

CARS 2020 Report on the state of play of the outcome of the work of the High Level Group

This report presents key deliverables of the commitments of the CARS 2020 Action Plan and outlines key strategic orientations for the European automotive sector for the years to come.

Achievements

The European automotive sector has been seriously impacted by the adverse economic situation in Europe. Sales falling to unsustainable levels forced vehicle manufacturers (especially volume ones) to take difficult decisions in the area of employment and overall cost-cutting. This, in consequence, threatened the global long-term competitiveness of the sector and put at risk its position in Europe. In parallel, in order to diversify markets and mitigate losses incurred in Europe, most of the companies have strengthened their presence in the emerging economies, turning them into a main source of profit and growth.

The situation where the European automotive market with its industrial fabric was put at risk, required **balanced, targeted, intelligent and competition neutral actions to bring back the automotive industry to the path of growth**. Building on the commitments of the CARS 21 High Level Group, the CARS 2020 Action Plan composed of almost forty specific commitments in four main areas constituted the Commission's **strong response to counteract the negative trend** and invigorate the sector at both the European and international levels.

Since the adoption of the CARS 2020 Action Plan, the Commission together with the stakeholders has made great efforts to address persisting problems and to **respond to global and structural challenges the industry is being faced with today**. Actions, which have been implemented delivered results and **built strong foundations for recovery, job creation and industrial renaissance in Europe now and beyond 2020**. Following major progress, which has been achieved in the implementation of the commitments in all four pillars of the Action Plan, 2013 was **a turning point in the process of re-establishing the automotive sector's prominent position** in Europe and in third markets.

In the year following the launch of the Action Plan, **the Commission has shown its determination to strengthen the sector** by additional incentives for innovation, striving towards creating a favourable business environment and supporting vehicle manufacturers in their conquest of foreign markets. In parallel, the social aspect was strongly underlined in order to preserve our highly skilled workforce and to ensure that new, well-trained and educated workers will contribute in the future to the success of the sector. The main achievements in specific areas are set out hereafter.

Pillar I - Investing in advanced technologies and financing innovation

- Adoption of the Horizon 2020 programme, the biggest EU research and innovation programme in the history of the EU. Within the €80 billion budget, more than €6 billion has been earmarked for transport¹.
- Launching of the European Green Vehicles Initiative (EGVI) and a second edition of the Fuel Cells and Hydrogen Joint Technology Initiative (FCH JTI). The former, with a budget of €1.5 billion, out of which half will be contributed by the EU, will serve as a key tool to strengthen research and implementation of innovation in the area of clean technologies. For the FCH JTI, the Commission has earmarked over €660 million, out of which around 40% will be devoted to transport related projects. The same amount will be contributed by the industry. Moreover, new financing opportunities for the automotive sector have been created under the ‘Societal Challenges’ pillar of Horizon 2020 and in the framework of the Public-Private Partnership ‘Factories of the Future’. Based on the experience from the previous Framework Programme in relation to the way how the funding was assigned within the ‘Transport’ domain, the automotive sector should altogether benefit of around €2 billion.
- Supporting small and medium-sized enterprises by means of additional funding available under Horizon 2020 (around €10 billion) and through the COSME programme with a budget of €2.3 billion. An ‘SME instrument’ developed under Horizon 2020 has been designed specifically for highly innovative smaller companies. With at least €2.8 billion that will be available solely for SMEs, it will provide funding opportunities for early-stage, high-risk research and innovation. The automotive sector, with a significant share of SMEs, could be one of the major beneficiaries of this funding.
- Adoption by the Commission of the proposals for a "Clean Power for Transport Package" setting minimum requirements for fuelling and recharging infrastructure in the framework of Member States national plans, establishing common standards for recharging infrastructure across the EU and improving consumer information. The Directive is an important enabling step towards achieving deeper penetration of alternative fuelled vehicles in the European market as it tackles the persisting problem of a lack of alternative fuel infrastructure, a major stumbling point for a widespread uptake of vehicles with alternative powertrains.

¹ €6 339 million for the period 2014-2020 has been earmarked for ‘Smart, Green and Integrated Transport’ under the Societal Challenges envelope.

Pillar II - Improving market conditions

- Publication of ‘Guidelines for financial incentives for clean and energy efficient vehicles’ in February 2013, a document, which consists of mandatory principles that must be strictly respected and recommended ones which form a set of best practice for Member States implementing demand side measures. Implementation of the Guidelines should lead to maximising the positive impact of the national schemes on the diffusion of low emitting vehicles in Europe and will contribute to avoiding unnecessary distortions in the Internal Market.
- Concluding in November 2013 a ‘*fitness check*’ of the type-approval framework with an objective to identify possible overlaps, gaps, inconsistencies or other areas, which may create excessive and unjustified burdens for vehicle manufacturers. This exercise sets the scene for the review of the framework Directive, to allow it to correct shortcomings and supplement it with additional provisions, for example, those related to market surveillance.
- Introduction of competitiveness proofing in the impact assessment systems as a reinforced analysis of the effect of new pieces of legislation on the automotive industry, especially in a global context. The competitiveness proofing guidelines² will be, for example, applied to the assessment of an impact on the car sector of an agreement between the EU and the US in the framework of the Transatlantic Trade and Investment Partnership (TTIP).

Pillar III - Enhancing competitiveness on global markets

- Launching a study to evaluate the cumulative impact of already concluded free trade agreements (FTAs), those being negotiated and those being planned, on the industry's competitiveness. The study analyses economic consequences of FTAs on the European automotive sector and could serve as a basis for future discussions on policy making.
- Undertaking a reform of the 1958 Agreement – the key tool for a widespread, international legislative harmonisation of the automotive legislation. In addition to increasing the attractiveness of the 1958 Agreement, its second objective remains to deliver a framework that is fit and robust to successfully face future challenges and developments in the continuingly changing global automotive market. This reform will also provide a powerful tool to eliminate non-tariff barriers in our negotiations on FTAs with our major trading partners. A formal proposal was submitted to the March 2014 session of WP.29 hence concluding the technical work.

² SEC(2012) 91 final

- Initiation of discussions on regulatory convergence in the car sector between the EU and US in the framework of the TTIP and in coordination with UNECE WP.29 activities. When the agreement is concluded, removal of the regulatory burden in transatlantic trade is expected to deliver substantial benefits for the European automotive sector.
- Tightening co-operation with the US within the framework of the 1998 Agreement in the areas of innovative technologies. Creation of two dedicated working groups covering environmental and safety related issues of electric and fuel cell vehicles aims at deepening legislative harmonisation in the fields, which will play a prominent role in the near future. Moreover, the Commission has been conducting bilateral dialogues with major trading partners, including successful co-operation with Russia and Japan under the framework of the UNECE and with China (e.g. adoption by China of European emission legislation, Euro 5).

Pillar IV – Anticipating, adapting and managing restructuring

- Revision of the rules of the European Globalisation Adjustment Fund (EGF). In line with the new Regulation³, procedures have been simplified and streamlined in order to reduce the time needed to provide support in case of major restructuring. The scope of workers eligible for funding has been widened to cover temporary and interim employees and a co-funding rate has been increased from 50% to 60%. The changes will enable more efficient handling of applications and ensure a better protection for workers in case of restructuring processes.
- Launching an inter-service task force after an announcement of the closure of a Ford plant in Genk. The Task Force, comprised of representatives of the Commission, regional and local authorities ensures efficient use of relevant EU Funds.
- Adoption of the EU Quality Framework⁴ for anticipation of change and restructuring that calls for certain principles and best practice to be followed by industry and public authorities with a view to facilitating the investment in human capital and promoting the reallocation of human resources to activities with a high growth potential and quality of jobs.

³ Regulation (EU) No 1309/2013

⁴ COM(2013) 882 final

Next steps

Actions and priorities envisaged for 2014

An increase of sales in the last trimester of 2013 and the beginning of 2014 might indicate that well-coordinated actions undertaken by the Commission, Member States and the industry, in addition to improving consumer and market confidence, begin to bear their first fruit. The EU market seems to be rebounding from the slump (2014 has the potential for a first growth of sales after six years of decline) giving the automotive industry an opportunity to further improve their economic situation (based often on sales in third countries) with increased revenues from the European operations. Recovering from the crisis does not mean however that the peril of stagnation or decline has been successfully averted. Companies have to continue to strengthen their competitiveness by reconsidering applied business models. In parallel, they need to be supported by targeted and thoughtful policy initiatives taking into consideration short-, medium- and long term objectives.

The CARS 2020 Action Plan presented a compelling vision for the European automotive sector together with a list of concrete commitments, fulfilment of which is a prerequisite for reaching the overarching goal of a strong and competitive European automotive industry. In several cases, the commitments are open-ended serving as a code of best practice or as a guideline for policymakers when developing new legislation, while in others, they refer to specific actions which need to be completed within a specific time frame. Assessing the process of implementation of the Action Plan, in 2014 special attention is being paid to the following measures:

- launching of a new series of calls for proposal (2014/2015)⁵ in the framework of the European Green Vehicle Initiative (EGVI), Fuel Cells and Hydrogen Joint Technology Initiative, as well as action envisaged under the ‘Societal Challenges Pillar’ especially for ‘Smart, green and integrated transport’ and under the second edition of a Public-Private Partnership ‘Factories of the Future’. In order to simplify the procedure, the vast majority of calls (including those under EGVI) from 2014 apply a ‘one stage’ approach;
- ensuring investment framework conditions that will contribute to stable and diversified funding support, in particular maintaining financing at attractive conditions for the projects related to safety and low emitting technologies by means of EIB financial tools as well as further supporting good access to funds for SMEs and mid-caps. The Commission will verify the possibility to set-up a task force with the EIB to help identify new financing prospects;
- since no consensus has been reached so far on a voluntary Code of Conduct in relation to vertical agreements, the Commission continues to encourage dialogue between car

⁵ Overall indicative budget: EUR 129 million from the 2014 and EUR 30.00 million from the 2015 budget

manufacturers and dealers, in order to reach an agreed voluntary Code of Conduct. However, if agreement is not reached at the latest by the end of 2014, the Commission reserves the right to initiate a process, with the aim of adopting a legislative proposal regulating relations between different players of the automotive sector⁶;

- engaging relevant stakeholders in the work on revising the type-approval framework and identifying other candidate areas of regulation that should as a priority be subjected to a ‘fitness check’;
- performing an economic analysis on selected implementing measures related to the development of more representative testing procedures for assessing emissions and fuel efficiency;
- initiation of the work of the European Automotive Skills Council;
- finalising work on a study on the cumulative effects of FTAs on the European automotive industry in order to allow the Commission to develop a more informed trade policy;
- working towards an agreement on closer regulatory cooperation with the US within the framework of the TTIP and continuing negotiations with Japan on an FTA with an aim of reaching a balanced agreement between both parties, taking into particular account the interest of the European automotive industry;
- conducting further discussions with key European trade partners (including Russia, China and Mercosur) with a view to tightening regulatory co-operation. The objective of the negotiations will be to reach common approaches within existing and future legislative frameworks related to the automotive sector;
- adopting the proposals for a reform of the 1958 Agreement and encouraging new countries to participate in the work under the UNECE framework;

⁶ This point does not represent a common position of all the Members of the CARS 2020 process. Divergent opinions have been expressed by the representatives of ACEA, CECRA and IndustriALL.

Proposed wording by ACEA:

The Commission has organised several bilateral meetings with stakeholders and the subject was also discussed within the CARS 2020 working group meeting on 30 April and on 21 October 2013. However, since no consensus so far has been reached on a voluntary Code of Conduct, the Commission intends to continue facilitating discussions between different players of the automotive sector;

CECRA and IndustriALL:

In the Commission’s initial proposal, it was written that, if dealers and manufacturers fail to agree on a voluntary Code of Conduct, “the Commission intends to initiate a legislative procedure” aimed at developing a legal framework regulating relations between different actors of the automotive sector. The change of the wording from “intends to initiate” to “reserves the right” is not acceptable for CECRA and IndustriALL as it unduly weakens the original wording (the Commission can initiate legislative procedures at any time) which fairly reflected the original Commission proposal. Therefore, the phrase “intends to initiate” should have been kept as it was.

- adopting a new Regulation under the 1958 Agreement, which will enable global approval of vehicles hence reducing the burden for vehicle manufacturers and facilitating trade.

Medium term orientations for the European automotive industry

Despite promising results in terms of sales in the 2nd half of 2013 (4.1% growth compared to the same period in 2012, rising however, from very low levels) and a very good first half of 2014 (+6.5%), it goes without saying that the work has not been concluded and all the parties must put sizeable efforts to adapt to changing conditions and opportunities. This is especially important in the context of ongoing structural societal changes (e.g. aging of the population, greater reservations about car ownership and falling distances covered annually) as well as general trends including high congestion in urban areas, improvements in public transport and longer vehicle life-times, which are gradually re-shaping mobility and private needs in Europe thus impacting patterns of demand for traditional vehicles.

Therefore, to ensure that the strong long-term position of the automotive sector is maintained, the Commission's actions need to be further implemented and enforced. An active role of the Member States at national level by means of introduction of complementing and strengthening measures in the areas of promotion of innovation, financing or smart regulations to those proposed by the Commission is indispensable to create powerful synergies. In parallel, the industry needs to continue to proactively address existing problems, improve its competitiveness and be involved in a constructive and responsible dialogue with policymakers.

On the basis of conclusions prepared by stakeholders participating in the work of the working groups and discussions undertaken during the meetings of Sherpas, a list of medium-term recommendations vital for the European automotive industry was prepared. Implementation of those recommendations will further strengthen the sector and support it in facing existing and emerging challenges. In order to reach the strategic objective of a strong, innovative and globally competitive sector, the Sherpas urge all the stakeholders to work together in line with the following guiding principles, which will serve as mid-term orientations for the policymakers and the industry.

1. The automotive industry is and will remain a backbone of the European economy. The long term perspective must guide all short- and medium term actions at the European and national levels. The target of 20% European GDP by 2020 from manufacturing can only be achieved with the strong presence of the automotive industry; therefore it is of utmost importance to keep key elements of the supply chain in Europe.
2. The Commission has secured significantly higher levels of financing to support research and innovation compared to 2007-2013 (e.g. 50% increase of the budget of

the EGVI). With a substantial funding earmarked by the Commission, financing at the national levels should reflect the economic and social importance of the industry. Better, more efficient use of available funding should be a priority for all the Member States. Moreover, it needs to be further streamlined and coordinated with policy objectives providing an additional impetus for vehicle manufacturers to strengthen their global competitiveness and, in parallel, to responsibly contribute to tackling existing societal challenges.

3. Development and implementation of cutting-edge technologies, the hallmarks of the European automotive sector, must remain the key priority of any future strategy. The industry should have an ambitious target of turnover spent on research and development. Innovations need to be constantly introduced and diffused across the entire supply chain, among others, in the areas of components, production technologies, resource-efficiency, management, human resources and design, in order to develop highly demanded, safe, clean, energy efficient, connected and affordable products. European climate objectives should guide further developments in the domains of energy vehicle efficiency, decarbonisation and the use of alternative fuels, while keeping the balance with an objective to secure long-term competitiveness of the sector.
4. Globalisation has set great opportunities (the world market is expected to reach 100 million vehicles by 2020), but, at the same time, creates potential challenges for the sector. It is a shared responsibility of the industry and policymakers to shape the business and legislative environment in such a way that will enable the reaping of benefits from the opening of external markets. A close, constructive co-operation is essential in order to equip the sector with tools to take full advantage of trade (almost €128 billion of trade surplus in 2013). The current rate of annual growth of exports of the automotive sector should be maintained. The Commission will strive to facilitate access to new markets through trade policy.
5. Smart regulation principles have to continue to be systematically applied. A proper balance of legislative and non-legislative measures evaluated from the overall perspective of their cost-effectiveness should be pursued. A legal framework that is fair, stimulating, creating favourable business conditions and responding to societal challenges needs to remain a guiding principle for policymakers. The importance of smart regulation principle was reiterated by the European Council of March 2014 stating in the conclusions that “Competitiveness requires a stable, simple and predictable environment, including better regulation and in particular an ambitious Regulatory Fitness and Performance Programme (REFIT). [...] Industrial competitiveness concerns should be systematically mainstreamed across all EU policy areas and be part of impact assessments in view of getting a stronger industrial base for our economy. This should go together with competitiveness proofing.”

6. The Commission will continue assessing cumulative costs as well as benefits of legislative measures and discuss their impact with all relevant stakeholders. An impact assessment for relevant major future initiatives, including those with a significant impact on the automotive industry as well as a proportionate economic analysis for some implementing acts, based on existing vehicle legislation should ensure the principles of smart regulation are properly implemented.
7. Building a strong automotive industry in Europe will only be possible if highly qualified workforce with specific skills is available. A successful co-operation between all parties is indispensable to anticipate on-going changes and direct resources from European Funds into the most important areas. Moreover, Member States bear the responsibility for creating a targeted educational framework, whereas the industry should strive towards constant improvements in the qualifications of workers and refrain, to the extent possible, from actions which could result in a permanent loss of highly qualified workers.
8. The manufacturing tissue needs to be preserved. Restructuring processes, if deemed inevitable, should be performed in a manner that minimizes negative social impact and which duly considers the set of good practices laid down in the CARS 21 final report. A broad cooperation between companies, Member States and regional authorities should take place at the earliest possible stage. This will diminish the risk of a permanent workforce loss and give an opportunity to implement mechanisms, which could soften the consequences of redundancies. Member States and the industry, with the support of the European Funds and taking into consideration regional smart specialisation, should aim at urgent re-industrialization of the affected sites and actively support re-introduction of workers on the labour market by means of retraining, assistance in job search or promotion of entrepreneurship. The Commission stands ready to launch task forces for all the cases of major restructuring processes in order to assist Member States, regional authorities and industrial partners in the management of available financing from EU Funds.
9. The long-term competitiveness of the industry should be borne in mind when considering transport measures to address long-term climate objectives. The Review of the White Paper on Transport should focus on ensuring a level-playing field among transport modes and their contribution to clean and safe transport in Europe. A better integration of all modes of transport in a truly multimodal vision, together with more extensive use of information and communication technologies will not only allow greater energy efficiency, but will also be the key to a more efficient exploitation of the transport network. Intelligent transport systems (ITS) development should also be an integral part of that discussion.

Future role of the CARS 2020 Process

The CARS 2020 process has given new impetus to the initiative which was originally initiated in 2005 and re-launched in 2010 in order to provide policy recommendations, which would contribute to enhancing the competitiveness and sustainable growth of the European automotive industry. The conclusions of the work of the CARS 21 High Level Group, made up of policymakers as well as industrial and non-industrial stakeholders, served as an important input for the Commission Communication: ‘CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe’, which created the basis for the CARS 2020 process.

The current process gathers together a wide representation of Commission departments, Member States and all key sectorial stakeholders. This arrangement creates a unique platform to exchange opinions and provide strategic advice on the development of a European legislative framework, which would create a favourable business environment for the automotive sector in Europe and effectively address societal changes. The outcome of the work of the CARS 21 High Level Group became a basis for the development of a first sectorial policy within the Industrial Policy Communication published in October 2012⁷. Recommendations tabled by the High Level Group streamlined the efforts at all levels giving an opportunity to gear new and existing legislative acts to better address the problems faced by the sector, to strengthen its global competitiveness and to reduce superfluous administrative burdens.

The need for soliciting opinions from all relevant stakeholders with the intention of creating legislation which would respond in a more efficient manner to existing market conditions and address societal challenges remains valid. Challenges lying ahead for the automotive industry will not be properly tackled without strong and dedicated policies having a holistic overview of the sector aimed at supporting growth and fostering an industrial renaissance. By gathering relevant policymakers and stakeholders and providing a forum for discussion on all the policies affecting the sector, the CARS 2020 process provides a more appropriate framework for the development of such a holistic vision of the sector.

The opinion of an added value of the CARS 2020 process in ensuring that issues vital from the perspective of the automotive sector will be properly addressed at the European level has been strongly supported by the participants. The key role of the initiative in bringing together different stakeholders providing strategic advice on the European activities impacting the automotive industry proved that such an initiative is needed and should, therefore, continue in the future.

Following recommendations of the Group, in the next steps, the CARS 2020 process should focus on strengthening of the competitiveness of the European automotive industry and alongside societal and environmental objectives supporting measures that contribute to

⁷ COM(2012) 582 final

production, investment and employment in Europe. This could only be achieved by mainstreaming the competitiveness across different policy areas, creating an environment that will facilitate innovation, reducing administrative burden and supporting global presence of the industry. In addition, the CARS 2020 process should ensure by its work that the ‘smart regulation’ principles are applied thus creating legal framework which stimulates the industry and enables reaching economic and societal objectives in the most cost efficient manner. Main topic indicated by the stakeholders, which should gain special attention in the future framework of the CARS 2020 process, in addition to the ones that were already discussed by the working groups, is the implementation and promotion of intelligent transport systems (ITS) comprising, among others, autonomous vehicles, vehicle-to-x communication⁸, as well as smart mobility.

With a broad and active involvement of all relevant stakeholders, the CARS 2020 process managed to reach its objective both in terms of monitoring the implementation of the Action Plan and providing a number of comments and suggestions on further improvement of the framework conditions which will lead to strengthening the competitiveness of the automotive industry. In addition, the Group identified opportunities as well as flagged challenges lying ahead of the sector.

In order to take full benefit of the outcome of the process, its conclusions should be further exploited and need to be embedded into a strategic vision of the European automotive industry. They should serve as a starting point for the development of a general policy for the European automotive sector, which will be a guiding document for the Commission, Member States and the industry in the second decade of the twenty-first century and beyond.

Annexes:

1. Economic situation
2. Progress report on the implementation of the CARS 2020 Action Plan commitments
3. Consensus papers from the working groups

⁸ Systems enabling communication between vehicles (vehicle-to-vehicle communication) and between vehicles and infrastructure (vehicle-to-infrastructure communication)