the framework set by policy regulators that is inclusive of global prospects and challenges is essential for the competitiveness of the European automotive industry globally. As such it may reinforce production base in the EU, stimulate investment into new future-proof technologies and subsequently lead to job creation in the EU, while at the same time reduce the burden of loss-making operations that are structurally unfit for global challenges.

- iii) Efficient trade agreements tackling tariffs and non-tariff barriers and providing an effective Automotive Annex between EU and their partners are essential. The stakeholders rightly acknowledged the balanced approach of the Commission to progress either on multilateral and/or bilateral (when needed) basis with key trading partners.
- iv) Global harmonisation of technical regulations and standards is a vital part of the external agenda of the EU and in particular UNECE shall remain the key critical platform, where the EU should continue to influence and shape regulatory conditions that will facilitate the European industry exports to the third markets. This is valid both for Geneva 1958 and 1998 Agreements.
- v) Balancing the costs within the EU and third markets is another key challenge. With a view to blur these geographical boundaries, Europe should keep its ambition to remain key producer into new and clean technologies globally and the regulatory environment should be supportive of that objective.
- vi) Global megatrends influencing the changes in the business models of the OEMs, shaping future production value chain and shaping the consumer demand should be taken seriously into consideration.

Based on earlier discussions within the project team and input received during the last Sherpa meeting, preliminary draft recommendations, representing a pool of different suggestions made by stakeholders, have been identified (see annex). It is to be noted that they need to be further considered and elaborated by the Working Group before they can be submitted for validation to Sherpa.

Next steps:

The group will prepare by May 2017 final draft recommendations on likely global trends (to be considered jointly with the identified scenarios and the recommendations of WG1) and the appropriate policy mix that would support the transition of the EU automotive industry.

The group will prepare by May 2017 more concrete draft recommendations on how the new regulatory framework, both from EU internal and global perspective, could enhance certainty, investment and sustainable growth. Equally the group will prepare recommendations, as applicable, on ways to enhance the means for regulatory harmonisation, bilaterally and multilaterally.

Question:

1. Do you agree with the proposed set of key factors shaping external, as well as internal competitiveness of the European automotive industry?

Project Team 2 – Roadmap on China

The group focused mainly on trying to better understand the key challenges facing EU industries in China and ways to tackle those challenges. In that context, several market studies' strategies assessing the recently issued Chinese plans have been studied by the group, looking at the key characteristics of the Chinese centralised industrial policy (e.g. sector diversification, regional competitiveness, parallel governance structures, new business and product strategies). The group identified the difficulties to access the Chinese market (notably Chinese burdensome certification procedures and unpredictable regulatory environment) and ways to tackle those challenges. The group mapped existing policy dialogues with China. In addition, the group debated China's support to special projects, e.g. autonomous vehicles and electromobility. The group discussed the fact that China aspires to become a world standard setter and the increasing role of China in UNECE WP29 work.

The discussions, both at the level of the Project team and at the level of the Working Group, focused on several areas of concern that could influence the competitiveness of the European automotive industry. Those remain to be further discussed and elaborated:

- i) China current economy and its potential: China achieved 6.9% growth amid global slowdown, the consumption's weight on GDP has increased, China targets to double GDP per capita by 2020 as compared with 2010 values. China is therefore still the most attractive foreign market despite slower growth than in the past.
- ii) Chinese economy will pursue high quality added value growth in the future, innovation is a major driver, the collaboration of domestic capacity with foreign technology will be crucial. There are however difficulties regarding overcapacities and deflationary trends.
- iii) Consumer preferences and patterns are changing fast leading to high market diversification
- iv) China is a main game changer as regards product strategies. New competitive drivers are product development and strategies to cope with stringent emissions regulations that will force OEMs to do heavier technology investment and thus curb return on investment
- v) The group underlined the importance of the Chinese centralised industrial policy (e.g. 13th five-year Plan; China Manufacturing 2025 Plan, One Belt One Road Initiative) and the need of an EU prompt response (e.g. Communication on the Strategy on China) including the need to prompt China to improve transparency/predictability of the Chinese laws and to tackle over-investment.
- vi) The group discussed some recommendations that could be envisaged, notably:
 - request China to give more lead-time to adapt to regulatory revisions; promote technology neutrality; be more responsive to consumer choices (e.g. in the area of electric vehicles); devote more attention to pollutant emissions; avoid inconsistencies between the State standards and city standards (e.g. on pollutants),

- Involving systematically China in UN WP29 (the uptake of UN Regulations in the safety area, in China, is sometimes done with incongruences that become trade barriers) and involving China in ISO work,
- Improve market surveillance and step up IPR protection enforcement,
- Adapt the investment framework in order to remove current investment restrictions and guarantee security of foreign investments,
- Reinforce market presence by the EU stakeholders in the Chinese market (those could eloquently communicate and liaise with the national administration responsible for internal regulatory activities and the part of the Chinese administration that is involved in international regulatory activities).

The outcome of the discussion in the Working Group stresses the urgency to complete the mapping exercise with contributions from the Member States and the industry, with a view to frame new possible recommendations for the EU dialogues with China. In this respect, no new written input has been received concerning the industry's, national and regional activities and dialogues with China. However France and the UK provided oral reports.

Based on earlier discussions within the project team and input received during the last Sherpa meeting, preliminary draft recommendations, representing a pool of different suggestions made by stakeholders, have been identified (see annex). It is to be noted that they need to be further considered and elaborated by the Working Group before they can be submitted for validation to Sherpa.

Next steps:

The group will prepare by May 2017 more concrete draft recommendations.

Questions:

1. Are there additional perspectives that should be taken into consideration and further assessed by the project team?
2. Do you agree to step up efforts to better monitor market and regulatory developments in China and monitor respect by China of WTO principles?
3. Do you agree that the political and technical government-to-government dialogues with China should be intensified and supported by a stakeholder's platform that gathers knowledge and suggests possible actions to avoid and tackle trade irritants?
4. Do you agree that the political and technical government-to-government dialogues are used to further improve collaboration on regulatory matters (i.e. harmonisation of technical regulations with UNECE, improve conformity assessment procedures and collaborate on market surveillance)
5. Do you agree that the recommendations for China could serve as practical example that underpins the overall strategy to facilitate access of EU companies to foreign markets?.