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DRAFT REPORT

on CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe
(2013/2062(INI))

Committee on Industry, Research and Energy

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe

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The European Parliament,

- having regard to Article 173 of Title XVII of the Treaty on the Functioning of the European Union (ex Article 157 of the Treaty establishing the European Community), covering EU industrial policy and referring to, among other things, the competitiveness of the Union's industry,
 - having regard to the Commission communication entitled ‘CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe’ (COM(2012)0636),
 - having regard to the reports of the CARS 21 High Level Group on the competitiveness and sustainable growth of the automotive industry in the European Union (2012) and on a competitive automotive regulatory system for the 21st century (2006),
 - having regard to the Commission communication entitled ‘A Stronger European Industry for Growth and Economic Recovery’ (COM (2012)0582),
 - having regard to the conclusions on the situation of European industry and the specific situation of the automotive industry adopted by the Competitiveness Council at its meeting of 10 and 11 December 2012,
 - having regard to Rule 48 of its Rules of Procedure,
 - having regard to the report of the Committee on Industry, Research and Energy and the opinions of the Committee on International Trade, the Committee on Employment and Social Affairs, the Committee on the Internal Market and Consumer Protection and the Committee on Transport and Tourism (A7-0000/2013),
- A. whereas the automotive industry is a vital part of Europe’s manufacturing base and a key source of competitiveness, growth and jobs in the EU;
- B. whereas Europe’s automotive industry is current in the throes of a crisis of unprecedented proportions requiring swift, coordinated action within the EU;
- C. whereas the current economic situation is not the sole cause of this crisis and whereas what is needed is a complete rethink of our approach to mobility in the 21st century, since mobility is a major factor in fostering economic growth;
- D. whereas the automotive industry is feeling the effects of a three-pronged revolution in progress around the world, with demand shifting to the emerging economies, production also moving to those countries, and the energy sources used changing gradually but noticeably;

E. whereas Europe's automotive industry needs to become competitive and productive once again;

Political governance

1. Endorses the Commission's new strategy of placing industry, in particular the automotive industry, back at the heart of the drive for growth;
2. Expects the Commission to coordinate its own efforts more efficiently, in order to ensure that the CARS 2020 recommendations actually become operational and the failure of the first phase of the CARS 21 process (December 2005), when the conclusions reached were not followed by the necessary action, is not repeated; calls, accordingly, on the Commission to draw up a clear schedule of fast-track measures to coordinate and build on action by Member States and firms;
3. Believes that action by the Commission in this area is being hampered by a lack of powers and too many constraints; calls on the Commission to submit a study showing the mismatch between what it wishes to achieve and the tools available to it, as the basis for a debate within the Council and Parliament;
4. Welcomes the industrial policy conclusions adopted by the Competitiveness Council at its meeting in December 2012; urges the Member States to pursue their stated aim of overhauling industrial policy in the automotive sector and firming up new arrangements for Europe-wide cooperation in that sector;
5. Calls on the Member States to carry out properly coordinated structural reforms geared to enhancing competitiveness (lowering payroll taxes and labour costs, enhancing labour flexibility, cutting red tape and shortening payment periods);
6. Believes it essential, with a view to restoring faith in the EU, for the Union to explain its action plan more clearly to the general public, investors and firms;

Automotive industry and production in the EU

7. Considers it essential for a cohesive and dynamic research, production and value chain to be maintained and further developed in the EU;
8. Acknowledges the fact that the EU's automotive industry and market are in decline; considers it regrettable, however, that the Commission fails to mention fundamental causes of this decline such as the widely varying circumstances in the industry (firms, market segments and types, products, sectors) and the large number of structural changes (of a demographic, sociological, behavioural, economic and technical nature) that are taking place on the demand side; believes, therefore, that, alongside Europe-wide cross-cutting action, measures specifically tailored to individual circumstances need to be taken at both national and European level;

9. Deplores the fact that the Commission fails to address the issue of over-capacity, despite the fact that it is a problem shared by the whole of the industry and one that has unavoidable short- and medium-term repercussions (chain, jobs, regional economy); calls therefore on the Commission to submit at the earliest opportunity:
 - a. a study on the scale of over-capacity in Europe and the best practice in addressing this problem, including outside the EU (United States);
 - b. an action plan setting out all of the policy tools available in this area;
10. As regards restructuring:
 - a. Welcomes the Commission's intention to re-establish the task force to monitor major restructuring operations, as well as the publication of the Green Paper on effective restructuring practices (COM(2012)0007);
 - b. Calls on firms and Member States to step up cooperation and efforts to anticipate industrial adjustments, in order to prevent negative externalities from undermining the cohesiveness of the industrial production process (jobs, production);
11. Draws the attention of both Member States and firms to the fact that clustering (joint purchasing, cooperation arrangements, consortiums, mergers) provides a means of remaining competitive in the face of increasingly fierce competition from outside the EU;
12. Calls on the Commission and the Member States to strengthen the specific measures for SMEs and mid-cap companies, in particular subcontractors, distributors and retailers and aftermarket firms, which are an asset because their size and responsiveness allows them to adjust to change but are those which are being hit hardest by the crisis;

Human resources

13. Believes the know-how built up by the workers in the automotive industry to be an asset for Europe; welcomes the setting up of the European Automotive Skills Council in 2013, and trusts that it will swiftly identify effective policies in this area;
14. Believes the labour market to be out of step with the industry's requirements (strong demand for highly qualified engineers and technicians) at present; considers it essential in this connection to optimise not just public training strategies (excellence programmes, links with the world's leading universities) but also corporate recruitment strategies (pay package), in order to enable firms to attract and hold on to highly qualified workers;
15. Calls on the Member States to make the legislative adjustments required for more open and constructive labour relations (flexible working and technologies, sectoral agreements, worker involvement):
16. Recommends that Member States and firms should improve the provision of further training for workers, in order to anticipate tomorrow's needs and make it possible, in the event of job losses in a given sector, for the laid-off workers' skills to be put to good use in growth sectors;

Innovation and technology

17. Believes technological innovation to be the essential factor in automotive-sector competitiveness; reaffirms its determination to ensure that the Europe 2020 targets are met and that economic and sustainable means of transport and new production methods are developed;
18. Welcomes the Commission's proposals regarding technological improvements, but points out that its projections for the creation of added value, commercial opportunities and jobs are subject to various conditions;
19. Considers it essential to foster R&D into low-carbon technologies, in which Europe has a lead, and the roll-out of the necessary distribution networks, but takes the view that these technologies should be brought to market gradually and in the right way, so as to gear them as closely as possible to expectations on EU and international markets and ensure they will be accepted by car buyers;
20. Believes that EU efforts should be based on a number of priorities geared to consolidating Europe's technological advantage, including:
 - a. technological convergence, in particular as regards standards for the stages upstream of production and distribution;
 - b. the development of eco-innovations (lighter vehicles, driver aids, comfort) setting European products apart from the others;
 - c. cooperation at EU and international level in areas that have been under-exploited to date, such as power-train technology;
 - d. strengthening Europe's leadership in international standard setting, thus ensuring that we can maintain a technological lead on world markets;
21. Calls on the Member States and the Commission to foster the emergence of clusters and competitive hubs focusing on the mobility of the future and generating a steady stream of innovations (prototypes);
22. Points out that R&D requires substantial funding (scientific risk, long investment cycles) deplores, in this connection, the fact that the target of channelling 3% of GDP into R&D in the Union has yet to be met; considers the cuts to the budgets of the COSME and Horizon 2020 programmes planned by the Member States to be damaging, in particular in the transport-related headings of the budget;
23. Stresses the need to continue to pursue an ambitious approach to the funding of the green car initiative and SME development, which are clear priorities;

Regulation

24. Stresses the need for the principle of smart regulation to be implemented at the earliest opportunity; points out that, although this was one of the recommendations of the first 'CARS 21' group (2005), no action has been taken in this area to date;
25. Welcomes the Commission's proposal to place a moratorium on all new legislation that could cause the economic situation in the industry to deteriorate;
26. Calls for any policies and decisions already in place that could hamper recovery in the automotive industry to be reviewed;
27. Considers it essential for technical regulations to be harmonised across the EU in order to guard against any artificial distortions of competition;
28. Calls on the Commission and the Member States to enhance intellectual property right protection at international level and introduce a business confidentiality strategy at EU level, with a view to combating counterfeiting and industrial espionage; draws attention to the fact that technological development is a sensitive and vulnerable area;

Financial resources

29. Calls for the EU and the Member States to harmonise, optimise and bolster the use of the financial resources available to stimulate investment over and above public subsidies, by means of tax incentives (tax credits for research, CO₂ emissions tax-and-rebate schemes, vehicle scrappage schemes) and both private funding instruments (risk capital funds, 'business angels') and public funding instruments (European Investment Bank);
30. Considers it essential for complementarity to be maintained between the funding available for restructuring and that available for R&D; calls, accordingly, for the funding allocated to the European Social Fund and the European Globalisation Adjustment Fund to be maintained at the current level, and where possible increased;
31. Considers it vital for competition policy (state aid rules) to be geared to securing greater competitiveness, growth and employment, in line with the approach pursued by our competitors outside the EU;
32. Calls for a conditionality clause to be introduced, under which automotive firms in receipt of investment support for a given site would be required to keep their operations at that site until the end of the depreciation period and to refund the EU subsidies should they decide to relocate;

Internal market

33. Points out that a robust internal market is a precondition for a return to growth in the automotive industry;
34. Considers closer European integration to be essential in areas in which the prevailing conditions militate against a level playing field:

- a. vis-à-vis non-EU competitors: high energy and raw materials prices, strong euro;
 - b. on the internal market: labour standards, tax breaks for firms and incentives for buyers (low-carbon incentives, vehicle scrappage schemes);
35. Deplores the fact that, on the aftermarket, legal fragmentation is currently having an adverse effect on motorists and hampering fair and healthy competition within the industrial production system and between Member States; believes that legislation in this area should be fully harmonised and calls on the Member States to take the following main steps:
- a. full liberalisation of the market in visible spare parts (adoption of the ‘repair clause’);
 - b. better provision of information to motorists on their vehicle repair rights;
36. Draws attention once again to the economic benefits to be gained from the formation of new ‘industrial giants’, along the lines of those in the aeronautics and space industry, in order to attain the critical mass required to face up to international competition;
37. Draws the attention of:
- a. Member States to the alternative means of stimulating demand that are available (labelling schemes, targeted release of funds from employee saving schemes, tax relief for company fleets, recycling of materials);
 - b. firms to the various marketing tools available (unemployment insurance, warranty extensions, vehicle sharing, internet sales);

External markets and trade relations

38. Points out that exports to emerging markets are clearly a means of maximising our long-term success and that alliances with non-EU funds and firms are of key importance to the future of our firms, as are locating plants in non-EU countries (including to produce cars for the local markets), as a means of generating growth, and importing vehicles to meet demand;
39. Points out that many of our automotive firms are becoming less competitive as a result of growing competition – some of it unfair – from non-EU firms; urges the Commission to reorganise its trade policy, so as to be able to:
- a. coordinate Member State measures for promoting EU firms and protecting EU products and patents outside the EU;
 - b. centralise all EU export instruments, in particular those geared to SMEs (Small Business, Big World);
 - c. gradually make the principle of reciprocity – to which the Commission pays too little attention in CARS 2020 – a central tenet of our trade relations;

- d. combat the introduction of any measures that are equivalent in effect to non-tariff barriers;
 - e. shorten the time taken to instigate investigations and take retaliatory measures;
 - f. gauge the impact of free-trade agreements (FTAs) on EU automotive manufacturing as accurately as possible by:
 - including the industry's competitiveness as a factor in assessments of the impact of all FTA negotiations;
 - carrying out impact assessments at the end of FTA negotiations;
 - carrying out analyses of the aggregate effect on the EU automotive industry of all FTAs under negotiation at any given time;
40. Resolves to provide itself with the necessary means of gauging the impact of each FTA itself;
41. Instructs its President to forward this resolution to the Council, the Commission and the Member States.

EXPLANATORY STATEMENT

What does the automotive industry mean to Europe?

The automotive industry is a strategic asset for the EU, both in economic terms and in terms of the jobs it provides.

The Commission's CARS 2020 action plan quotes a number of figures that clearly establish the importance of this industry:

- 12 million direct and indirect jobs;
- 4% of EU GDP;
- trade surplus of EUR 90 billion;
- one quarter of world motor vehicle production.

To this must be added all of the benefits generated upstream and downstream of the production process, in connection with:

- R&D: 80% of private investment in R&D;
- innovation: technology transfer, new materials, electric batteries, fuel cells;
- know-how: management, production process expertise;
- positive externalities: insurance, tax revenue.

The automotive industry is a key component of our industrial economy, and is of great symbolic importance. It is a sector which is representative of the specific features and needs of European industry as a whole, and should therefore be treated as an urgent political priority.

Why is Parliament focusing on this issue?

Europe's automotive industry is in the throes of a crisis of unprecedented proportions. In 2012, only around 12 million vehicles were sold (as opposed to 17 million in 2007, just before the economic crisis) – the lowest sales figures since 1995. The figures for early 2013 indicate that sales have now fallen to a level similar to that in the early 1990s. The principal cause of this decline in sales is the sharp and lasting reduction in EU household purchasing power brought about by the economic crisis, as purchasing and maintaining a vehicle is the second largest household expenditure item, after housing.

The general public is concerned about the future of the industry, which is seen as a weather vane for the economy as a whole and is therefore currently the focus of intense media and public scrutiny. As the only directly elected EU institution, Parliament has a duty to address these concerns. Although this report will not have a binding effect and although the EU can do only a limited amount to address the crisis directly, the rapporteur believes that we have a

duty to make this subject our own and to submit meaningful proposals to the EU institutions, the Member States and the firms operating in the industry.

The aim of the report must therefore be to turn public statements of intent into public action; to bring significant added value to the Commission's action plan. In view of the wide range of issues being addressed, the rapporteur has decided to give the report a clear, central focus, i.e. the industrial production process.

Is the action plan satisfactory?

The rapporteur welcomes the Commission's CARS 2020 action plan and all of the discussions held at interinstitutional level between industry stakeholders (initial establishment and subsequent reconvening of the CARS 21 High Level Group). The Commission has set in train a process geared to placing motor vehicle production back at the heart of economic development efforts. Whereas only a few years ago Europe decided to place the focus on services, EU leaders have now recognised the economic and social value of re-establishing a robust, sustainable manufacturing base. This is a brave policy choice, and one that we cannot but endorse. Re-establishing a proper manufacturing base will, among other things, make us less dependent on our competitors.

CARS 2020 is the first sector-specific approach formulated by the Commission since the adoption of the Lisbon Treaty. This is a good sign. It means that the Commission intends to make the automotive industry a priority. The action plan covers all of the policy areas which have a bearing on the automotive industry. However, although the rapporteur welcomes the Commission's stated intent to increase industry's share of EU GDP from the current 16% to 20% by 2020, he would point out that we must first make sure that we have the means to do so.

The rapporteur believes there to be a number of weaknesses and gaps in the action plan, in particular when set against the conclusions submitted by the CARS 21 High Level Group (June 2012). The action plan fails to address all of the issues and the arrangements put forward as less binding than might have been hoped.

The Commission in fact confines itself to making a general review of the situation in the automotive industry as a whole. However, a closer analysis shows that the economic crisis is not having a uniform impact throughout the industry and that properly targeted responses are therefore required for:

- the various firms (internal organisation, sales strategies, markets);
- the various market segments (high-end, mid-market, low-end) and products (cars and light commercial vehicles, heavy goods vehicles, two-wheelers);
- and the various sectors of the industry (supply, manufacturing, distribution and aftermarket).

The rapporteur considers it regrettable that the Commission has failed to take proper account of the many structural changes on the demand side that have played a key role in the decline of the European market, namely:

- demographic changes: urbanisation, population ageing;
- sociological and behavioural changes: collective mobility, restrictions on car use in urban areas, different usage patterns in different geographical areas, brand image;
- economic changes: lower average spend on vehicles, higher fuel prices, sharp increase in used-car sales;
- technical changes: significant increase in vehicle quality and service life.

What is more, the Commission makes no more than a passing reference to the issues of overcapacity (put at an average of 20%) and restructuring, without offering any solutions. For instance, it fails to point out that the manufacturing skills of automotive workers who have lost their jobs could be put to good use in other industries.

The Commission also fails to say anything about trade reciprocity.

The rapporteur also considers it unhelpful that a number of concepts have not been properly defined, despite the fact that this is of key importance to future action in this area. Those concepts are:

- EU firm: does this mean a firm that has its registered offices in Europe but its production plants elsewhere in the world, or a firm that has one or more plants in Europe but its registered offices elsewhere, or, again, a firm with registered offices in Europe and plants in Europe? This needs to be established, because the whole purpose of the action plan is to generate new growth and jobs in Europe. We can only do this by using all available means to assist European firms and, most important of all, by encouraging firms to base their operations in Europe. This means having a clear vision of what we are trying to achieve throughout the EU, and at present we do not have such a vision;
- value chain and production chain (admittedly, two different concepts), each of which needs to be safeguarded and developed, If the value chain is firmly anchored in the EU, we will be able to become or remain competitive in the product sectors in which we perform best (advanced-technology goods). Maintaining a cohesive production chain – i.e. one that extends both upstream and downstream of design and manufacturing operations – will avoid a situation in which the EU has a presence in only parts of the chain. However, an optimum balance needs to be struck, as the EU is going to become less and less competitive in some cost areas (e.g. energy and labour).

What contribution can Parliament make?

Issues addressed in CARS 2020

The debate around the action plan must be used as an opportunity to totally rethink our approach to mobility in the 21st century. The worst possible option is to leave things as they are. However, we need to be pragmatic about this and avoid putting forward solutions that are

out of step with people's real expectations; we must not try to meet demand that is not yet there.

Tackling climate change must continue to be a guiding principle in all that we do. The EU has moved forward so swiftly in this area that we are now an example for the rest of the world. However, in the light of the current crisis, we also need to address an equally important and relevant priority, namely that of responding to much more immediate concerns that are uppermost in people's minds, which include the declining competitiveness of the EU economy, the general decline in purchasing power, job losses and the increasingly fierce competition from outside the EU. So the most important thing that this report needs to do is to address this loss of confidence across the EU.

This is why, at this juncture, the rapporteur has chosen to take over and flesh out the main ideas set out in CARS 2020, with a view to:

- placing the emphasis on technological development (which is the only competitive advantage that the Union can use to compete with the BRICS countries, and one that we need to nurture and develop) and on efforts to develop alternative energy sources, with due regard for their commercial viability;
- tailoring regulation to the objectives set;
- finding ways of identifying the skills that will be required in the future, so as to be able to prepare the work force for changes in demand and production methods;
- striking a better balance in relations within the production chain, in order to foster competition and help protect the firms that are the most exposed;
- optimising the financial resources available to us and, where necessary, devise new funding instruments;
- boosting the internal market, which is EU firms' main market;
- making trade relations fairer, so as to give our firms the best possible chance on emerging markets.

Political governance

The EU needs to draw up an urgent timetable for reform that sets out the relevant policy choices and is based on a genuine determination to lay down a clear industrial policy for Europe's automotive industry. The CARS 2020 action plan regrettably fails to do this.

The EU needs to be more responsive. The work carried out by the Commission, both within its administration and in the high level groups now needs to be translated into policy action. This could take the form of an ambitious programme for cooperation between the Member States and the Commission. The EU has a number of instruments it can use (internal market, international trade, environment, research and development). The rapporteur wishes this report to provide pointers on how those instruments might be better used and coordinated and

on the in-depth reforms needed in order to bring those instruments into line with our objectives.

The rapporteur sees this report as providing an opportunity for a frank and open discussion of methods that have proved their worth, including in the United States; a chance to look closely at the instruments available to the EU, at the size of our automotive firms and at a situation in which those firms are locked in fierce competition with one another at a time when we are facing increasingly strong competition from non-EU firms, both on our own markets and on world markets. We need to take proper stock of this new international environment.

EU action is effective in a large number of areas. However, the EU really is not very good at 'marketing' itself. In other words, it has an extremely low profile. Europe also has a problem selling its technological know-how around the world (trade and standards). This is becoming a major problem, and if we fail to act, we will become increasingly dependent on standards that we have not developed ourselves. The rapporteur takes the view that something needs to be done about this now, in order to regain the trust of the general public, firms and investors.

The rapporteur has thus included in this report a section on political governance, which was not covered in CARS 2020, in order to draw attention to these issues.