

6th Siena Conference on the Europe of the Future

PLENARY 1: THE CHALLENGE OF INDUSTRIAL POLICIES. CLEAN TECHNOLOGY AND QUALITY JOBS AS A COMPETITIVE ADVANTAGE

REFLECTIONS FOR THE AUTOMOTIVE SECTOR

(Draft from FEPS¹)

CONCEPT PAPER

The European automotive sector is a crucial test for the continent's industrial transition. Its structural role and economic weight have placed it at the heart of Europe's current political and economic challenges. On the one hand, the industry faces growing global competition, driven by increasingly assertive industrial policies and major public investments, such as with China's New Energy Vehicle strategy and the U.S. Inflation Reduction Act (IRA). On the other hand, escalating trade disruptions - from new barriers to potentially predatory practices - are putting the sector under intense pressure at a time of profound transformation.

The problems facing the automotive industry in Europe are closely tied to both the continent's strategic strengths and its vulnerabilities. The EU benefits from a strong single market, high-quality jobs and global leadership in climate action. However, a widening innovation gap has contributed to a relative decline in productivity compared to global competitors putting the continent's industrial edge at risk. This is particularly crucial for the automotive, one of the legacy sectors of European manufacturing. The industry contributes 7% to the EU's GDP and employs around 13 million people across the continent, equivalent to 6% of the EU's total workforce.

The sector is under increasing pressure due to intense international competition, with European manufacturers facing delays in innovation, particularly in electric vehicles, battery technology, and automated mobility. If the EU fails to successfully navigate the technological transition, the entire industry could be jeopardized. It is at this juncture that a crucial challenge arises: the need to promote European production of electric vehicles and their quality components while ensuring accessibility for all consumers.

The true test for our Union is to achieve an industrial transition that is not only environmentally sustainable but also socially inclusive. Without ensuring that electric vehicles are affordable, this transition will not succeed. The urgency of this issue cannot be overstated, particularly for the most vulnerable groups and the middle class, who struggle to afford vehicles. Therefore, swift and decisive action is needed to

¹ The paper is meant to be a trigger for the debate at the conference on the Europe of the Future. The positions expressed by the author are to be, however, referred to the author only.

address these gaps, fostering both innovation in production and inclusivity in consumption as we move toward full electric mobility.

The successful deployment of electric mobility depends on several key factors, including sustainable access to critical raw materials, the energy cost, access to finance, fair trading conditions and a level playing field for EU companies worldwide, availability of a skilled workforce, use of advanced manufacturing techniques, R&D and innovation, recyclability and reusability of components, availability of infrastructure, in particular for charging; and market structures and demand-side incentives to contribute to ensure affordability.

Europe's automotive sector has some unique characteristics, with territories shaped by car plants, generations raised with the car as a symbol of progress, and a deeply rooted industrial culture of a Union that was born with the steel community. This places the sector at the heart of Europe's prosperity.

The Clean Industrial Deal (CID) puts forward ambitious proposals to drive the EU's economic and industrial growth, while tackling the urgent challenge of climate change. The plan focuses on decarbonising energy-intensive sectors, cutting electricity bills, and scaling up clean technologies and renewable energy. These efforts are strongly supported by the Action Plan for Affordable Energy, a central component of the CID.

This will support key sectors, including the automotive industry, shift to net-zero emissions whilst building a competitive, resilient Europe. As part of the Green Deal, the "Fit for 55" package sets a target for the EU's GHG emissions to decrease by at least 55% by 2030. To do so, it contains several proposals to reach this target, including adopting (by the Council in March 2023) stricter CO₂ emission performance standards for new cars and vans, which sets 55% CO₂ emission reductions for new cars and 50% for new vans from 2030 to 2034 compared to 2021 levels, and 100% CO₂ emission reductions for both new cars and vans from 2035.

The revitalization of the automotive sector, including with targeted measures for SMEs, must be approached through the lens of strategic capacities: the capacity to rely on stable, reliable, and sustainable inputs- including energy- and final components, from semiconductors and batteries and the critical raw materials; the capacity to harness innovation and technology to drive the transition; and the capacity to operate within a global system that ensures a level playing field for EU companies and fair trade relationships. All of this must be supported by an investment capacity that is conditioned on the productive, fair, and sustainable use of resources, and by a stable and predictable legislative environment.

The automotive sector employs 6.1% of the European workforce and produces more than 7% of the EU's GDP, they are essential to the EU's social stability and industrial competitiveness. Yet, the European industrial sector has been struggling, nearly 1 million manufacturing jobs have been lost, with many more still at risk. The increasing numbers of short-term contracts and reduced working hours also highlight the gravity of the crisis. Although Draghi stressed that around 5 million new jobs will be created for e-cars and batteries by 2030, competitive pressures, lack of investment and increasing tariffs put that possibility at risk. Skills shortages and mismatches in the auto

industry remain a major concern too, together with the ageing workforce and a pressing need to train and attract new profiles of workers with adequate skills.

To address these challenges, the European Commission recently launched Industrial Action Plan for the European Automotive Sector, focuses on the digitalisation, automation, and decarbonisation of the industry. The Clean Industrial Deal also includes commitment to social dialogue, support to quality jobs, and social conditionalities. Nonetheless, the broader regulatory simplification agenda risks undermining the EU's climate goals and reducing predictability for investors, which could hinder industrial development and workers' access to secure, quality jobs. Indeed, for the promise of a just transition to materialise, a comprehensive automotive strategy must encompass clear support measures for the sector's workers.

To make Europe's automotive sector truly competitive and sustainable, support must promote the widespread adoption of zero-emission vehicles by all citizens, while also recognizing the potential of corporate fleets. To achieve this, such vehicles must be affordable, charging infrastructure must be widely accessible, and appropriate incentives should be in place to encourage the uptake of electric vehicles.

The European automotive sector is at the intersection of the triple transition, green, digital and social with the broader question of whether the European Union can develop a truly European industrial policy with its Member States.

Achieving the goals of the European Green Deal and the Clean Industrial Deal requires a legislative framework that is consistent, ambitious and realistic. One that recognises the complexity of the challenges facing the sector, while supporting innovation, capacity development and social protection.

The ability to provide long-term, systemic responses -for the industry, its workers and European citizens- will be crucial to revitalising a sector that has played a fundamental role in the continent's history. Its future will have a major impact on Europe's ability to remain globally competitive, while contributing to the well-being of people and the sustainability of the planet.