



European Commission
Enterprise & Industry Directorate General

CARS 21

Competitive Automotive Regulatory System for the 21st century

CARS 21

Mid-Term Review Conference

Conclusions and Report



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CARS 21 MID-TERM REVIEW

FINAL CONCLUSIONS

as adopted by the CARS 21 Mid-Term Review High Level Conference on 29th
October 2008 in Brussels

As a significant sector in the European economy, with significant employment, investment, research and development and a strong multiplier effect, attention needs to be paid to ensuring the continuation of a strong European automotive industry.

As part of the Commission's modern industrial policy, the CARS 21 process (originally launched in 2005) aims "to make recommendations for the short-, medium-, and long-term public policy and regulatory framework for the European automotive industry that enhances global competitiveness and employment while sustaining further progress in safety and environmental performance at a price affordable to the consumer."

Creating stimulating framework conditions, which take full account of business realities becomes all the more important in light of the current overall downturn in the global economic environment and the consequent negative effect on consumer confidence. The ongoing credit crisis has reached the mainstream sectors of the economy and is having a highly detrimental impact on the vehicle market. Given that motor vehicles are one of the most important consumer goods in terms of total household expenditure the demand for cars is highly correlated with the general business cycle. The current economic situation is therefore having an adverse impact on the sales of new vehicles in Europe which, by extension, further complicates the situation with regard to manufacturing capacity utilisation. The European Automobile Manufacturers Association reports that demand for new cars in Europe decreased by 7.3% in July, 15.7% in August and stalled to their lowest level in September since 1998. In the first three quarters of 2008, 4.4% fewer cars were registered in the European Union than over the same period in 2007. Lower sales and an unfavourable economic environment in turn translate into reduced margins and profitability, putting pressure on employment and limiting the possibility of increasing R&D budgets.

The strategies pursued and actions undertaken by individual companies largely determine the ability of the automotive industry to face the challenges of a changing world. The role of public policy is to create an environment in which industry can thrive. Public policy also has to address concerns of general interest: these mainly relate to regulating the market, protecting the health and security of citizens and safeguarding the natural environment. Public policy should be predictable while correctly reflecting the increasingly complex demands of society and anticipating trends in world markets as well as taking into account the overall economic situation and its implications for the automotive industry.

To contribute to this aim, the Commission has launched the mid-term review of CARS 21 and has sought views from stakeholders on the automotive regulatory framework. These have been outlined in the CARS 21 mid-term review report. The CARS 21 follow-up Conference



held an exchange of views on the automotive industry and has unanimously adopted the following conclusions.

Conclusion 1: CARS 21 process

The CARS 21 process has played an important part in providing increased coherence to automotive policy and regulatory activity at the European level. It should therefore be continued in the future. In light of the future role, which European energy-, environment- and transport policy will play for the automotive industry, the Commission should consider converting CARS 21 into a wider stakeholder co-ordination forum in the 2010 perspective. It should involve a broader range of relevant stakeholders responsible for policy development and implementation (e.g. European Institutions and Member States, automotive industry, automotive suppliers and the downstream sector, energy producers and distributors, environmental and road safety NGOs, consumers, employee representatives, infrastructure providers, the construction sector, standardisation bodies etc.). Such a forum should, inter alia, consider progress being made on the forward-looking aspects of the conclusions presented in the current mid-term review.

Conclusion 2: Application of Better Regulation principles

Efforts made to implement better regulation principles in automotive sector law-making are welcomed and all stakeholders agree that the overall quality of legislation has improved both in terms of content and process. While reaffirming their commitment to these principles as outlined in the original CARS 21 exercise, stakeholders point out that in developing Community legislation improvement is needed with regard to the quality of impact assessments, the provision of sufficient lead time and predictability (especially taking into account product planning and development lifecycles), the application of cost-effectiveness principles and the analysis of economic, social, employment and international competitiveness impacts of regulation. Stakeholders stress the need for regulatory coherence both at EU level as well as between EU and national legislative frameworks where national legislation is applicable in addition to Community legislation.¹

The challenge of simultaneously providing long-term regulatory clarity and accurately quantifying the costs and benefits of legislative activity is recognised. There is agreement that when deciding on the next step of regulatory requirements (N+1), the direction and ambition level for the step thereafter (N+2) should be indicated on the basis of available information regarding technical feasibility, projected costs and expected benefits. Such long-term targets should be subject to subsequent detailed impact assessments of their feasibility and impacts closer to the application date of the legislation with detailed consideration given to establishing accurate and realistic ex-ante cost and benefit analyses.

¹ In this context, industry has proposed to investigate improvements with regard to the application of better regulation principles to the End-of-Life Vehicles Directive.



All stakeholders jointly undertake to continue work on strengthening the application of better regulation principles in the future and to support these efforts in good faith with the expertise and know-how at their disposal.

Conclusion 3: Cumulative effect of regulation, fleet renewal and affordability

The cumulative effect of regulation should be given particular attention in the case of the automotive sector, which is subject to legislative activity in a variety of areas. The cumulative cost of regulation is recognised as being highly important due to its potential effect on consumer affordability (impact on retail prices) and fleet renewal, which in turn has an effect on both the competitiveness of the automotive industry and the environmental and safety performance of the vehicle fleet on European roads. The importance of an overall framework, which is supportive of fleet renewal is therefore stressed. The preparatory process of future legislative proposals should systematically place the individual pieces of legislation being considered into the context of the overall cumulative effect of automotive regulation and should consider the relationship between manufacturer costs, the effect on retail prices and the ability of consumers to pay for additional costs. The interaction between individual regulatory requirements should be assessed and their extent determined in order to incorporate the effects of conflicting impacts and positive synergies into the process of legislative development.

Conclusion 4: International harmonisation and regulatory simplification

Progress made on international harmonisation in the automotive sector in the framework of the 1958 and 1998 Agreements of the UNECE (United Nations Economic Commission for Europe) is welcomed, stakeholders consider the policy direction outlined in CARS 21 to have been successful and recommend that it should be continued. Stakeholders consider that attention should be paid to ensuring that international harmonisation achieves real convergence in global vehicle-related regulations and that support for the international uptake of European standards is continued. It is recommended that the Commission, in co-operation with the relevant stakeholders, should develop a future work plan for activities at the UNECE in 2009, bearing in mind the need to preserve the ability of the EU to regulate areas of key concern for itself, such as environmental and safety related matters.

Conclusion 5: Improving the functioning of the internal market

Progress has been made with regard to the extension of the whole vehicle type approval system and all stakeholders continue to consider it as the best means for safeguarding the internal market for new vehicles. It is recommended that, to the extent possible, Article 95 should be the legal basis for EU regulations which directly impact the technical specification of vehicles. Improving the individual vehicle approval system should be considered with a view to defining alternative legal requirements for the individual approval of vehicles imported from third countries. Furthermore, the type-approval framework for new technology vehicles should be established at the European level in order to allow the EC type-approval of such vehicles while stakeholders also agree that a global standard in this area should be pursued wherever possible.



Stakeholders recommend that further action should be considered to improve the functioning of the internal market with regard to used vehicles. In particular, means to improve import- and roadworthiness testing procedures should be evaluated as well as assessing how to ameliorate the negative environmental and safety consequences resulting from the import of older vehicles with lower technical and environmental parameters.

Conclusion 6: Taxation and financial incentives

Stakeholders note that differing vehicle-related taxation regimes in EU Member States may have a detrimental effect on the functioning of the internal market² while recognising that a variety of considerations have an impact on how taxation policy is determined by individual Member States. Stakeholders note the limited progress being made on the adoption of the Directive on passenger car taxation while also taking note of the fact that an increasing number of Member States are moving towards CO₂-based taxation. Stakeholders agree that co-ordination between Member States on vehicle taxation should be encouraged to the extent possible in order to improve the overall effectiveness of the measures and avoid the fragmentation of the internal market. Stakeholders agree that technology-neutral financial incentives, which avoid fragmenting the internal market, can play an important role in encouraging the introduction of innovative solutions and recommend that the Commission updates the guidance paper it has previously issued on the application of fiscal incentives.

Conclusion 7: Fuel efficiency and CO₂ emissions' standards

The new CO₂ strategy adopted by the Commission has made a start in implementing the integrated approach to reducing CO₂ emissions. It is acknowledged that differences of opinion remain between the various stakeholders regarding the process and substance of developing individual supply-side proposals under the integrated approach. Stakeholders reconfirm the importance of also using demand-side measures to complement actions taken on the supply side and particularly stress the importance of providing accurate and consistent information to consumers. Consequently, there is unanimous agreement that proposals should be put forward to harmonise CO₂ labelling across the European Union.

For the medium term, stakeholders agree that the next-generation legislative framework for reducing CO₂ emissions from road transport on the basis of an integrated approach should come into force in the 2020 timeframe with the relevant proposals made by 2014 at the latest (see Conclusion 8 for more details).

The application of an integrated approach to CO₂ reduction-related regulatory activity should be continued while cost-effectiveness, technology neutrality, sufficient lead time and regulatory predictability should form a core part of implementing such an approach.

The integrated approach should cover a broad range of actions to maximise CO₂ reduction potential and achieve cost-effective CO₂ reductions from both new vehicles and the existing vehicle fleet. In principle, all measures which can contribute to reducing CO₂ emissions

² In this context, industry has stressed that differing taxation regimes always hinder the full realisation of economies of scale.



should be included and their application should be encouraged. However, what concerns that part of the future CO₂ reduction framework, which is subject to quantification (and which can thus contribute and count towards the meeting of targets or CO₂ reduction obligations), it should include all those measures and activities whose contribution is measurable, quantifiable and monitorable. Furthermore, it should enable clear identification of which stakeholders are responsible for delivering the improvements (and, in the case of joint initiatives, to what extent each stakeholder is contributing).

What concerns those pillars, which have thus far been left out of the quantified integrated approach (i.e. eco-driving, infrastructure, traffic management), it should be investigated whether and how it is possible to measure their contribution in the future. If the precise contribution of a measure cannot be determined with full accuracy, its contribution to the integrated approach should be based on a fair technical assessment of the likely CO₂ reduction which they can deliver as certainty has to be provided with regard to their impact being delivered in practice.

Stakeholders agree that the integrated approach is most effective when a strong demand-side framework complements measures taken on the supply side and therefore recognise that taxation policy has an important role to play with regard to consumers.

Finally, the integrated approach, in which individual actions reinforce and complement one another, should be clear and provide a high degree of confidence, predictability and proportionality to all the stakeholders involved. Hence, the overall legislative framework should clearly identify the contribution which the different pillars should make.

For the long term, all actors in the integrated approach should take steps to enable road transport in Europe to be largely decarbonised by 2050.

Conclusion 8: Measuring real-life emissions

The current New European Drive Cycle should be revised to improve its correlation to modern real world driving conditions, to provide consumers with a better perception of real life fuel economy and to ensure that the maximum number of possible “eco-innovations” (i.e. CO₂ reduction measures currently not covered by the test cycle) can be covered under the testing procedure in order to promote innovation and set a framework supportive of EU leadership in environmental technologies. Stakeholders agree that this revision should take place in the medium-term and should be used as a basis for the setting, measuring and monitoring of the new generation of fuel efficiency targets for 2020. In this context, developing a World Light Duty Test Procedure at the UNECE is supported by stakeholders and it is recommended that an effort should be made to modify the existing test cycle through developing this global procedure. The review of the test cycle will contribute to discussions at the UNECE of developing a globally harmonised test cycle for light duty vehicles; however, it is not conditional on the progress made at UNECE level. Any changes resulting from the new measurement system will have to be reflected in the new CO₂ targets.

Stakeholders agree that maximum efforts should be made to apply the World Heavy Duty Cycle at a global level.



Conclusion 9: Future of mobility

Stakeholders expect that the internal combustion engine will remain the primary power-train in 2020 perspective. In parallel, an increasingly important role will be played by hybrid technology (seen as promising in the context of providing a sustainable pathway to increased electrification), the increased use of biofuels (seen as a useful complement to conventional fuels provided that robust sustainability criteria are developed and technical compatibility is ensured) as well as Compressed Natural Gas and Liquefied Petroleum Gas. For the medium- and longer term, stakeholders agree that electric battery-powered vehicles (incl. hybrids and plug-in hybrids) and hydrogen-powered vehicles are currently the most promising options.

Markets remain the best means for determining the most appropriate technological mix for the future while stakeholders also agree that co-operation between public authorities and the private sector will be required if new automotive technologies and energy carriers are to be introduced on the market, particularly in order to ensure that policy- regulatory-, or standards-related requirements do not act as unnecessary barriers to the introduction of new technologies and that the necessary energy and fuels can be made available. There is unanimous agreement that, in line with better regulation principles, the various scenarios for the future should be verified through rigorous independent research and full stakeholder engagement. In order to develop a co-operative and realistic approach to future mobility stakeholders recommend that, inter alia, the following questions should be investigated in more detail:

- *future mobility characteristics for urban-, rural- and long distance transport (both passenger and freight) combined with an assessment of the role of different vehicle types therein.*
- *future energy needs of vehicles and the role of the different energy carriers (conventional fuels, alternative fuels, electricity, hydrogen) in meeting these needs.*
- *greenhouse gas emissions and other environmental impacts as well as energy efficiency implications associated with the production, distribution and use of individual energy carriers (using a lifecycle approach).*
- *future infrastructure and distribution network requirements needed to supply the energy safely.*
- *supportive measures directed at overcoming market entry barriers, especially in the transition period, for innovative new technologies, including their infrastructure needs.*
- *implications for the long-term global competitive position of the European industry, the automotive supply chain and for research and development activities.*
- *implications for the role and extent of future requirements regarding standardisation, regulation and consequences for the European internal market³.*

Conclusion 10: Road Safety

Applying an integrated approach based on vehicle technology, driver behaviour and infrastructure remains the most effective method for improving safety on European roads.

³ In this context, consumer representatives have raised the importance of looking at the possible implications of different schemes used in urban areas to limit access to specific types of vehicles.



What concerns past activity regarding vehicle technology stakeholders note, and broadly welcome, the Commission's proposals to legislate on CARS 21 road safety recommendations, including active safety measures such as the Electronic Stability Control, Advanced Emergency Braking Systems and Lane Departure Warning Systems. Stakeholders believe that while substantial progress has been made on the vehicle technology pillar of the integrated approach, a renewed focus and additional improvements with regard to the other pillars should provide further opportunities to enhance road safety, particularly where implementation remains uneven between different Member States. In this respect, the Commission has an important role to play.

In the future, action continues to be needed across each of these pillars.

In particular, with regard to the road user, effective traffic law enforcement (including cross-border enforcement as proposed by the Commission) as well as driver education and training should be concentrated on.

Regarding infrastructure improvements, moving forward quickly with high accident concentration sections remediation should be a priority together with conducting road safety impact assessments and audits.

Progress on vehicle technology should include putting the proposals contained in the General Safety Regulation into practice. Stakeholders consider active safety systems and intelligent transport systems as being of central importance to improving road safety in the future together with improvements in vehicles' compatibility. As such systems continue in technical development and mature towards market application, stakeholders agree that discussions on a new road-map beyond the vehicle technology measures already proposed should commence and should include all pillars of the integrated approach.

Stakeholders also believe that action should be considered to reduce casualties among vulnerable road users, such as pedestrians, cyclists and motorcyclists.

A series of new, post-2010 objectives for road safety should be agreed at the European level while not limiting individual Member States in establishing national targets.

Conclusion 11: Trade and overseas markets

The principle of increased trade liberalisation is supported as market access to emerging economies will be increasingly important for the global competitiveness of the automotive industry. Stakeholders continue to stress that in the context of trade relations the key issues which need addressing relate to the reduction of import tariffs, tackling non-tariff barriers, avoiding opt-outs for the automotive sector ("flexibilities") for protectionist purposes and ensuring that intellectual property rights are protected. Rigorous sectoral impact analyses should be used to evaluate the potential effects of trade agreements (individually and cumulatively) in order to establish a clear understanding of the possible employment, investment and market impacts associated with different trade policy options.



The lack of agreement in the Doha Development Agenda negotiations is of concern and it is recommended that talks be resumed as soon as possible with the aim of reaching an ambitious and balanced agreement based on the principle of mutual benefit and in order to achieve improved market access. In this context, the automotive industry has expressed its concern and disappointment with the latest NAMA (Non-Agricultural Market Access) text, particularly what concerns the possibility of the European Union applying a major reduction in its industrial tariffs with emerging economies maintaining peak tariffs through the exclusion of sensitive tariff lines from the Swiss Formula⁴ calculation. The automotive industry therefore urges the Commission to avoid a situation where the market access of its products to emerging markets would be limited while the European market would be subject to a substantial rise in imports with ensuing consequences for investment and employment. The Commission has stressed that, while market access is likely to improve in some cases, the value of a multilateral trade agreement for the EU economy is measured in non-restrictive terms across the whole European economy. The Commission expressed confidence that the DDA will create new trade and reinforce existing trade openness as insurance against future protectionism, which will result in overall benefits for the EU economy as a whole.

The Commission is negotiating a number of bilateral free trade agreements (FTAs). These negotiations should continue, with India, ASEAN and Mercosur being identified as being of particular importance. The key priority from the perspective of the automotive industry in these negotiations is to ensure significantly improved market access as a pre-condition for offering preferential access to the European automotive market. The automotive industry has expressed its concern about the possibility of an FTA with unbalanced automotive provisions being concluded with South Korea, in which the need to eliminate non-tariff barriers is not reflected. Solving the question of automotive non-tariff barriers remains a key concern for the EC and the Commission expressed optimism that such a solution can be found.

The Commission will continue placing significant emphasis on bilateral trade dialogues, in particular the Transatlantic Economic Council, in an effort to improve trade relations with Europe's key trading partners.

Efforts made to improve trade relations with China are welcomed. These should be intensified and continued as substantial challenges remain with regard to the regulatory and business framework and only limited progress has been observed thus far.

Conclusion 12: Research and Development

CARS 21 principles regarding research and development have largely been followed. Research activities should continue in areas of strategic importance such as energy, environment and safety with particular attention given to break-through technologies such as hybrid and electric vehicles, hydrogen and fuel cells, battery technology and energy storage systems as well as intelligent vehicles and roads. Different scenarios of future mobility should also be investigated with the aim of helping focus the future direction of R&D. A stable, long-term planning framework should be provided for R&D activities in order to allow for close

⁴ A mathematical formula designed to cut and harmonise tariff rates in international trade and used in the Doha Development Round.



alignment of EU and national research goals. Stakeholders also indicate that the reduction of administrative costs associated with R&D programmes needs to be continued.

Conclusion 13: Intellectual Property Protection

Efforts made by the Commission to improve intellectual property protection within the EU and internationally should be continued. In particular, an effectively-functioning Community patent should be agreed on and adopted as soon as possible.

Conclusion 14: Block Exemption Regulation

Stakeholders have different views on the need to renew the Block Exemption Regulation. However, all CARS 21 stakeholders acknowledge the need to maintain sound and fair competition in the automotive distribution and repair market for the benefit of consumers. Principles outlined in the Small Business Act should be respected so that the SMEs involved in this sector continue making a contribution to economic growth and employment in Europe. Future decisions regarding the BER should be based on the rigorous application of better regulation principles and maintain legal certainty and effective competition.

Conclusion 15: Access to vehicle repair information

Access to technical information has made considerable progress. It is necessary to ensure that in the future access to technical information is provided in a comprehensive manner taking into account consumers protection as well as safety, environmental and intellectual property concerns. In particular, continued importance should be attached to technical information access for independent and multi-brand aftermarket operators.

Conclusion 16: Restructuring

The automotive sector in Europe is constantly changing as a result of market trends, international competition, technological innovation and regulatory changes. Stakeholders support the role of CARS 21 in establishing a policy and legislative framework, which aims to provide supportive conditions for industrial competitiveness. Stakeholders welcome the role which the European Social Fund, the Globalisation Adjustment Fund and the establishment of the European Partnership for the Anticipation of Change in the Automotive Sector are playing in establishing an anticipative framework with regard to restructuring and skills needs. Stakeholders underline the importance of continuing to implement the work programme agreed under the European Partnership. Given the fundamentally important role of quality, productivity, skills and innovation for the future competitiveness of the European automotive industry, stakeholders reiterate the need to focus on furthering the education and availability of high-skilled labour in Europe.



CARS 21 MID-TERM REVIEW

REPORT

(29.10.2008)

1. INTRODUCTION

The original CARS 21 exercise⁵ concluded with the adoption of the CARS 21 High Level Group Final report⁶, which contained 18 recommendations aimed at increasing the worldwide competitiveness of the EU automotive industry and maximising the benefits for European society and industry through the development of a comprehensive regulatory approach to the automotive sector. The European Commission used the stakeholder inputs gained from the CARS 21 High Level Group in the development of a European policy approach to the automotive sector which was outlined in the Commission Communication on a Competitive Automotive Regulatory Framework (CARS 21 Communication).⁷ This Communication put forward a set of actions to be undertaken in policy areas in which the automotive value chain is regulated and which have an impact on its competitiveness. The overall aim of such an approach was to ensure that automotive policy is “linked-up” across these different fields.

The European Council followed up on the Commission Communication by adopting a set of conclusions on industrial policy and the automotive sector⁸ while the European Parliament reacted by issuing a report on CARS 21⁹. Both institutions expressed their support for the approach taken by the Commission in CARS 21.

In setting out a forward-looking approach in CARS 21, one of the key aims of the Commission was to provide regulatory stability and planning certainty for industry. The Commission acknowledged that one of the most difficult challenges related to such a policy-making process lay in striking the right balance between predictability on the one hand and quality and flexibility on the other. It was therefore agreed that a mechanism for regular revision and review should be put in place.

Consequently, the CARS 21 Communication set out that “the Commission will, together with all relevant stakeholders, conduct a mid-term review of the actions proposed in this Communication in the course of 2009 to monitor progress made, and, if appropriate, adapt the automotive regulatory framework on the basis of the results of this review.” Similarly, the

⁵ <http://ec.europa.eu/enterprise/automotive/pagesbackground/competitiveness/cars21.htm>

⁶ <http://ec.europa.eu/enterprise/automotive/pagesbackground/competitiveness/cars21finalreport.pdf>

⁷ A Competitive Automotive Regulatory Framework for the 21st Century: Commission’s position on the CARS 21 High Level Group Final Report. A Contribution to the EU’s Growth and Jobs Strategy COM (2007) 22

⁸ http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/intm/94184.pdf

⁹ This can be found on:

http://ec.europa.eu/enterprise/automotive/pagesbackground/competitiveness/a6_0494_2007/en.pdf



CARS 21 High Level Group Final Report referred to “a mid-term revision of the final recommendations and the roadmap in the course of 2009.”

Commission Vice-President Verheugen launched the CARS 21 mid-term review process in June 2008.

The basis of the mid-term review is provided by the Commission Communication on CARS 21 and the CARS 21 High Level Group final report. The mid-term review therefore follows the structure set out in these two documents and considers the following policy areas:

- Better Regulation and regulatory simplification
- Internal market (including taxation and fiscal incentives)
- Environmentally sustainable road transport
- Road safety
- Trade and overseas markets
- Research and Development
- Intellectual property
- Competition issues (Block Exemption Regulation, access to repair information)
- Restructuring

The first aim of the mid-term review is to conduct a stock-taking exercise (primarily a backward-looking approach) of the areas which were considered by CARS 21, evaluate progress made and assess the state of play, and finally consider whether any changes are necessary to the existing regulatory framework in the light of the experience and developments since the original CARS 21 High Level Group.

The second aim is to adopt a more forward-looking approach in selected policy areas and to discuss possible future directions in more detail. The second part of the review is directly linked to conclusions of the stock-taking exercise but stakeholder inputs and discussions in these policy areas have been broader and more strategic in nature. The policy areas to which this approach has been applied are better regulation, environment and energy and trade policy.

Broadly the CARS 21 mid-term review is seeking to answer the following questions with respect to each policy area:

1. Have the main recommendations and actions outlined in the CARS 21 final report and CARS 21 Communication been implemented? What remains to be done?
2. What, if any, have been the positive aspects with regard to individual policy areas and how could these be strengthened further?
3. What, if any, have been the negative aspects with regard to individual policy areas and how could these be improved?



4. Are there any new considerations (regulatory, market, technological, societal etc.) which should be taken into account or investigated further (e.g. in-depth studies) with regard to individual policy areas?
5. Should the policy direction outlined in the CARS 21 final report and the CARS 21 Communication be modified in any individual policy area? How should this be done and what are the key reasons for doing so?
6. Are there any specific recommendations or actions which should be added to the existing set of measures under CARS 21?

A High Level Conference on the mid-term review of CARS 21 has formed a focal point of the mid-term review process. It took place in Brussels on 29th October 2008 and brought together high level representatives of the same stakeholders who were involved in the original CARS 21 High Level Group:

- Members of the European Commission
- Ministers from key automotive Member States
- Members of the European Parliament
- Vehicle manufacturers
- Petroleum industry
- Automotive suppliers
- Environment-related policy institute
- Trade unions
- Consumers
- Automotive repairers and distributors

The meeting of the CARS 21 mid-term review Conference was preceded by several preparatory meetings and a public consultation. Drawing on this work, the High Level Group Conference has taken stock of the progress made in developing a competitive regulatory framework for the automotive industry and has held a high level discussion on the future perspectives of this industry in Europe and globally.

This report outlines the consideration given to each individual policy area and presents the views expressed by different parties during the CARS 21 mid-term review process. This report accompanies the High Level Conference conclusions, which build on areas of consensus between the stakeholders and have been unanimously agreed.



2. THE EUROPEAN AUTOMOTIVE INDUSTRY (“CONTEXT-SETTER”) AND CARS 21

The automotive industry is at the heart of the discussion about European industry, the need to ensure its competitiveness and the importance of having European capital-based flagship companies at the centre of the global marketplace. The automotive industry plays a **substantial role in the European economy**: in addition to the automotive value chain’s sizeable contribution to the European GDP, the industry remains one of the most important employers on the continent and is the largest private R&D investor. It also possesses a considerable presence in all major global markets.

Furthermore, the automotive industry’s **complex value chain** extends into several other parts of the European economy and its importance is largely derived from linkages within domestic and international economic structures. Automotive products are an important outlet for sectors such as mechanical and electrical engineering, electronics, steel, metal-working, chemicals and rubber. It is estimated that domestic upstream inputs into the production of the automotive industry amount to twice the value added in the industry itself. About 2/3 of the value-added as well as a substantial part of the employment and innovation activity in vehicle production comes from automotive suppliers while the retail and repairs sector comprises numerous small and medium sized enterprises.

The vehicle industry is deeply involved in the same **globalisation processes** which will impact the entire European economy in the decades to come. The rapid opening of global markets and the ensuing increase and diversity in the movement of capital worldwide are altering the environment in which the automotive industry operates. The automotive industry is global in its activities and the future is likely to be characterised by the emergence of new global competitors and increased international competition. Most of the demand increases for automotive products will come from rapidly developing external markets where production costs are lower than in Europe while the industry’s home market is likely to experience relatively slow growth. In spite of a foreseeable increasing global demand in the coming years and projected growth in Central and Eastern Europe, as well as on the fringes of the EU, the European car industry is facing a situation of a flat (and currently falling) demand in Western Europe in a context of intensified global competition and of increased imports from outside Europe.

In addition to near-universal competition in virtually all markets, the ongoing **technological revolution** is transforming the automotive industry from a traditional manufacturing-based sector into an increasingly knowledge-based one. These factors combined with the increased need to protect the natural environment, safeguard human health and operate in a high oil price environment have created a situation where the industry faces new challenges, responsibilities and opportunities which could alter both the industry and its products.

In Europe, the automotive industry has been facing a period of transition and has been taking important and often difficult steps to **optimise its cost-base and production processes**. Much of the recent restructuring process has been a reaction to structural problems which have existed in parts of the industry for some time. The automotive industry should not be viewed uniformly: different producers and brands have different histories and legacies, can compete in different market segments and often face different challenges. Generally,



however, many of these challenges are related to comparatively low productivity levels, high labour costs and labour market regulations. High fixed costs, structural overcapacity, unfavourable exchange rates and high prices in global commodity markets combined with aggressive price competition among manufacturers, have led many automotive companies to focus on their long term competitiveness through reducing costs and improving internal efficiency.

Excess production capacities in Western Europe and a steady build-up of new capacity in the new Member States and in neighbouring countries (e.g. Russia, Turkey, Morocco, Iran) combined with strong productivity increases will continue to put pressure on employment in some traditional production locations. The above developments are also likely to increase cooperation between automotive companies through the increasing standardisation of identical components for different vehicles, joint research activities and outsourcing. The combination of such factors will also have an impact on the supply sector whose relationships with the OEMs¹⁰ are usually close and highly specialised. The automotive sector has witnessed in recent years extensive structural shifts between OEMs and suppliers.

This already complicated situation is further exacerbated by the overall downturn in the global economic environment and the consequent negative effect on consumer confidence. The ongoing credit crisis has reached the mainstream sectors of the economy and is having a highly detrimental impact on the vehicle market. Given that motor vehicles are one of the most important consumer goods in terms of total household expenditure the demand for cars is highly correlated with the general business cycle. The current economic situation is therefore having a highly adverse impact on the sales of new vehicles in Europe which, by extension, further complicates the situation with regard to manufacturing capacity utilisation. The European Automobile Manufacturers Association reports that demand for new cars in Europe decreased by 7.3% in July and 15.7% in August. Over the first eight months of 2008, new car registrations in Europe declined by 3.9%. In the following month, registrations stalled to their lowest September level since 1998. Three quarters into 2008, 4.4% fewer cars were registered than over the same period of last year. Lower sales and an unfavourable economic environment in turn translate into reduced margins and profitability, put pressure on employment and limit the possibility of increasing R&D budgets.

Role of regulation and CARS 21

The strategies pursued and actions undertaken by individual companies largely determine the ability of the automotive industry to face the challenges of a changing world. The role of public policy is to create an environment in which industry can thrive whilst addressing concerns of general interest: these mainly relate to regulating the market, protecting the health and security of citizens and safeguarding the natural environment. The Commission believes that **public policy should be predictable while correctly reflecting the increasingly complex demands of society and anticipating trends in world markets as well as taking into account the overall economic situation and its implications for the automotive industry.**

¹⁰ Original Equipment Manufacturers: companies which manufacture and/or assemble the final product.



Given the vehicle industry's societal role and economic importance, it interacts with many key areas of European life and hence European policy. Apart from the obvious link to competitiveness and industrial policy (Lisbon Agenda), the automotive industry is an important consideration in the internal market policy, transport and energy policy, environmental policy, trade policy and research. Consequently any good policy approach has to be **comprehensive and well co-ordinated**.

The automotive industry is testimony to the policy success of the European internal market and has grasped the opportunities offered by the Union's enlargement policy. The Commission recognises that if it is to continue delivering on the creation of conditions in which the European industry can thrive, it needs to pursue a policy approach which reflects the situation in individual industrial sectors, keeps the cost of legislation to a minimum and is updated regularly in light of the speed at which the global economic and technological environment is changing.

The **Better Regulation** initiative of the Commission underlines the belief that co-ordinated, predictable and continuous policy frameworks can only be based on a policy-making culture, which relies on continuous dialogue and consultation. The original CARS 21 High Level Group was set up for this purpose and the current mid-term review forms part of the regular dialogue envisaged under Better Regulation.

Stakeholders involved in CARS 21 have indicated that it has made an important contribution to creating a more coherent policy framework for the automotive industry and there is therefore unanimous agreement among the stakeholders that the **continuity of the CARS 21 process in the future** would provide a useful forum for discussing automotive policy in a comprehensive and holistic manner.

3. BETTER REGULATION AND REGULATORY SIMPLIFICATION

3.1. Areas covered:

- regulatory simplification (replacement of selected EC directives by UN/ECE¹¹ regulations, repeal of obsolete directives, introduction of self- and virtual testing)
- international harmonisation (continued international harmonisation in the framework of the 1958 and 1998 UN/ECE Agreements)
- cost of regulation (effects of interactions between different policy areas, cumulative cost of legislation, reduction of administrative costs)
- quality of legislation and the regulatory process (application of better regulation principles, regulatory analysis, impact assessments, stakeholder consultations, inter-institutional aspects)

¹¹ United Nations Economic Commission for Europe



3.2. Main actions taken:

Regarding **regulatory simplification**, the Commission adopted a proposal for a Regulation concerning type-approval requirements for the general safety of motor vehicles¹² (the General Safety Regulation) that will repeal 50 Directives. It is proposed that, whenever appropriate, the repealed Directives will be replaced by the requirements of the corresponding UN/ECE regulations. The choice of a regulation will avoid transposition work and further delays. The possibility of using **virtual/self testing** has been introduced in the new framework Directive 2007/46/EC adopted by the co-legislators last year. Furthermore, the items concerned by virtual/self testing will be dealt in the implementing measures of the General Safety Regulation.

The Community has played a major role in pushing forward **global harmonisation**. Since 2006, 5 new UNECE regulations have been adopted of which 3¹³ were promoted by the European Community (EC). Furthermore, the Community has proposed a series of amendments to make sure that the scope of the 106 UNECE regulations adopted by the Community are compatible with the scope of EC Directives. Finally, 6 new Global Technical Regulations (GTR) have been adopted¹⁴ in particular on pollutant emissions and electronic stability control systems (ESC). Three of them were sponsored the Community. All 6 GTRs will be introduced into European internal legislation.

On 26 February 2008, a Commission Staff Working Document was issued setting out the major automotive-related developments that occurred during 2007 at the UNECE.¹⁵ It describes the progress achieved at the UN/ECE and of the respect observed by the Commission with the political orientations laid down in the relevant Community legislation. A report on 2008 UNECE developments will be issued in due course.

Regarding the cost, quality and process of regulatory activity (**better regulation principles**), the Commission has tried to follow the better regulation guidelines it has set itself and which were discussed in the original CARS 21 exercise. This includes accompanying individual legislative proposals by impact assessments and undertaking stakeholder consultations, which have formed a central part of every automotive-related piece of legislation put forward by the Commission since the last CARS 21 exercise.

¹² {SEC(2008) 1908} {SEC(2008) 1909} /* COM/2008/0316 final - COD 2008/0100 */

¹³ Regulation 121 on identification and controls, Regulation 122 on heating systems and Regulation 125 on forward vision

¹⁴ GTR 3 on motorcycle braking, GTR 4 on heavy duty emissions, GTR 5 on board diagnostic, GTR 6 on safety glazing, GTR 7 on head restraints, GTR 8 on Electronic Stability Control

¹⁵ SEC(2008) 280, 26.2.2008.



3.3. Feedback received from stakeholders¹⁶:

With regard to **simplification and international harmonisation**, there is unanimous agreement among the stakeholders that the Commission's actions in this area should be welcomed and believe that the policy line adopted in CARS 21 should be continued.

Stakeholders have welcomed the extension of the whole vehicle type approval system, progress on virtual testing and self-testing as well as continued efforts for more harmonisation. The overall approach adopted in the General Safety Regulation is also welcomed (although vehicle manufacturers¹⁷ have questioned whether inserting implementation measures between the type-approval legislation and the ECE regulation is going to lead to a simplification of type-approval legislation and has stressed the need to ensure that real simplification is achieved). Industry has also indicated that it would like to avoid a situation where type-approval procedures are increased for vehicle manufacturers in the future.

Stakeholders generally favour adopting an international approach to global issues and are aware that international harmonisation is a long-term process, which needs to be continued on a constant basis. Several stakeholders pointed to the progress on made on the Electronic Stability Control as a good example and a welcome development in the context of international harmonisation. There is agreement among the stakeholders that the EU should continue to take an active role in promoting further international harmonisation through the UN/ECE process and should actively seek further improvements of the 1958 and the 1998 Agreements of the UN/ECE, provided that harmonised standards and test procedures do not unduly undermine European social or environmental objectives.

The Commission has indicated to the stakeholders that on the basis of the current situation, its activities at the UN/ECE are likely to concentrate on the following:

- Implementing measures of the General Safety Regulation and corresponding work in UN/ECE (Electronic stability control, tyres, etc)
- Adoption of a GTR on pedestrian protection (similar to the EC Regulation) and a GTR on tyres (which is of particular importance for the European tyre industry)
- Looking at new fields of international harmonisation (e.g. alternative fuels, electric vehicles)
- Simplification of the legislation concerning other vehicles (tractors, motorcycles)

¹⁶ Sections of this report dealing with stakeholder feedback aim to provide a fair, balanced and descriptive assessment of the viewpoints put forward by the different stakeholders during the CARS 21 mid-term review process. It should also be noted that the Commission and its representatives are not considered to be "stakeholders" in this context.

¹⁷ It should be noted that throughout the text, references to "industry" signify the automotive industry a whole. Where the specific views of vehicle manufacturers, automotive suppliers or the petroleum industry are referred to, this is explicitly indicated.



Stakeholders also believe that the Commission should consult with Member States and all other relevant stakeholders before entering into negotiations at the UN/ECE. Given that the simplification and international harmonisation programme outlined in CARS 21 is well under way, it is considered useful to hold a specific consultation exercise with stakeholders on the direction of work at the UN/ECE, which would include covering subject areas and individual pieces of legislation on which action should be taken in the future. Consequently, there is agreement that the Commission, in co-operation with the relevant stakeholders, should develop a future work plan for activities at the UN/ECE in the near-term to ensure that a coherent future programme for international harmonisation activities is created.

Stakeholders believe that efforts need to be maintained to ensure that an increasing number of countries are actively engaged in the UN/ECE process (India and China are cited as the most important examples) although it is also appreciated that this could make the reaching of global agreements (especially under the 1998 Agreement) more difficult and time consuming. As a consequence it is suggested that efforts should also be continued to ensure that Global Technical Regulations achieve real world-wide harmonisation and that the appropriate balance between flexibility and harmonisation should be considered on a case-by-case basis. Some stakeholders also indicated (along the lines described in the original CARS 21 exercise) that it is desirable and important for Europe to retain its ability to legislate at its own initiative where necessary while others have pointed out that the global regulatory environment should be taken into account when considering European legislation.

Regarding **better regulation principles**, stakeholders' views fall into two main categories. On the one hand, the systematic use of impact assessments and stakeholder consultations is welcomed by all stakeholders and there is overall consensus that efforts made by the Commission to implement better regulation principles represent an important and welcome development. Stakeholders agree that despite some drawbacks (see below) the overall quality of legislation has seen an improvement since the launch of the CARS 21 exercise. In terms of following better regulation principles, the proposal on Pedestrian Protection¹⁸ has been brought as an exemplary example of the application of such principles in practice by both vehicle manufacturers and automotive suppliers.

On the other hand, some stakeholders have provided a critical evaluation of the way in which better regulation has been applied throughout the legislative process. Main areas of concern raised by stakeholders in this area relate to:

- Planning certainty and lead-times (for some legislative proposals the short time horizon for regulatory changes together with negative consequences in the context of automotive industry investment cycles as been raised)
- Timing and focus of impact assessments (industry and some Member States, in particular, has cited the lack of application of economic and cost-effectiveness principles in the analysis of legislative proposals related to environmental issues while environmental

¹⁸ Proposal for a Regulation of the European Parliament and of the Council on the protection of pedestrians and other vulnerable road users {SEC(2007)1244} {SEC(2007)1245}/* COM/2007/0560 final - COD 2007/0020 */



organisations suggest that too much of the focus has been on costs rather than the benefits of regulatory proposals)

- The need to improve an assessment of the costs and benefits (industry has suggested that in certain cases questionable assumptions have been used in impact assessments while the cumulative cost impact has not always received the attention it deserves; environmental organisations, the other hand, have expressed the sentiment that at times impact assessments are biased towards overestimating the costs and underestimating the benefits, as cost savings from innovation and learning are not easy to integrate into the cost assessment and the benefits are often more difficult to quantify and monetise given the complexity of their nature and timing, for example avoided health impacts, global warming impacts now and in the future).
- Timing and process of stakeholder consultations (the main issue raised in this context relates to need to conduct such consultations early in the process of developing legislation)
- The implementation of the integrated approaches to road safety and environment (several stakeholders indicate that too much focus in both policy areas has been on vehicle technology while progress in other areas has been more limited)
- The use of a two-step legislative approach (the co-decision process to set out the main parameters of legislation followed by the determination of technical details through the comitology process): all stakeholders agree that the application of a two-step approach is a good way of legislating; rather, concern has at times been expressed over the potential problems concerning lead times that this can create.

There seems to be broad agreement among the stakeholders about the usefulness of better regulation principles as outlined by the Commission and as discussed in the original CARS 21 exercise. No stakeholder is questioning the substance or the spirit of these principles, rather what causes concern to several parties is the way in which these principles are at times applied in practice. Consensus exists over the need to reconfirm the applicability of the existing principles while focusing more on the implementation side for the future, with particular stress on the cumulative cost of regulation, the application of cost-effectiveness principles as well as impacts on affordability and fleet renewal.

Several stakeholders have sought to reinforce the predictability and flexibility of regulatory approaches indicating that an appropriate balance should be struck between legislative certainty and the precision of future requirements. It has been suggested that this could be done through setting long-term targets on the basis of available information regarding technical feasibility, projected costs and expected benefits while subsequently conducting additional impact assessments closer to the application date of these targets taking into consideration establishing accurate and realistic ex-ante cost and benefit analysis.



Recent years have seen the adoption of a “wave” of automotive legislation (e.g. Euro 5/6¹⁹, Euro VI²⁰, CO₂ emissions²¹, Advanced Safety Regulation) by the Commission and several stakeholders have raised the question of cumulative cost of regulation and interaction between measures in different policy areas suggesting that more attention should be paid to the cumulative cost effects of regulation in the future. This issue is directly linked to **consumer affordability** and **fleet renewal**, which stakeholders consider central in achieving climate change, air quality and road safety goals. Environmental organisations have pointed to the need to take into account the positive synergies and benefits which can arise from complementary pieces of legislation and that costs of regulation change over time through innovation and learning.

In light of the importance which stakeholders place on the cumulative costs and benefits of regulation, an effort should be made to design a robust methodology for assessing the cumulative impact of regulation for the automotive industry as well as the inter-play between measures in different policy areas. The Commission could conduct an analysis on the cumulative cost, benefit and retail price impact of the last “wave” of legislation in the 2015 perspective and seek to establish a robust methodology for assessing these factors in future analyses taking into account impacts across the value chain.

However, although the cumulative cost of regulation can have an impact on manufacturers’ cost base and retail prices, it should also be pointed out that car prices have declined in real terms over the past decades despite stricter regulatory standards and consequently it could be argued that general economic conditions and the framework which influences consumers’ purchasing decisions are likely to be of higher importance for fleet renewal than costs stemming from regulation, which often seeks to increase the penetration of already existing technologies throughout the vehicle fleet. The limited options for increasing retail prices, however, are likely to have an impact on vehicle manufacturers’ profitability.

From the viewpoint of administrative burdens related specifically to regulations, vehicle manufacturers and automotive suppliers have expressed concern over the administrative costs and uncertainty related to compliance with the End-of-Life Vehicles Directive²² indicating that material bans under this Directive should be transferred into the general REACH²³ framework. The issue of needing to avoid conflicting regulations is also raised by the petroleum industry in the context of legislation related to regulating greenhouse gas emissions.

¹⁹ Regulation (EC) No 715/2007 of the European Parliament and of the Council of 20 June 2007 on type approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information

²⁰ Proposal for a Regulation of the European Parliament and of the Council on type-approval of motor vehicles and engines with respect to emissions from heavy duty vehicles (Euro VI) and on access to vehicle repair and maintenance information {SEC(2007)1718} {SEC(2007)1720} /* COM/2007/0851 final - COD 2007/0259 */

²¹ Proposal for a Regulation of the European Parliament and of the Council setting emission performance standards for new passenger cars as part of the Community's integrated approach to reduce CO₂ emissions from light-duty vehicles /* COM/2007/0856 final - COD 2007/0297 */

²² Directive 2000/53/EC of the European Parliament and of the Council of 18 September 2000 on end-of life vehicles

²³ Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)



As stated above, stakeholders agree that the **CARS 21 process should be continued** in the future although it is likely that its format will change.

In the course of the public consultation on CARS 21, several stakeholders (Japan Automobile Manufacturers Association, Transport and Environment, European Road Safety Advisory Council) have indicated the wish to be included in the CARS 21 group (or its successor forum) in the future in order to bring their expertise to CARS 21 deliberations in a more direct manner and to provide increased balance to discussions. Stakeholders have also exchanged views on the possible nature and mandate of the future stakeholders group with the Commission making it clear during the discussions that while processes such as CARS 21 can build stakeholder consensus and a platform for discussion, they cannot adopt a binding nature as this is reserved for due policy and legislative processes, which cannot by their nature be limited by alternative fora.

The European Metalworkers Federation has called for re-establishing the 10-year road-map which formed part of the original CARS 21 final report. This idea is also raised by Germany (DE) and supported by the United Kingdom (UK), which also calls for a continuous updating of the road-map to reflect technological developments. It is also suggested that CARS 21 should be reviewed with greater regularity in the future (e.g. every year). The automotive industry has indicated that the CARS 21 mid-term review should create a concise deliverable, which in addition to taking stock of the progress made also concentrates on the broad lines of future legislative development. The primary aim of such an approach, according to industry, should be the improvement of predictability and lead-times.

With regard to specific recommendations, Fédération Internationale de l'Automobile (FIA) has suggested changing Recommendation 1 vi, second bullet of the CARS 21 Final Report (“Well-designed voluntary agreements, particularly those that encourage changes in consumer behaviour, can in some cases deliver public interest objectives in a quick and effective way”). FIA has suggested that it should be rewritten to reflect the need for speedy implementation, in cases where influencing consumer behaviour is not sufficient to reach the objectives or where industry needs a level playing field to avoid distortion of competition.

4. INTERNAL MARKET

4.1. Areas covered:

- whole vehicle type approval system (effectiveness and scope)
- barriers to the proper functioning of the internal market
- effectiveness of the internal market across parts of the automotive value chain not related to new vehicles (e.g. distribution and repair, used vehicles, spare parts)



4.2. Main actions taken:

With regard to **the type-approval system**, the Commission has proposed a new Framework Directive²⁴ for the approval of motor vehicles to extend the EC Whole Vehicle Type-Approval Procedure (WVTA) to all vehicle categories on a mandatory basis.

The Commission has also updated its interpretative Communication on procedures for the type-approval and registration of vehicles **previously registered in another Member State**²⁵.

The Commission's proposal for a Directive on **passenger car related taxes**²⁶ remains under consideration by the co-legislators and has not made significant progress in Council.

The Commission has issued a guidance paper to Member States on the application of automotive emission standards in advance of Euro 5 relating to the use of financial incentives.²⁷

4.3. Feedback received from stakeholders:

Overall, stakeholders welcome the progress made on internal market issues and continue to **support the whole vehicle type-approval system** as the best means of safeguarding the internal market. When discussing barriers to the functioning of the internal market, stakeholders almost exclusively raise issues, which are not related to regulating the new automotive product as such (i.e. requirements for placing on the market).

It is indicated that formulating regulation in the framework of **Article 95** of the Treaty (internal market) is appropriate in many cases where the automotive sector is concerned as using **Article 175** (environment) can have a negative effect on the functioning of the internal market. Given that the Treaty makes it relatively clear which legal basis should be used in which circumstance (and hence that the use of Article 175 is unavoidable for certain types of legislation), there also seems to be widespread agreement that distortions to the internal market should be minimised when Article 175 is used. The UK has suggested that one means by which to ameliorate this negative impact could be to deliver environmental objectives through the type-approval system (e.g. the MAC²⁸ Directive on Mobile Air-Conditioning Systems). EUROPIA also points out that fuel and vehicle compatibility is an essential element of the internal market. Currently, motorists can travel across the EU and be assured that the fuel that is suitable for their vehicles is universally available. EUROPIA cautions against

²⁴ Directive 2007/46/EC of the European Parliament and of the Council of 5 September 2007 establishing a framework for the approval of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles (Framework Directive)

²⁵ Commission interpretative communication on procedures for the registration of motor vehicles originating in another Member State (2007/C 68/04), OJ C 68/15

²⁶ Proposal for a Council Directive on passenger car related taxes (presented by the Commission) (SEC(2005) 809) COM(2005) 261 final

²⁷ Commission Staff Working Paper – Fiscal Incentives for Motor Vehicles in advance of Euro 5 (SEC(2005)43, 21.1.2005)

²⁸ Directive 2006/40/EC of the European Parliament and of the Council of 17 May 2006 relating to emissions from air conditioning systems in motor vehicles and amending Council Directive 70/156/EEC



jeopardising this by a multiplicity of fuel standards, driven by un-coordinated environmental legislation (e.g. bio-fuels specifications).

Stakeholders argue that **different taxation systems** in different Member States are a major fragmenting factor for the internal market and industry regrets that little progress has been made (since the adoption of the CARS 21 final report) with respect to the proposed Directive on passenger car taxation. Industry argues that as a result, the European market remains highly fragmented from a tax perspective, obliging manufacturers to adapt their cars to the specificities of each national tax system and leading industry to conclude that the economies of scale which should result from the EU whole vehicle type-approval system cannot be fully achieved. This area is considered to be the biggest single source of fragmentation for the internal market.

Several Member States, however, note that aspects such as macroeconomic stability and business competitiveness combined with the subsidiarity principle provide a strong argument for retaining taxation and fiscal policy at Member State level. On the issue of taxation regimes, the UK, France (FR) and the Czech Republic (CZ) believe that taxation remains a “red-line” issue (FR indicates that it is “non negotiable”) due to differing circumstances in the Member States and a variety of considerations which national administrations have to take into account when developing their fiscal regimes.

It is also noted that several Member States have introduced vehicle-related CO₂ taxation at the national level while the draft Directive on passenger car taxation remains in Council. Industry argues that the systems which have been put in place differ widely from one another and are often not technology neutral. Germany agrees that it is difficult for industry to adapt their vehicles to different specifications driven by tax regimes, which can be costly and inefficient. In this context, Germany also expresses the view that establishing a common framework for CO₂-related taxes which could be similar to the system used under the VAT-band would be an interesting idea, which deserves further scrutiny.

Although stakeholders express their concerns regarding the effect of different taxation approaches very clearly, the need to remain realistic about the prospects of tax harmonisation also prevails. Industry has made it clear that it would welcome progress in the area of taxation and fiscal incentives wherever possible while admitting that it is difficult to ameliorate this situation as long as fiscal issues remain a “red-line” principle for some Member States.

Stakeholders generally support the use of proportionate fiscal incentives to provide additional stimulus for fuel efficiency, advanced safety systems and fleet renewal. Stakeholders (particularly industry) point to the need to ensure consistency in **fiscal incentives** across Europe to ensure that the market does not become fragmented. Industry expresses hope that the Commission will use its powers to pursue this goal regarding measures that violate EU legislation and distort the market (example of the Netherlands’ bonus-malus system is cited). Consumers point out that a common framework on fiscal incentives for new technologies has not been undertaken. All stakeholders acknowledge that taxation is primarily a matter for the Member States with automotive suppliers suggesting that it may be helpful to draw up a list of distorting incentives in the EU as a follow-up to the CARS 21 process so that the major problems can be clearly identified and appropriate steps discussed.



Efforts are already being taken by the Commission to apply a coordinated approach in respect of financial incentives in order to reduce the risk of barriers which weaken the effective functioning of the internal market. In January 2005, a guidance paper was issued to Member States on the application of automotive emission standards in advance of Euro 5. However, the questions now arising – essentially on the precise scope of the provision on financial incentives – are not dealt with in the guidance paper. It may, therefore, be useful therefore to update this paper, even if it is inevitable that sensitivities will arise on the taxation competences of Member States.

The issue of **individual type-approval** is raised by several stakeholders. Industry raises the issue of Member State authorities sometimes misusing the single vehicle approval procedure to validate imports of a large number of used cars without checking that these cars comply effectively with the applicable EU standards. The European Automobile Manufacturers' Association (ACEA) therefore suggests that whenever national authorities grant individual approvals to cars imported from third countries, (i.e. an exemption to one or more of the technical rules applicable in the EU) they should be obliged to ensure that these cars meet alternative, equivalent requirements. ACEA suggests that the Commission should put forward legislative proposals defining alternative requirements for the individual approval of used cars imported from third countries as soon as possible.

Used vehicles are still considered to pose problems with regard to the internal market. Stakeholders generally believe that the internal market remains to be completed in this area, arguing that import procedures and roadworthiness testing (together with taxation) pose the main problem in this field and act as a limiting factor on competitiveness and affordability. The Commission has also confirmed that it is aware of the difficulties which can be encountered in light of the numerous complaints which it has received from European citizens on this issue.

In the context of used cars, the Czech Republic (CZ) also raises an issue which is relevant in most new Member States and relates to the negative safety and environmental impacts of older vehicles. Consequently, CZ would welcome the opening of negotiations to prevent imports of second-hand vehicles more than five years old and indicate that the environmental and safety performance of older vehicles is having an adverse overall effect on achieving ambitious aims in these two areas.

The European Association of Automotive Suppliers (CLEPA) has raised several specific issues with regard to the internal market. It is suggested that for **re-manufacturing products**, a new regulation providing for an obligation of traceability obligation would be justified for safety or environment related products. Automotive suppliers are also in favour of a list of authorized **de-branding processes** which could be freely used throughout Europe. CLEPA suggests that such de-branding processes could be technically certified and approved through a certification authority. In addition, CLEPA points to difficulties regarding **biocides homologation process** which are highly different from one country to another and may lead to situations where a product using a biocide substance is homologated in one country and not in another. The practical problem, which suppliers draw attention to in this context relates to past occurrences where products using biocide have had to have been recalled from the



market in certain Member States despite having been certified and homologated in various other European countries. Suppliers would therefore welcome the harmonisation of the homologation processes of biocides used in automotive applications.

5. ENERGY AND ENVIRONMENT

5.1. Areas covered:

- Regulating pollutant emissions from light-duty vehicles (Euro 5 and 6 standards, public procurement)
- Regulating pollutant emissions from heavy-duty vehicles (Euro VI standards, international harmonisation)
- Regulating vehicle CO₂ emissions (regulation on CO₂ emissions from passenger cars; application of the integrated approach to reducing CO₂ emissions; review of measures under the integrated approach; application of principles related to measurability, monitorability and accountability; mobile-air conditioning systems, tyres, consumers/users; role of alternative fuels; role of information technology; regulating vehicle types other than passenger cars)
- Measuring real-world emissions
- Legislation concerning End-of-Life-Vehicles
- New test cycle reflecting real-world driving together with new noise limit values

5.2. Main actions taken:

The Commission has adopted a proposal for **Euro 5 and 6** emission limits to reduce pollutant emissions from passenger cars and light-duty vehicles. At the Euro 5 stage, the proposal will lead to a further 80% reduction in particulate emissions from diesel vehicles and a 20% and 25% reduction of NO_x emissions from diesel and petrol vehicles respectively. Euro 6 will set significantly lower emission limits for NO_x emissions from diesel cars (68 % lower than today's emission limit).

The aim of the proposed regulation for the **Euro VI** stage for heavy duty vehicles, limiting the emission of pollutant substances to the atmosphere, is to ensure the proper functioning of the internal market and to provide for a high level of environmental protection, while at the same time respecting the principles of better regulation and simplification. It introduces a reduction of 80% in NO_x and 66% in PM with respect to the Euro V stage that will be in force from 1 October 2008. Following the CARS 21 recommendations on the simplification of automotive legislation, the proposal on Euro VI is also repealing a number of currently applicable directives.



In parallel with the CARS 21 Communication, the Commission also adopted a strategy for the reduction of **CO₂ emissions** from passenger cars and light-duty vehicles in February 2007²⁹, which set out that the Community target of 120 grams CO₂/km should be reached through the application of an integrated approach. This was then followed by the adoption of a proposal for a Regulation to reduce CO₂ emissions from passenger cars in December 2007, which set out the methodology for achieving 130 grams CO₂/km from passenger cars as measured on the test cycle.

The Commission has adopted a proposal on General Vehicle Safety, with regard to **tyre pressure monitoring systems** and the fitting of new cars and commercial vehicles with **low rolling-resistance tyres**, which are expected to play a worthwhile role in reducing CO₂ emissions from cars as part of the integrated approach.

The Commission adopted a proposal for a Regulation on the type-approval of **hydrogen powered vehicles** on 10 October 2007³⁰. The proposal suggests introducing common safety requirements for hydrogen powered vehicles and thereby establishing a well functioning internal market for them. This will assure a proper level of consumer protection and will facilitate the approval and placing on the market of such vehicles.

The Commission has adopted a proposal³¹ for amending the Fuel Quality Directive 98/70/EC and a proposal for a Directive on the promotion of renewable energy sources³², which are expected to deliver on the **biofuels** contribution to the integrated approach.

The Commission proposal for a Directive on the **promotion of clean and energy efficient road transport vehicles**³³ has been treated in the Inter-Institutional process and a General Approach has been adopted by Council on 13 June 2008.

5.3. Feedback received from stakeholders:

Overall stakeholders have different views on past actions in the environmental field particularly what concerns fuel efficiency and CO₂ emissions legislation.

On **Euro 5 and 6** industry has expressed concern over the nature of the process and the development of the impact assessment while questions related to the use of accurate cost

²⁹ Communication from the Commission to the Council and the European Parliament 6 Results of the review of the Community Strategy to reduce CO₂ emissions from passenger cars and light-commercial vehicles {SEC(2007) 60} {SEC(2007) 61} /* COM/2007/0019 final */

³⁰ Proposal for a Regulation of the European Parliament and of the Council on type-approval of hydrogen powered motor vehicles and amending Directive 2007/46/EC {SEC(2007)1301} {SEC(2007)1302} /* COM/2007/0593 final - COD 2007/0214 */

³¹ COM(2007) 18, Proposal for a Directive of the European Parliament and of the Council amending Directive 98/70/EC as regards the specification of petrol, diesel and gas-oil and the introduction of a mechanism to monitor and reduce greenhouse gas emissions from the use of road transport fuels

³² Proposal for a Directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources {COM(2008) 30 final} {SEC(2008) 57} {SEC(2008) 85}/* COM/2008/0019 final - COD 2008/0016 */

³³ Revised proposal for a Directive of the European Parliament and of the Council on the promotion of clean and energy efficient road transport vehicles /* COM/2007/0817 final - COD 2005/0283 */



figures have also been raised. The automotive industry also notes that sufficient lead time has been given to industry between the enforcement of Euro 5 and Euro 6 and has indicated that from its perspective the legislative outcome is broadly satisfactory. In the context of emissions legislation, the Association for Emissions Control by Catalyst has pointed to the need to consider defining requirements for replacement emissions control devices during the public consultation.

With regard to **Euro VI**, the Commission's proposal is generally welcomed by the stakeholders. The issue of lead times is raised again in the context of comitology procedures while automotive suppliers have pointed to the need to bridge the application timeframes of Euro VI and European air quality targets on NO₂. Several stakeholders welcomed the approach of trying to use Euro VI as the basis for a global emissions package. Industry believes that this will greatly enhance the competitiveness of the EU heavy-duty industry and has expressed preference for one package of measures for Euro VI (one global development target) and from one application date.

The application of the **integrated approach to CO₂ emissions** is considered incomplete by industry and several other stakeholders who believe that the focus is too much on vehicle technology. Other stakeholders disagree with this view and indicate that although action is needed across different areas, improvements in the fuel efficiency of vehicles are central to any CO₂-reduction strategy from road transport. Industry expresses the view that other measures of the integrated approach should start making a contribution to CO₂ reductions from road transport while making the following specific comments on the application of the integrated approach:

- Vehicle technology continues to carry most of the burden with regard to CO₂ emissions reductions
- The different pillars of the integrated approach should include vehicle technology, fuels, infrastructure and traffic management, driver behaviour, driver information and taxation (industry believes that the Japanese system of reducing road transport CO₂ emissions provides a useful example of how such a system could work)
- The costs of achieving environmental goals should be compared not only to the cost of other measures in the transport sector but also to the cost of achieving comparable CO₂ reductions from other sectors (cost effectiveness analysis)
- There is a lack of progress on CO₂-based taxation as Member States' action on moving towards CO₂-based tax systems is not co-ordinated, which undermines the overall effectiveness of the measures and further fragments the internal market.

The oil industry points out that a substantial part of the efforts under the integrated approach rests with the petroleum industry. The oil industry indicates that it has supplied a steadily increasing amount of diesel fuel to accommodate the increasing proportion of diesel vehicles with the associated reduction in CO₂ emissions. The oil industry also points to the fact that the pending legislation on biofuels is likely to impose an obligation on the industry to supply fuels with a reduced CO₂ impact. The oil industry also points out that an increased



dieselisation of the car fleet will put an increasing strain on European refining and will lead to increased diesel imports, leading to a deterioration of the security of supply situation.

The European Petroleum Industry Association (EUROPIA) agrees with the car industry about the need to compare road transport emission reduction costs to those in other sectors of the economy. Although the oil industry points out that a cost-effective policy-framework should as a general principle favour the most cost-effective measures before resorting to the more expensive ones, EUROPIA also indicates that this should not lead to a mechanistic approach whereby cost-effectiveness forms the only basis for choosing CO₂ reduction measures, which should be based on a range of socio-economic factors.

FIA proposes that as part of the integrated approach, legislation should be brought forward on consumer information on the purchasing of cars and on assisting the promotion of eco-driving, while action should also be taken with regard to requirements on gear shift indicators.

IEEP agrees that the challenge of addressing CO₂ emissions from road transport requires action by all relevant parties on vehicle technologies, fuels, driving behaviour, consumer demand and government in its influence by using taxation and labelling to give signals and information to the consumers. Some elements - those relating to vehicle technology - are part of the “integrated approach” as regards a specific g/km target for the automotive industry and other elements are part of a “wider integrated approach”.

IEEP argues that an integrated approach is necessary but that only certain elements can or should be advanced through legislation and other measures at an EU level. Technical standards need to be advanced at a European Level, driving behaviour at a lower level.

The role of consumers as part of the integrated approach is considered important by all stakeholders who welcome the Commission’s efforts to ensure that coherent and uniform information on fuel efficiency is provided across the EU. Consequently, stakeholders believe that a harmonised European labelling system concerning the fuel efficiency and CO₂ performance of vehicles would significantly contribute to the provision of consumer information and welcome the Commission’s efforts to develop a proposal which would implement such harmonisation regarding showroom labels and strengthen the enforcement of current provisions in the car labelling directive³⁴.

Stakeholders also seem to share the view that Green Public Procurement can be an opportunity to promote clean and energy efficient products of the industry if its rules are well designed and applied in uniform manner across the EU.

The UK has provided useful examples of its actions under the integrated approach (in line with its position that best practices should be shared between the different stakeholders involved) and also points to activities in relation to awareness-raising, labelling and the introduction of an eco-driving element into its driving test as well as to programmes which

³⁴ Directive 1999/94/EC of the European Parliament and of the Council of 13 December 1999 relating to the availability of consumer information on fuel economy and CO₂ emissions in respect of the marketing of new passenger cars *OJ L 12, 18.1.2000*



are financed with a view to reducing energy consumption and promoting the fuel efficient use of vehicles.

Despite the fact that the integrated approach has not been as widely adopted as some stakeholders would like, Council and Parliament are currently discussing a proposal for reducing CO₂ emissions from cars, which is embedded as part of the integrated approach. This approach has clearly been adopted as an important principle of the CO₂ and cars strategy. It should also be borne in mind that while vehicle manufacturers continue to criticise this proposal on several grounds, the Commission's new CO₂ and cars strategy has created additional flexibility through adapting the industry's initial 120 g/km target as measured on the test-cycle to 130 g/km through the test cycle with an additional 10 grams coming from other measures which draw on various CO₂ reduction options outside the test-cycle.

Stakeholder comments on the **CO₂ and cars proposal** largely followed those expressed by the respective stakeholders in preparation of the proposal. The automotive industry criticises the proposal on both process and content (particularly relating to the impact assessment, the level of penalties, lead times and the lack of flexibilities). CLEPA draws attention to the clear inter-play between CO₂ emissions and the rise in oil prices, which should act to strengthen the rationale among consumers towards increased fuel efficiency. It also indicates that European industry has the chance of becoming a technology leader in the area of fuel efficiency while also suggesting that instead of reliance on high penalty levels, using proportionate sanctions in combination with an incentive approach might be a more efficient way of reaching the desired environmental outcome. CZ, similarly to the automotive industry and the oil industry, indicates that there is a need to cross-reference the costs of achieving CO₂ reductions in the automotive sector to costs of achieving similar effects in other sectors of the economy.

The Institute for European Environmental Policy (IEEP) raises the issue of footprint being better suited in the future for use as a utility target than mass (which is currently being proposed) as there are likely to be missed opportunities for CO₂ emissions reductions due to weight reduction initiatives, and points to the need to ensure that legislation on CO₂ results in a strict adherence to the targets set. Consumers consider clear and ambitious goals on pollutants and on CO₂ emissions from cars as well as the recognition of tyres as contributing factors in the mitigation of greenhouse gas emissions as a positive factor.

On the setting of long term targets, stakeholder views are also divergent. Some stakeholders suggest that ambitious (and largely binding) long-term targets should be set in the framework of the current discussions on the CO₂ and cars proposal. Others believe that indicative targets should be set and later refined in line with Better Regulation principles outlined above. There are also stakeholders who believe that long-term targets should be subject to a full impact assessment later and that consequently these should not be indicated at the current time.

There is consensus among stakeholders that the technologies to meet the CO₂ targets as proposed by the Commission already exist and are available on the market. Hence the main issues for vehicle manufacturers relate to the cost, the timing of application and the penalties associated with the Commission's proposal.



It seems unlikely that a common position can be established with regard to past measures to reduce CO₂ emissions. Factually, it can merely be concluded that stakeholders have different views on the proposal. It is worth pointing out that a start has been made on the application of the integrated approach to the reduction of CO₂ emissions as well as indicating that the functioning and scope of the integrated approach could be improved in the future as knowledge and understanding with regard to different measures is improved.

ACEA has expressed concern over the planned legislation on **CO₂ emissions from light duty commercial vehicles** pointing to the lack of data for impact assessment to support targets, a lack of lead-time and a belated consultation process that has not given stakeholders enough time to contribute to the preparation of the proposal.

The lack of results with regard to **Gear Shift Indicators (GSI)**, Mobile Air-Conditioning (**MAC**) and **End-of-Life Vehicles** has also been pointed out by consumers. ACEA has stressed that existing and forthcoming legislation addresses environmental aspects of gear shift indicators, MAC and End-of-Life vehicles. The Commission has made clear that legislative initiatives addressing GSI and MAC energy efficiency are being prepared, legislation covering the use of refrigerants in MACs is in place since 2006³⁵ while legislation on End-of-Life Vehicles is in place since 2000³⁶. On the latter, industry has indicated a lack of coherence with other sector-specific legislation (Restriction of the use of certain Hazardous Substances, RoHS³⁷), and the general European Chemicals Legislation REACH³⁸.

On **alternative fuels**, stakeholders broadly continue to support their inclusion in addressing energy security and road transport CO₂ emissions while believing that technology neutrality should be retained and that sustainability criteria need to be established to apply equally to all fuels and adhered to.

EUROPIA asks for consistency in legislative requirements (e.g. Fuel Quality Directive and the Renewables Directive) and for a clear distinction between the capabilities of the oil and the car industry under the integrated approach. Meanwhile ACEA continues to see biofuels (incl. 1st generation biofuels) as a viable pathway to reducing CO₂ emissions pending EU agreement on sustainability criteria and addressing technical concerns to ensure fuels and “fit for the purpose.” ACEA also indicates its commitment to E10 and B7 fuels in the short term. Industry continues to stress the particular importance of promote and incentivising 2nd generation biofuels.

The oil industry asks for a better application of principles of better regulation in the context of biofuels legislation. EUROPIA indicates that currently there exists a risk that requirements related to biofuels will be regulated under both the Fuel Quality Directive (COM(2007) 18)

³⁵ Directive 2006/40/EC of the European Parliament and of the Council of 17 May 2006 relating to emissions from air conditioning systems in motor vehicles and amending Council Directive 70/156/EEC

³⁶ Directive 2000/53/EC of the European Parliament and of the Council of 18 September 2000 on end-of life vehicles

³⁷ Directive 2002/95/EC of the European Parliament and of the Council of 27 January 2003 on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS)

³⁸ Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)



and the Renewables Directive (COM/2008/0019 final), which may lead to incoherent or mutually contradictory regulation in terms of level of targets (GHG reduction target and energy content target) and of sustainability criteria.

EUROPIA has also pointed out that the carbon footprint of the fossil fuel component has raised the issue of CO₂ emissions from refineries (in this context, increased emissions from refineries resulting from the increased use of diesel vehicles has been referred to) and led to suggestions that the CO₂ emissions of fossil fuels should, at least partially, be covered by the Fuel Quality Directive. EUROPIA supports using the European Trading Scheme (ETS) for regulating CO₂ emissions from refineries.

Regarding fuels legislation, EUROPIA believes that Article 95 is the appropriate legal basis. The oil industry also points out that policy and regulatory activity with regard to alternative fuels should take into account the changing nature of the oil industry, whereby integrated oil companies (involved in exploration, production, refining, distribution and marketing) are giving way to a more fragmented pattern in which wholesale oil companies are growing in importance at the same time as the fuel retailing business is moving towards outlets also associated with other commercial activities.

Input from Transport and Environment to the public consultation suggests that more attention should be given to the performance of vehicles with intelligent speed adaptation, speed limiters and the height of vehicles being put forward as areas which should be looked at in more detail in the future.

All stakeholders acknowledge that any test cycle is likely to be an imperfect representation of reality because elements such as different driving conditions and driver behaviour cannot be incorporated into the measurement methods with full accuracy. Stakeholders do, however, generally support **the revision of the New European Drive Cycle** in the medium term and there seems to be a broad consensus that this should be done in time for the next generation of environmental standards so as to ensure that these discussions do not interfere (and confuse) with the current debate on CO₂ emissions. Consequently, ACEA has expressed support for the **World Light Test Procedure (WLTP)** initiative at UNECE and asks the Commission to participate fully in the WLTP debate as well as encourage other stakeholders to look towards WLTP as a world-wide test cycle in the future. Stakeholders believe that it would be useful if the Commission defined a general framework for the scope of WLTP work. IEEP stresses that a global procedure is desirable provided that it does not unduly compromise the attainment of Europe's particular social and environmental objectives. ACEA also urges the Commission to find an acceptable political agreement with other stakeholders (particularly the USA) so that World Heavy Duty Cycle (WHDC) can be applied at a global level (also see the forward looking elements of this section for more information on this issue).

It is also pointed out that action should be taken with regard to the maximum weight limit (2610 kg) with regard to measuring the emissions of M1 vehicles in order to ensure that possible loopholes concerning heavier M1 category vehicles are closed.

FIA argues for legislation and global harmonization in areas of alternative energy and propulsion while CZ suggests taking into account global trends and approaches and becoming



established on other markets. FIA also argues that alternative energy and propulsion is likely to require a whole range of legislation on the safety and security of production, transport, distribution and use of the energy sources and propulsion systems.

Regarding **End-of-Life Vehicles (ELV)**, concern continues to be expressed over the non-harmonised implementation and lack of legal coherence (overlapping legislation). The latter, in particular, is considered to be a significant problem for industry, which cites the level of bureaucratisation as a major hindering factor. Regarding legal coherence industry recommends that avoiding overlapping regulations should be a priority. Industry also suggests that the differences between the ELV directive, battery directive³⁹ and the RoHS directive⁴⁰ need to be better clarified and duplications of efforts should be avoided when it comes to aspects that are already well handled under the RRR (reusability, recyclability and recoverability) Directive⁴¹. In addition to that, legislation should be harmonised to the maximum possible extent taking into account the recently revised Waste Framework Directive⁴². Industry strongly believes that in the forthcoming review of the End-of-Life Vehicles legislation (planned for 2009) the points made by stakeholders should be investigated as part of the due process when the review takes place⁴³.

Several stakeholders continue to stress the importance of dealing with **noise** issues. On the one hand it is suggested that while regulation should encourage technical improvements, traffic management should be focused on as a priority. On the other hand it is suggested that the Commission should take the opportunity to revise the limit values with regard to noise as soon as it has received the relevant data (strongly supported by both T&E and the Norwegian Pollution Control Authority) and that noise issues should be given particular attention in high powered vehicles and two wheelers.

³⁹ Directive 2006/66/EC of the European Parliament and of the Council of 6 September 2006 on batteries and accumulators and waste batteries and accumulators and repealing Directive 91/157/EEC

⁴⁰ Directive 2002/95/EC of the European Parliament and of the Council of 27 January 2003 on the restriction of the use of certain hazardous substances in electrical and electronic equipment

⁴¹ Directive 2005/64/EC of the European Parliament and of the Council of 26 October 2005 on the type-approval of motor vehicles with regard to their reusability, recyclability and recoverability and amending Council Directive 70/156/EEC

⁴² Directive 2006/12/EC of the European Parliament and of the Council of 5 April 2006 on waste

⁴³ Concerning administrative costs, industry has indicated that discussions on exemptions from Annex 2 of the End-of-Life vehicles Directive require large resources. This burden appears substantial to industry given the fact that a general framework for the use of substances is now in place under REACH. The continuous discussions on exemptions from the ELV material bans and their expiry dates are considered by industry to lead to a costly administrative burden as well as a situation of uncertainty.

Annex II of the ELV-Directive specifies a number of exemptions from the ELV material bans. These exemptions expire at certain dates and Annex II is regularly reviewed. Industry indicates that discussions are currently ongoing on a review of Annex II as the current version mandates the expiry of some exemptions without any feasible alternatives being available (lead in solders is provided as an example). Industry considers that a start of the review process as soon as possible is therefore of high importance. Industry believes that, in general terms, the transition of the material bans under ELV into the general REACH framework should be started, as had been recommended in the CARS 21 final report (see recommendation 10).



5.4. Forward-looking considerations to energy- and environmental questions⁴⁴:

The CARS 21 mid-term review has tried to invite stakeholder feedback and consider two main inter-linked questions:

1. What are the likely future trends with regard to the development of vehicles and road transport as seen from the perspective of energy consumption and greenhouse gas emissions?
2. What are the possible implications for the future regulatory system concerning fuel efficiency and CO₂ emissions (2020 perspective) and what should be taken into consideration in the preparatory work?

Future trends and developments:

There seems to be **broad consensus** among stakeholders regarding the future technological development of vehicles in Europe.

There is agreement among stakeholders that the **internal combustion engine will continue to be the primary power train in the 2020 timeframe**. Industry has pointed out that the adoption of new technologies is likely to be a gradual process and that it is difficult to determine its precise timetable, which will depend heavily on the economic and technological developments.

Stakeholders have identified **electric battery-powered vehicles** and **hydrogen-powered vehicles** as the two likely options for the longer-term future (the cost of alternative power-trains needs to be lowered further for them to be accessible widely and the rate at which fleet renewal takes place is also likely to play a role). Furthermore, product development and marketing strategies in the automotive industry suggest that these break-through technologies will first be introduced into premium segment, high-priced passenger cars before costs can be decreased to a level where they can be sold on the volume market. Some stakeholders have, however, pointed out that this may not necessarily apply where a co-ordinated, large scale roll-out of new technologies is envisaged).

This in turn leads most stakeholders to agree that the challenge of researching and marketing increasingly clean and fuel efficient vehicles should be met through **two parallel processes**:

- Improving the fuel efficiency of **conventional engines** and entire vehicles which can help cut oil consumption and reduce CO₂ emissions.
- Continued research and marketing of **different power-train technologies** (electricity and hydrogen) which in the longer-term offer the perspective of zero-emissions.

⁴⁴ This section tries to present a consensual view on the future of energy- and environmental issues and where positions specific to individual stakeholders are indicated, this has been clearly expressed.



With regard to the first process, several technologies to increase the efficiency of conventional power-trains are available:

- There remains scope for improving the fuel efficiency of internal combustion engines through conventional means with industry citing the optimisation of transmission, thermo-management, reducing weight and aerodynamic improvements. ACEA also indicates that conventional engines are already highly developed and further progress may therefore be costly. Vehicle manufacturers also expect petrol technology to close the fuel efficiency gap with diesel at some stage in the future.
- **Hybrid technology** (mild hybrids, full hybrids or plug-in hybrids): the number of hybrid vehicles on the market is set to grow in the coming years and stakeholders seem to share an overall optimism with regard to this technology. The industry has identified the main technological challenges related to the market acceptance of hybrid technology, which concern the durability and reliability of battery technology, weight implications, the need to reduce costs associated with hybrids and the need for infrastructure (in the case of plug-in hybrids). The prospects of battery technology have, however, increased in the last few years with Lithium-Ion batteries appearing particularly promising.
- Increased use of **biofuels**: stakeholders are not entirely of the same mind with regard to the promotion of biofuels, particularly 1st generation fuels. The automotive industry continues to consider both ethanol and FAME (fatty acid methyl ester) as viable pathways to reducing CO₂ emissions and oil dependency while having a strong preference for so-called 2nd generation biofuels, which are of better quality, deliver more greenhouse gas (GHG) savings and do not compete with food production. In this context ACEA has stressed the importance of reaching an EU agreement on sustainability criteria, points to the need of addressing technical concerns related to biofuels and the importance of incentivising 2nd generation biofuels. With regard to the technical compatibility of 1st generation biofuels, ACEA commits itself to E10 and B7 biofuels blends in the short term provided a pan-European approach can be taken and adequate lead-time is provided. Environmentalists and the oil industry appear more cautious or overtly sceptical on the impact and future perspective of 1st generation biofuels although they do not appear to extend the same level of criticism to more advanced 2nd generation biofuels depending on their source and the robustness of sustainability within (see conclusions of the original CARS 21).
- **CNG and LPG** (Compressed Natural Gas and Liquefied Petroleum Gas) also offer potential in terms of contributing to environmental and energy diversity goals
- Industry has also pointed to additional **eco-innovations** (e.g. exhaust heat recovery, LED - Light-Emitting Diode - lights, solar panels etc.) as also being able to reduce CO₂ emissions from conventional vehicles despite not being reflected in the test-cycle. Furthermore, a contribution by the European Window Film Association has suggested that window film could also make a sizeable contribution to reducing CO₂ emissions from cars.



In addition to engine and fuel concepts several stakeholders also point to the importance of other measures such as the increased use of lightweight materials as well as improvements in aerodynamics. When it comes to commercial vehicles, heavy duty diesel engines will further improve thermal efficiency and light duty diesel engines will also increase in efficiency. Furthermore, many stakeholders also see a role for modernised information and telematic systems to improve the environmental performance of vehicles.

With regard to electricity the main future challenges which have been identified relate to:

- Durability and reliability of batteries (and hence range)
- Weight and volume of components (particularly batteries)
- Cost reduction
- Development of charging infrastructure
- Possible standardisation requirements for electric vehicles

Hydrogen cars can operate on the basis of either using hydrogen directly in an internal combustion engine or through using it as an energy carrier in a fuel cell vehicle. The biggest challenge with regard to hydrogen relates to its storage in a vehicle. Other major issues which need to be addressed with regard to hydrogen technology relate to:

- Cost reduction of vehicles and fuels
- Infrastructure

It is also noted that hydrogen technology is still at a pre-competitive stage and that public sector assistance may be needed for its future development.

It should also be noted that industry has raised the possibility of electric cars and hydrogen cars operating together in the future (depending on economic and technological developments) while the IEEP sees the gradual proliferation of hybrid vehicles as potentially being able to provide a sustainable route towards electrification.

Stakeholders generally agree that market forces provide the best alternative for determining the most successful innovations and that the best technologies and alternative power-trains are likely to grow out of well-functioning competition within the framework of a market economy while acknowledging that policy frameworks are needed to match fuel availability with growing vehicle demand and to stimulate consumers to consider the new technology

The framework conditions for improving conventional engines are mainly in place while the consideration of the implications of break-through technologies is not as advanced. This is an important issue given that in the longer term the overall fuel efficiency challenge is likely to change from being an environmental one (i.e. engine emissions) to being an energy question (how to produce and distribute the energy required for vehicles in a sustainable manner). Consequently, policy-makers in Europe (and beyond) should seek to place future mobility into a more strategic context and investigate questions, such as those identified by EUROPIA during the stakeholder consultation. Areas of future evaluation should include:



- future mobility characteristics for urban-, rural- and long distance transport (both passenger and freight) combined with an assessment of the role of different vehicle types therein.
- future energy needs of light duty vehicles and the role of the different energy carriers (conventional fuels, alternative fuels, electricity, hydrogen) in meeting these needs.
- greenhouse gas emissions and other environmental impacts as well as energy efficiency implications associated with the production, distribution and use of individual energy carriers (using a lifecycle approach).
- future infrastructure and distribution network requirements needed to supply the energy safely.
- supportive measures directed at overcoming market entry barriers, especially in the transition period, for innovative new technologies, including their infrastructure needs.
- implications for the long-term global competitive position of the European industry, the automotive supply chain and for research and development activities.
- implications for the role and extent of future requirements regarding standardisation, regulation and consequences for the European internal market.

Stakeholders are in agreement that a consistent EU-wide strategy (agreed upon by the Commission, the Member States and the European Parliament) is needed on alternative fuels so that sufficient certainty is provided with regard to alternative fuels remaining available, economically competitive and attractive and able to offer incontrovertible improvements in carbon efficiency.

In particular, stakeholders are in agreement over the indispensable role played by infrastructure and it would appear that a clear and integrated strategy needs to be developed for the infrastructure and distribution elements of future mobility. Industry considers it critical that supporting refuelling infrastructures be established to support electric vehicles and hydrogen-powered vehicles. IEEP points out that this is also of relevance for EU regional policy.

The Commission should also consider the possible role of standardisation with regard to new technologies as well as the possible impacts of their market penetration on the internal market (e.g. action by individual MS with regard to specific technologies).

Stakeholders also seem to agree that in line with better regulation principles it is important to ensure that the various scenarios for the future are verified through rigorous independent research and full stakeholder engagement.

Future regulatory system:

The understanding that future improvements in vehicle fuel efficiency should focus on improving the efficiency of conventional vehicles as well as take into account the potential offered by future technologies, such as electricity and hydrogen should also be reflected in the regulatory approach to the fuel efficiency of light-duty vehicles.

The stakeholder consultation focused the following issues:



- Possible design elements of the future regulatory framework and the functioning of the integrated approach
- The role of the test procedure in the light of future fuel efficiency and CO₂ regulation
- Possible impacts on the type-approval system
- Identification of any additional areas which should be considered or studied further

With regard to the principles which should be applied to the future **integrated approach**, stakeholders have indicated that cost-effectiveness, technology neutrality, sufficient lead time, appropriate levels of intervention and regulatory predictability are key factors in ensuring that compliance costs are kept at a level where they do not negatively impact the competitiveness of the automotive industry.

Several stakeholders have argued that the future application of the integrated approach should cover a wider range of actions to maximise CO₂ reduction potential and achieve cost-effective CO₂ reductions. It has been suggested that the following measures should be included as separate pillars of the integrated approach:

- Vehicle technology
- Fuels
- Eco-driving
- Infrastructure and traffic management
- Consumer information
- Taxation

As outlined in the original CARS 21 exercise, the future fuel efficiency and CO₂ reduction framework can quantifiably only include measures and activities:

- whose contribution is measurable, quantifiable and monitorable
- where it can clearly be identified which stakeholders are responsible for delivering the improvements and, in the case of joint initiatives, to what extent each individual stakeholder is contributing.

The automotive industry is expected to form one of the main pillars under the integrated approach and it is likely that the next generation of fuel efficiency targets for the industry will be set for the 2020 timeframe. The integrated approach should cover a broad range of actions to maximise CO₂ reduction potential and achieve cost-effective CO₂ reductions from both new vehicles and the existing vehicle fleet.

In addition to passenger cars and light commercial vehicles, more attention will be paid to the use of more environmentally friendly heavy-duty vehicles. The Commission is currently working on trying to establish a reliable test method for measuring the CO₂ emissions of whole heavy-duty vehicles (as opposed to engines).

The automotive industry has indicated that one method would be to minimise empty miles and getting the best use of trucks through well planned and executed supply chains. The need to improve supply chain efficiency will ultimately increase the importance of technology,



such as GPS, to calculate loads and empty miles reduction as well as the most efficient modal split. In the past years, logistics has developed markedly and empty running has been reduced. The "modular concept" that was introduced in 1996 would enable up to 50% more freight to be carried in one vehicle. The use of this concept would allow longer vehicles and loads in certain national transport operations. On the other hand, it is argued that the environmental benefits of extremely long vehicles would be offset by the effect of an increase in road freight and reverse modal shift towards road transport. The option to lower speed limits for lorries has also been proposed during the public consultation together with an extension of speed limiters to lorries below 7.5 tonnes. Vehicle manufacturers, however, point out that recent studies suggest that Long Heavy Vehicles (between 18.75 and 25.25 meters and between 40 tonnes and 60 tonnes) would reduce transport costs, result in a (slightly) positive effect on environment and safety as well as having a positive cost-benefit effect for society.

Fuels are also expected to play a substantial role in the integrated approach. The role of fuel in reducing oil dependency and CO₂ emissions (carbon content) should be clearly defined under the fuel pillar of the integrated approach and should also relate to the 2020 timeframe.

To this end, the Commission has come forward with a proposal to revise the Fuel Quality Directive and has proposed a Directive on the promotion of Renewables Energy, which both aim at the 2020 timeframe and should provide the legal structure for a quantifiable contribution to the integrated approach under the fuel pillar. It should be ensured that these two Directives (i.e. the Fuel Quality Directive and the Renewables Directive) give the oil industry a clear regulatory framework and legal certainty as well as being compatible with the European Trading Scheme Directive⁴⁵.

It should be noted that the car industry also has a clear role to play in helping the fuel pillar deliver the necessary CO₂ reductions through ensuring that vehicles can deliver optimum engine performance on higher biofuel blends.

What concerns those pillars, which have thus far been left out of the quantified integrated approach (e.g. eco-driving, infrastructure, traffic management), the Commission should consider, together with the stakeholders, investigating and trying to identify whether it is possible to measure their contribution in the future and how such a system could operate. If the precise contribution of a measure cannot be determined with full accuracy, its contribution to the integrated approach should be based on a fair technical assessment of the likely CO₂ reduction which they can deliver as certainty has to be provided with regard to their impact being delivered in practice.

Stakeholders also recognise that the precise contribution of individual measures cannot necessarily be quantified with 100% accuracy. For those measures where this is the case, it seems appropriate to ensure that their contribution is counted to the degree which provides certainty as to the fact that they actually deliver the CO₂ reduction specified. In this context, Germany has indicated that eco-driving in particular offers an effective option for reducing

⁴⁵ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC



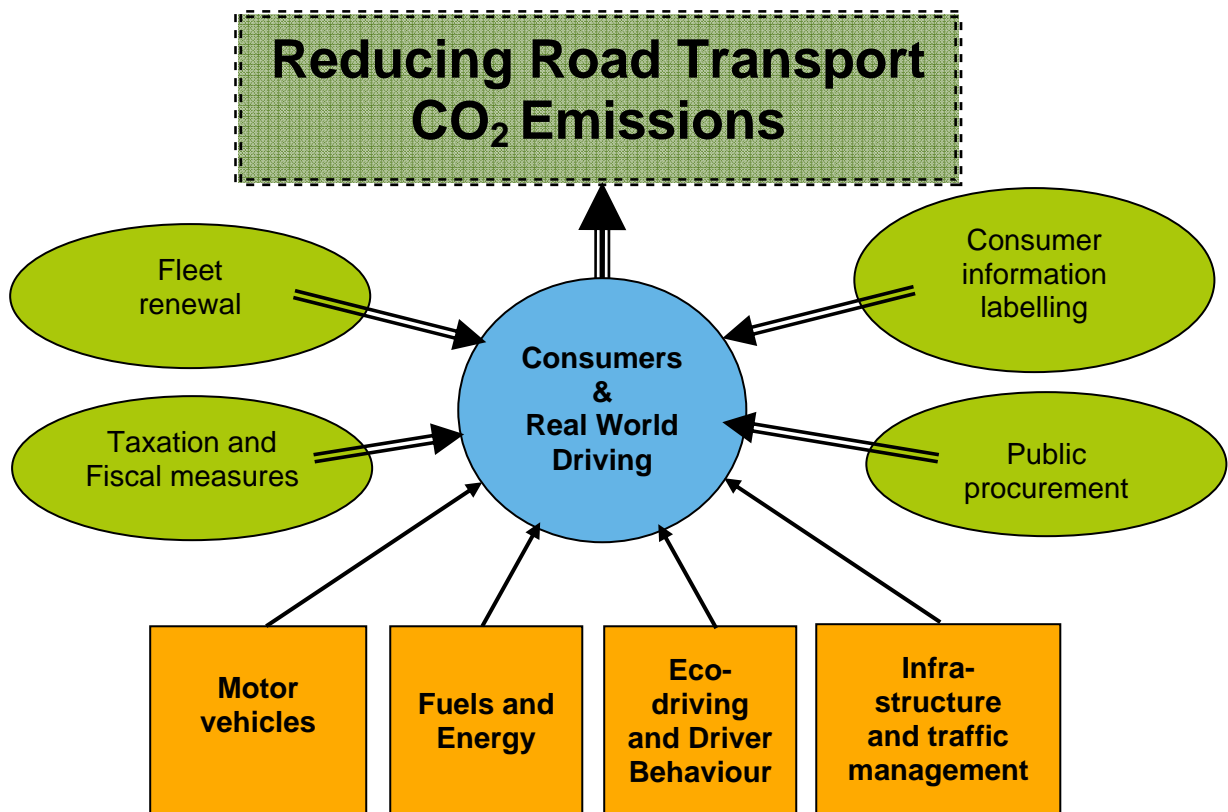
CO₂ emissions and that there should now exist sufficient experience to allow for its measurability. The Technological Institute Foundation for Security in the Automobile (FITSA) also points to the contribution which eco-driving could make to reducing CO₂ emissions.

Several stakeholders have asked for a future CO₂ reduction framework which is clear and provides certainty to everybody involved (as well as avoid debates relating to the integrated approach being used as trade-off mechanism between different stakeholders). Consequently, the overall legislative framework should clearly identify what the contribution of the different pillars is. The capabilities of each stakeholder to deliver CO₂ reductions should be examined and the obligations of every stakeholder should be clearly defined. Some of the initiatives will relate to the g/km target for the automotive industry and others will address other means of reducing CO₂ emission from road transport.

Essentially the application of a broader integrated approach seems to suggest that the Strategy to reduce CO₂ and cars would become one of the pillars under the umbrella of an integrated approach to reduce CO₂ emissions from road transport.

The graph below provides a summary of how the integrated approach may look like in the future:

The role of the integrated approach in reducing road transport CO₂ emissions





Stakeholders generally welcome improved co-ordination of setting standards for pollutant and greenhouse gas emissions (the inter-play between the two is also mentioned) but it is also suggested that it may be useful to retain staggered targets in order to enable industry to focus on a single issue at the same time. Industry itself remains of the review that the staggering of targets may not be a necessity with regard to focus and ease of planning.

With regard to **real-life emissions and the test cycle**, several stakeholders have suggested that the revision of the current New European Drive Cycle would be necessary. Stakeholders are likely to agree that in light of the state of discussions on the current CO₂ proposal, this revision should take place in the medium-term and should be used as a basis for measuring and monitoring fuel efficiency in the framework of future targets in 2020.

The main reasons why several stakeholders have proposed to revise the test cycle are:

- improving its correlation to modern real world driving conditions and the capability of modern engine technology to be closely tuned to the cycle
- ensuring that the maximum number of possible “eco-innovations” by the automotive sector can be covered under the testing procedure.

Vehicle manufacturers and suppliers have argued that measures (“eco-innovations”), which do not show in the test-cycle should also count towards the CO₂ targets provided their impact can be reliably measured and quantified. Nonetheless, the revision of the test test-cycle should seek to cover as many elements of CO₂ reduction as possible so that as few eco-innovations as possible would have to be monitored separately (administrative cost and monitoring procedures). The IEEP, on the other hand, argues that it is not logical or sustainable in the longer term to expect CO₂ credits for components that do not contribute to the test value in the first place.

Stakeholders agree that changes in CO₂ emission values resulting from the revision of the test cycle will need to be reflected in future CO₂ targets.

In this context the IEEP also suggests that the focus needs to be shifted away from tailpipe CO₂ in order to accommodate the well-to-wheels greenhouse gas emissions of radically different fuels, notably including biofuels, hydrogen and electric power. It is suggested that measuring the power consumption in the engine and treating the well-to-tank aspects separately might be necessary. On the same issue, the UK suggests that it may be useful if the Commission developed a method for accounting for CO₂ emissions of electricity consumed by electric and plug-in hybrid vehicles.

The IEEP also suggests that it may be useful to look more closely at the options for on board fuel efficiency monitoring and annual reporting of this at the annual vehicle check up. This will help with awareness raising for drivers (regarding driving styles) and encourage eco-driving, but will also provide real world data on real drive cycles and help consumers in purchasing decisions for both second hand and new vehicles in that they would be able to see the real-world fuel consumption of the vehicle. The possible merits of this approach are also



reflected in the contribution from automobile tuners who stress the role which eco-tuning can play in reducing CO₂ emissions and taking into account the fact that this cannot be catered for under the approval system of new vehicles.

With regard to the **type-approval system**, the Commission intends to conduct a thorough review in order to ensure that the system is capable of absorbing the introduction of new technologies on the market (e.g. EC-Type Approval for electric vehicles, which are currently not defined in the framework Directive).

The type-approval framework for electric vehicles should be harmonized at least at European level. The European Commission will therefore review the EC legal framework applicable to the EC type-approval of such vehicles. In its review the Commission will assess the environmental and safety risks linked to a wide use of such vehicles that need to be tackled. It will then propose the necessary amendments to the EC legislation. Wherever possible, a worldwide standard would even be more desirable.

6. ROAD SAFETY

6.1. Areas covered:

- Application of an integrated approach to road safety
- Implementation of vehicle technology measures outlined in CARS 21 (Electronic Stability Control, seatbelt reminders, brake assist systems, heavy-duty vehicle rear vision and conspicuity, Isofix, day-time running lights)
- Other elements of the integrated approach (infrastructure and users)
- Active safety (Regulation on the General Safety of Motor Vehicles)
- Pedestrian protection

6.2. Main actions taken:

Following the introduction of specific requirements on dedicated DRL (Day-time Running Lights) for cars, trucks and buses under the UNECE lighting Regulation (Regulation 48), the Commission has adopted the equivalent EC Directive 76/756/EEC⁴⁶. The Directive⁴⁷ foresees that from 07.02.2011 onwards all new types of passenger car and small delivery vans will have to be equipped with DRL with trucks and buses following 18 months later. The adoption of this amendment at UNECE will therefore help to increase the number of vehicles fitted with dedicated daytime running lamps on European roads. In this context, it should be noted that the Commission no longer intends to propose legislation on the use of DRL to oblige all

⁴⁶ *Daytime Running Lights for all new vehicles from 2011 to increase road safety*, IP/08/1394

⁴⁷ Commission Directive 2008/89/EC of 24 September 2008 amending, for the purposes of its adaptation to technical progress, Council Directive 76/756/EEC concerning the installation of lighting and light-signalling devices on motor vehicles and their trailers



drivers of existing vehicles to switch on their normal dipped-beam lights during daytime. This would have increased the energy consumption and CO₂ emissions of vehicles. Consequently, while the amendments to the UNECE Regulation and the EC Directive will result in the obligatory fitting of dedicated DRL for new types of vehicles, the proposal about existing vehicles has been abandoned.

Amendments have been introduced to the UNECE braking Regulations (Regulation 13 for heavy vehicles and Regulation 13H for light vehicles) to introduce requirements for electronic stability control systems. The Commission proposal on General Vehicle Safety will, through its implementing measures, require that new vehicle designs are fitted with ESC systems based on these UNECE requirements from 2012.

Advanced Emergency Braking Systems: a preliminary study on the costs of benefits on the use of these systems has been completed, and as a result it is proposed, via the General Vehicle Safety regulation, that new heavy duty vehicles should be fitted with such systems from 2013 subject to the development of UNECE technical requirements.

The Regulation on pedestrian protection has passed first reading in the Parliament.

ISOfix/Seat belt reminder systems: the General Vehicle Safety Regulation will require that all new cars are approved to UNECE Regulation 14 (which requires the fitting of ISOfix anchorages) and UNECE Regulation 16 (which will require the use of seat belt reminder systems at least on some seats)

Directive 2007/38/EC of the European Parliament and of the Council of 11 July 2007 on the retrofitting of mirrors to heavy goods vehicles registered in the Community.

Directive 2006/126/EC of the European Parliament and of the Council of 20 December 2006 on driving licences, which introduces more severe specifications for powered two wheelers

Directive on road infrastructure safety management⁴⁸, which introduces the general principle of safety impact assessment at the pre-design stage, of safety audit at the design stage and of regular safety inspections at the operation stage.

The Commission has presented a proposal on Facilitating Cross-border Enforcement in the field of Road Safety.⁴⁹

6.3. Feedback received from stakeholders:

All stakeholders fully support the continuation of an integrated approach to road safety, which would sustain progress across its major pillars: vehicle technology, infrastructure and the driver (behaviour/enforcement). Stakeholders in particular see the need to step up efforts in

⁴⁸ COM(2006) 569 final, Proposal for a Directive of the European Parliament and of the Council on road infrastructure safety management (presented by the Commission) {SEC(2006) 1231} {SEC(2006) 1232}

⁴⁹ COM (2008) 151 final, Proposal for a Directive of the European Parliament and of the Council facilitating cross-border enforcement in the field of road safety (presented by the Commission) {SEC(2008) 350} {SEC(2008) 351}



this field as several of them see that progress in road safety improvements has slowed and consider it unlikely that the 2010 target for halving the number of casualties (compared to 2001) will be met.

Stakeholders also welcome the Commission's approach with regard to the General Safety Regulation, particularly regarding the mandatory fitting of ESC (Electronic Stability Control) on both heavy goods vehicles as well as passenger cars. CLEPA considers the approach whereby technologies such as ESC, Lane Departure Warning Systems, Brake Assist Systems and Automatic Emergency Braking Systems are first introduced into heavy-duty vehicle followed by passenger cars as a useful way on gaining experience and building up economies of scale. In this context, several stakeholders point to the proven benefits of ESC and express regret at its delayed application. Automotive suppliers estimate the current installation rate of ESC in the EU car fleet to be no more than 20% and it is expected that the provisions of the General Safety Regulation should lead to an increase in its market penetration (subject to the speed of fleet renewal). Meanwhile vehicle manufacturers point out that the current installation rate of ESC in new cars is over 50% and is expected to continually rise to 100% in 2014.

The co-operation in WP29 of the UN/ECE on developing a GTR on ESC is particularly welcomed by industry stakeholders.

Vehicle manufacturers have pointed out that since Advanced Emergency Braking Systems for heavy duty vehicles are a fairly new and complex technology and as no requirements have been formulated for this system, vehicle manufacturers will require a lead time of 72 months after the adoption of technical requirements for new vehicle types and 96 months for running series in general. ACEA also points out that these systems would require radar technology for which the current used frequency would not be able to be used after June 2013 (according to 2005/50/EC). Finally, ACEA indicates that AEBS (Advanced Emergency Braking System) and other designated commercial vehicle safety equipment should not be the same for passenger cars.

Automotive suppliers indicate full support for the mandatory fitment of technologies contained in the General Safety Regulation while sharing some of the concern of the vehicle manufacturers.

Several stakeholders have, however, expressed concern over the fact that the integrated approach is not being fully applied and, in particular, that the infrastructure and safer road use pillars are still weak. ACEA believes that the pillar of vehicle technology has delivered by far most progress on road safety since the 2005 and consequently recommends that in the interest of further improvements in road safety and of achieving a balanced approach, the focus now needs to be shifted to the other elements.

In this context, ACEA has expressed concern that the Directive on Road Infrastructure Safety Management has been weakened substantially and that the Commission's proposal on Facilitating Cross-border Enforcement in the field of Road Safety is not particularly ambitious. Industry sees the main problem being at the Member States level where most measures on infrastructure and enforcement are regulated. In this context, ACEA welcomes



the Commission's efforts regarding infrastructure and urges Member States to increase efforts.

A similar viewpoint is put forward by consumers. FIA also believes that non-vehicle related elements of the integrated approach have not been adopted and also sees the need for further action by the MS (notably infrastructure measures and influencing driver behaviour through information and enforcement). FIA sees substantial room for improvement on these two areas. Industry raises the issue of evidence that the Commission is conditioning Community financing in the road sector on support to projects which follow road safety best practice more strictly. FIA also believes that the funding of safety measures should be an integral part of budgeting for road infrastructure

Several Member States (UK, CZ) point to their own experiences in implementing the enforcement and infrastructure pillars of the integrated approach as examples of how these pillars can make a meaningful contribution to achieving the overall casualty reduction targets.

The issue of implementing legislation on daytime running lights and seatbelt reminders⁵⁰ is raised by some stakeholders while several stakeholders indicate concern at the delayed introduction of and Isofix. The proposal on Pedestrian protection is welcomed by all the stakeholders.

In terms of looking to the future, consumers also raised the following future priorities in the area of road safety.

- The trends in road safety visible today should be examined and addressed, specifically analyzing trends of road safety in various countries, in categories of traffic participants, on different types of roads and trends of road safety in daylight versus night traffic, to search for further opportunities to improve road safety.
- In the areas of vehicle technology, road infrastructure and driver behaviour much more could be done and needs to be done, also using more power with different instruments as regulations on vehicle technology, such as brake assist systems, vehicle cooperative systems for crash avoidance, improvement of under-run protection on HGV and compatibility between passenger cars, a systems approach in the funding and implementation of road infrastructure and awareness and enforcement actions.
- Bringing safety technology into the area of fiscal incentives is also an instrument to be adopted. The areas of two-wheelers and vulnerable road users should be addressed more, because of the trend in the rising number of fatalities within these categories.

It has also been proposed by the UK that the following elements could be taken forward as part of the CARS 21 safety agenda:

- Passenger car occupant protection
- Car-to-car crash compatibility

⁵⁰ This issue is particularly stressed by the IEE which produces sensor systems used in automotive applications.



- Quadricycles
- Human-machine interface issues
- Harmonised diagnostic capability

Overall, industry has indicated that it will constantly continue improving the safety technology of its vehicles. Hence, ACEA believes that it would be premature for the CARS 21 mid-term review to define a new, detailed road map with regard to safety technologies and that attention should clearly be focused on implementing the integrated approach in the infrastructure and driver pillars.

In line with recommendations from the original CARS 21 exercise, it appears that the next major vehicle technology related step in terms of road safety concerns predictive safety systems based primarily on obstacle recognition. While it would appear that setting out a detailed road map for future safety measures in the CARS 21 mid-term review is premature (due to the recent adoption of the Vehicle Safety Regulation and the need to implement its provisions), stakeholders generally agree that a in line with better regulation principles discussions on a new road-map should commence after the CARS 21 mid-term review, including all pillars of the integrated approach.

Stakeholders also make it clear that in the future more focus will be put on intelligent transport systems and eSafety in general. Similarly (and inter-linked) to future environmental questions, continued co-operation between the public and private sector will be required in the field of intelligent transport. Co-operative systems, such as car-to-car and car-to-infrastructure will, in the future, offer driver assistance, improve safety and reduce CO₂ emissions while also allowing for more efficient traffic management.

The importance of the Intelligent Transport System (ITS) action plan which is being drafted⁵¹ is mentioned by some stakeholders. Some stakeholders indicate that in light of the importance of advanced vehicle safety systems, eSafety and intelligent transport in general, establishing road-maps in these areas could give planning certainty and thus reduce implementation costs. FITSA's contribution to the public consultation points to alcohol interlock programmes as being a useful tool for limiting the negative impacts of drunk-driving and speeding. The Foundation also suggests adding Lane Departure Warning (LDW) technology to vehicles, the provision of fast and accurate traffic information and "black-spot" remediation as possible measures to improve road safety. In terms of active safety it is suggested that in addition to measures already proposed in the General Safety Regulation, active brake lights, adaptive cruise control and intelligent speed alert could be included as standard equipment in the medium term.

Furthermore, some stakeholders suggest that a new post-2020 target should be introduced for an additional cut of 50% in road casualties.

⁵¹ http://ec.europa.eu/transport/road/consultations/its_en.htm



7. TRADE AND OVERSEAS MARKETS

7.1. Areas covered:

- Improving market access
- Multilateral trade negotiations (Doha Development Agenda)
- Bi-lateral trade negotiations (e.g. South Korea, India, ASEAN)
- Trade relations with China (regulatory conditions, WTO, intellectual property)
- Trade relations with other key automotive markets (e.g. Russia)

7.2. Main actions being taken:

As the development of trade relations is a continuous process, this section outlines both what has been done in the past as well as the actions which are currently ongoing.

DDA negotiations/Multilateral Approach

The successful conclusion of the Doha Development Agenda (DDA) remains the foremost EU trade policy priority despite the lack of an agreement at the Ministerial Conference in July 2008.

In the Non-agricultural market access (NAMA) context, basic “**modalities**” of an agreement on tariffs reduction have been discussed based on a non-linear, so-called Swiss formula approach, to achieve tariff cuts. However, disagreement persists concerning the parameters (“**coefficients**”) of this formula for different country groupings, in particular those applicable to advanced developing countries. As regards EU automotive tariffs, application of the current formula would lead to a reduction down to 4.4-4.1%. Other contended issues include: modalities for the application of “**flexibilities**” in developing countries (i.e. option for those countries to exempt a certain number of sensitive tariff lines from the application of the tariff cutting formula); introduction of an “**anti-concentration clause**” as proposed by the EU (which would prevent the application of flexibilities in such a way as to shelter entire industrial sectors, and in particular automotives, from tariff cuts); more ambitious **sectoral deals** (in principle not concerning automotive); China's treatment as a Recently Acceded Member (including prolonged periods for tariff dismantling).

Concerning Non-Tariff Barriers (NTB), a series of proposals are considered. The proposal for a **Mediation Mechanism**, setting out Procedures for the Facilitation of Solutions to Non-Tariff Barriers, is of particular interest for the automotive sector. In addition, the US have recently tabled a proposal on an **Agreement on Non-Tariff Barriers Pertaining to Standards, Technical Regulations, and Conformity Assessment Procedures for Automotive Products**. The EC is exploring further how this initiative can be ensured to promote the EU car industry's interests in securing the reduction of technical barriers to trade worldwide. Finally, the EC has tabled a number of **bilateral requests** aimed at addressing problems caused by some WTO members' automotive tax regimes. One country already



agreed to change its regime in June 2007 (Pakistan) and the EC continues to discuss with other responding members about possible solutions to these requests.

Tariff reductions which were being discussed under the proposed DDA deal could have signified an improvement and consolidation for main markets, such as Brazil, India, China, Thailand, Malaysia, Indonesia. However, serious difficulties remain insofar as the sector is very vulnerable to "flexibilities" in most of the countries concerned, given that trade in automotives is concentrated in very few tariff lines and consequently it is among the first sectors that those countries would shield from tariff reductions.

Bilateral Approach

The Commission's communication "Global Europe: competing in the world"⁵² reviewed the contribution of EU trade policy to the European Growth and Jobs strategy. It confirmed the EU's commitment to the WTO, and the DDA as its first trade policy priority. It also argued that the EU should generate new opportunities for growth by going beyond the level of liberalisation achieved multilaterally, both opening markets further to trade and investment, and sharing its rules and standards with partners. The Communication sets out a series of linked trade policy initiatives to complement efforts under the WTO. This includes a new generation of bilateral free trade agreements (FTA).

The EU is approaching this new generation of FTAs with a high level of ambition, and envisages that the FTAs will be comprehensive, and cover a broad range of issues. Particular emphasis will be given to regulatory and non-tariff obstacles to trade. With regard in particular to the expected outcome in the automotive sector, the FTAs should cover duty elimination, non-tariff barriers, intellectual property rights, investment, and rules of origin.

On 23 April 2007, the Council authorized the Commission to start negotiating FTAs with South Korea, India and ASEAN.

ASEAN represents an important trading partner for the EU in the automotive sector although with significant variations among its member countries. The FTA negotiations were launched on 4 May 2007, and are still at an early stage. The FTA will be based on a region-to-region approach, while recognizing and taking into account the different levels of development and capacity of individual ASEAN members. The automotive sector main concern is to level the playing field with regard to Asian competitors, in particular Japan and South Korea.

India represents both a low-cost challenge to the EU producers and a strategic market in which Europe must compete. Although the weight of the Indian Automotive Industry in global terms remains low, it has grown at a spectacular rate in the last years. However, the presence of EU car manufacturers in India is still marginal: in 2006, EU Joint Ventures represented 0.7% of Indian production. Tariffs (ca. 100% for passenger cars) are the prevailing problem. There is therefore a large potential to further facilitate and expand bilateral trade. Negotiations for the EU-India FTA were launched on 28/29 June 2007 in Brussels, and are still at an early stage.

⁵² COM(2006) 567, "Global Europe: competing in the world", 4 October 2006.



South-Korea is the EU's fourth largest non-European trading partner, while the EU is South-Korea's second largest exports destination. In the automotive sector, bilateral trade is highly unbalanced to the disadvantage of the EU producers, and this despite long term efforts to penetrate the market: Korean automotive exports to the EU amount to 7.5 billion € (ca. 20% of total Korean exports to the EU), which is 8 times more than vice versa. The main problem for the import of EU cars into Korea is not the applied tariffs (8%), but so-called Non Tariff Barriers (NTBs), notably standards and testing. Negotiations for the EU-Korea FTA were launched on 6 May 2007 in Seoul. There have been so far 7 negotiations rounds. Although agreement has been reached on a number of issues, gaps still remain, in particular as regards tariffs and car NTBs. For the EU, finding a satisfactory outcome for the car sector is a crucial issue in these negotiations. Thus, much emphasis has been put on the removal of car NTBs preventing access to the Korean market, and in obtaining a tariff dismantling schedule that provides EU industry with an appropriate phase in period.

In addition to the three main FTA processes above regarding South Korea, ASEAN and India, further negotiations of direct interest for the automotive sector include, in particular, Mercosur and Ukraine. The EU car industry promotes trade liberalisation with Mercosur (notably Brazil and Argentina), insofar as most manufacturers are present in the region. FTA negotiations with Mercosur are however currently on hold, pending the outcome of the DDA Round. As regards Ukraine, negotiations for a FTA with this country were launched in Kyiv on 18 February 2008, after finalisation of Ukraine's WTO accession process. There have been 2 negotiation rounds so far. As Ukraine's largest export market, the EU is an obvious partner for closer economic ties.

Market Access to China

The EU has undertaken a number of actions to improve market access of automotive products to China. These range from enhanced bilateral regulatory cooperation to action under the WTO's dispute settlement procedure.

The EU-China **Economic and Trade Working Group (ETWG)** is the regular mechanism to review at technical level all the EU trade priorities with China. It meets in plenary session once a year (last time on 26/05/2008 in Brussels). A wide variety of topics discussed in this forum concern the automotive sector, either directly (e.g. the China Compulsory Certification System (CCC)), or as part of the general trade activity between the EU and China.

Under the framework of the **Consultation Mechanism on Industrial Products and WTO/TBT** agreed between China⁵³ and the Commission, it has been agreed that a new working group on automotive issues would be established given the relevance of the sector for both parties.

On 30 March 2006, the EC joined the US and Canada in a request for consultations with China regarding China's imposition of measures that adversely affect exports of **automobile**

⁵³ State General Administration of the People's Republic of China for Quality Supervision of Inspection and Quarantine (AQSIQ).



parts to that country. A panel was established in October 2006 by the WTO Dispute Settlement Body. In the final report, issued on 20 March 2008, the Panel found in favour of the EC, and considered that Chinese taxes favouring the use of Chinese car parts are in breach of the WTO Agreements. In September 2008 China lodged an appeal to the Appellate Body to seek a review of the Panel Report. The appellate process should be concluded at the end of October. If the conclusions of the Panel Report are confirmed, China will have to state its intentions regarding compliance. If it does not comply at the end of a "reasonable period of time", the EU can ask for authorisation to apply sanctions. The Commission is committed to continue its monitoring of the eventual implementation by China of the WTO ruling, at the completion of the Dispute Settlement process.

The Commission is also following closely the development of competition law in China, through a formal bilateral dialogue and technical assistance. Although the **new Anti Monopoly Law** is greatly inspired by EU competition law, the EU is concerned that the enforcement of the law may create barriers to trade and establishment, in particular as the law contains reference to a national security review, and will apply to the exercise of Intellectual Property Rights. The technical assistance has been very successful in influencing contents of the Anti Monopoly Law. The interaction with the Chinese authorities is conducted within the framework of a structured dialogue, which was launched in May 2004 with the Ministry of Commerce as primary interlocutor.

Lastly, the Commission has set up a **China IPR (Intellectual Property Rights) SME Helpdesk** to offer first-line advice and training for European SMEs dealing with IPR problems related to business in or with China⁵⁴.

7.3. Feedback received from stakeholders:

In general, all stakeholders agree that market access to emerging economies and equal trade conditions will be increasingly important for the future competitiveness of the automotive industry in light of the development in global demand for automotive products.

The automotive industry has clearly indicated that it is not content with the way in which multi-lateral and bi-lateral trade negotiations are progressing and has provided critical feedback on both processes. On the other hand, it is clear that trade negotiations have a "cross-economy" impact and that the overall packages being negotiated have to take into account all sectors as well as the overall impact on the European economy as a whole.

Multilateral trade negotiations:

The collapse of the DDA negotiations is of concern for most stakeholders and it is generally believed that efforts should be made to resume talks as soon as possible. There is broad agreement among stakeholders that trade liberalisation should be pursued while stakeholders are also in agreement over the fact that agreement should not be reached at any cost.

⁵⁴ For further information, see the website: www.china-iprhelpdesk.eu



The automotive industry continues to support the DDA, provided it offers market access to developing countries such as Brazil, Argentina, India, China, and ASEAN States. It is pointed out that market access to some Asian countries remains complicated due to very high tariff levels (e.g. India: up to 135%, Malaysia: up to 275%, Thailand : 80%, Indonesia: 95%). However, on the basis of various WTO Ministerial Conferences and draft texts released since 2001, the automotive industry is indicating that the attraction for DDA is eroded as such market access is now reduced in the last NAMA drafts. In particular, industry believes that the Commission needs to negotiate on the basis of the following priorities:

- eliminating peak tariffs in advanced emerging economies, especially in Asia
- avoiding any use of flexibilities for automotive products while in return the automotive industry would be ready to accept higher coefficients and longer transition periods
- tackling existing NTBs, and avoiding the emergence of new ones by the promotion/adoption of the UN/ECE standards as well as the implementation of the mediation mechanism.

The industry receives strong support from some MS on this issue who consider that the Commission should become more involved in seeking a level playing field on third markets

Most stakeholders indicate support for implementing an anti-concentration clause as part of the negotiations in order to prevent flexibilities being used to exclude entire sectors (such as the automotive sector) from trade liberalisation.

The concept of a sectoral initiative for trade liberalisation has also been raised (CZ) as a means to achieving major progress in automotive-related free trade. The success of any such initiative, however, would depend on the involvement of all major players active in the individual sectors, which in case of the automotive industry suggests acceptance by the EU, USA, Japan, South Korea, India, China, Brazil and the major ASEAN countries.

Bilateral trade negotiations:

Stakeholders view bilateral trade negotiations as an important means of complementing the multi-lateral approach, particularly in an environment where the Doha talks have failed to deliver an agreement. In particular stakeholders agree that FTAs are an important means for opening new export markets for EU industry and the automotive continues to see the need of focusing on growth markets where its international competitors often already enjoy the benefits of bilateral trade agreements.

Many stakeholders believe that negotiations for a balanced FTA with India and ASEAN countries need to be speeded up.

It has also been pointed out that general framework conditions in third countries should be analysed as part of trade discussions with the aim of identifying market barriers to the uptake of technologies in which Europe enjoys world leadership. Automotive suppliers pick up on this through referring to the potential of diesel engines which have great potential in other



world regions but the market penetration of which is slowed down by unfavourable rules, regulations, taxation systems or problems related to fuel quality.

The FTA negotiation with **South Korea** is currently at an advanced stage. Several stakeholders point to the high inequity in trade between the EU and South Korea, in particular given that the latter has a fully export-oriented automotive industry, which is targeting the EU market. ACEA points out that the EU exports around 25,000 vehicles per year to Korea while South Korean imports to the EU amount to about 700,000 vehicles. Nonetheless, the European automotive industry indicates that it can support an agreement with South Korea provided, in particular, that the issue of non-tariff barriers is effectively dealt with. More specifically, ACEA has indicated that the following elements should be included in the agreement with South Korea:

- a tariff dismantling lead-time of 7 and 5 years for Korean cars to enter the EU at 0 tariff;
- that SK eliminates NTBs and accepts the international standards UN ECE Regulations of 1958, to which both the EU and SK are contracting parties;
- a mechanism that links the elimination of the listed NTBs to the progressive elimination of EU tariffs, in conformity with the resolution voted on 13 December 2007 by the EU Parliament on economic and trade relations with SK;
- to maintain the currently applicable Rules of Origin with a threshold of 60%, and to exclude any concession on the duty drawback clause;

Suppliers are in favour of a duty draw-back prohibition and support the use of the current harmonised preferential rules of origin. Suppliers also recognise role of non-tariff barriers as the major prohibiting factor for European automotive imports into the South Korean market and suggest that the EU should approach tariff barriers and non-tariff barriers in parallel to ensure that these problems are tackled. Industry would also like to see South Korea adopt as many UN/ECE regulations as possible as part of the FTA.

Stakeholders indicate that they would like to see **India** becoming a contracting party to the UN/ECE 1958 Agreement and to respect a number of UN/ECE Regulations. With regard to the FTA with India, it is suggested that in addition to focusing on tariff and non-tariff barriers, attention needs to be paid to reducing the time it takes to clear customs, the robustness of the EDI, duty drawbacks, removal of advance licenses and the allowance of self-sealing processes for export consignments.

Automotive suppliers indicate that they would favour the mutual elimination of tariffs for automotive components as part of an agreement with India.

Similarly to the principle which industry would like to see applied to all trade negotiations, it is urged that the principle of **reciprocity** is maintained in negotiations with India and ASEAN. In particular, industry stakeholders indicate that the Commission should seek to avoid a situation where EU tariffs for the automotive sector are strongly reduced while emerging economies can keep their peak tariffs on passenger car imports (e.g. through



“flexibilities”). ACEA points out that the enhanced trade arrangements currently discussed generally provide only small export opportunities for European producers but would open the European market to producers from lower cost countries and therefore stress the importance of understanding the implications in terms of jobs and investments of further liberalisation and of ensuring that adjustment strategies are put in place where appropriate.

ACEA indicates that its members do not support an FTA with any major OECD countries.

Given the stress placed on thorough assessments of trade agreements, the Commission is expected to continue to investigate the impact of potential FTAs with India and ASEAN on the automotive sector through specific studies.

China

Industry still sees significant difficulties with the regulatory and business framework in **China** but welcomes efforts by the Commission to improve trade relations with China (e.g. tariff and non-tariff barriers, the protection of intellectual property). There is continued overall support for providing any necessary assistance to China becoming a rules-based market economy.

Industry points to the need for China to respect the commitments it has taken under the WTO. Industry welcomes the outcome of the WTO’s Dispute Settlement Body with regard to imported car parts.

Raw materials

As an additional consideration, the availability and security of raw material supplies is raised by both the automotive industry and Germany as this is increasingly becoming a key issue for vehicle producers. Germany welcomes the EU strategy for non-energy raw materials and believes that as a next step trade barriers to raw materials (e.g. taxes and export restrictions) should be reduced through the WTO context.

Industry has suggested that raw material prices are expected to rise further because of increasing demand from emerging markets, the decreasing availability of raw materials and an increase in production costs due to increasing energy prices. More specifically, the automotive industry asks the Commission to ensure that anti-dumping duties are not levied on imported steel without evidence of injury to steel producers and in full consideration of the impact on the European community.

International harmonisation

Finally, the continued international harmonisation of standards is seen as an important means for the dismantling of non-tariff barriers and stakeholders recommend using the UN/ECE system as much as possible to achieve this. The Euro emission standards are cited as examples of where several key markets (e.g. China) are following the EU’s lead.



8. RESEARCH AND DEVELOPMENT

8.1. Areas covered:

- 7th Framework Programme and R&D co-operation between the EU and industry (collaborative research, Joint Technology Initiatives)
- Main R&D priorities and the role of research co-operation in supporting the EU's policy goals (clean renewable fuels and vehicles, intelligent vehicles and roads)
- Protection of intellectual property rights in Europe and world-wide

8.2. Main ongoing actions:

Work has continued in accordance with FP7, largely along the priority lines described in CARS 21 whereby industrial and societal priorities have been recognised and implemented. The work-programmes of the first two calls of FP7 have strongly oriented funding towards short and medium term measures to improve fuel efficiency and environmental performance, resulting in a large project on optimized natural gas engines and a small one on short term application of optimised biofuel-optimized engines, while the second call being evaluated includes specific topics on optimised diesel and gasoline engines for cars and heavy duty engines. Competitiveness of the industry is supported through activities in areas of “Mobility and Transport”, “Energy and Environment”, “Safety” and “Materials and Manufacturing.”

More specifically, several projects have funded engine and after-treatment related developments for both light and heavy duty vehicles, such as the NICE, INGAS, GREEN, HYICE, BEAUTY, PAGODE etc, for a total funding of around 80M€ in the 2004-2010 timeframe, with around 20M€ more to come in the just evaluated second call of FP7. Another area which has received substantial funding is that of hybrid and electric power-trains and components, to the tune of more than 50M€ if fuel cell based electric vehicles are included (and this excludes DG TREN-funded demonstration projects such as the well known CUTE hydrogen bus project). Other areas which have enjoyed significant support are that of manufacturing/materials improvement and lightweighting and that of safety, in which a large budget for the automotive sector is also provided by DG INFSO.

The Commission and automotive industry have also created Joint Technology Initiatives (JTIs) in areas of “Hydrogen and Fuel Cell Vehicles” and “Electronics – Embedded Systems”, which should be of particular interest to the automotive industry.

8.3. Feedback received from stakeholders

R&D

Stakeholders are generally positive about activities in the R&D field and do not see much reason to change the current system. However, in light of the importance of innovation for the automotive industry, some stakeholders are concerned about the progress which the EU is making with regard to R&D spending when compared to its Lisbon objectives. For example,



automotive suppliers believe that national taxation systems could play a greater role in supporting private R&D. It is also pointed out that a long-term road-map is required for R&D activities in order to allow the alignment of EU and national research goals and targets. Stakeholders have indicated that future research needs to continue in areas related to energy, environment and safety with particular attention given to technologies such as hybrid and electric vehicles, hydrogen and fuel cells, battery technology and energy storage systems as well as intelligent transport and roads.

FIA proposes that the research aspects of human behaviour and infrastructure measures should be catered for more. FIA also believes that the developments in the availability of the various energy sources and the need to change the use of these various sources, should be investigated further in terms of energy security, oil prices and climate change and what global framework should the EU support to ensure that the forecast growth in global mobility (doubling of the global fleet in 2030) is sustainable.

With regard to the way in which research programmes are managed, some stakeholders raise the issue of associated administrative burdens. Stakeholders agree that the reduction of such burdens cannot take place at the expense of ensuring that public money is spent in an appropriate manner but recommend that efforts should be continued to reduce the administrative costs of R&D programmes wherever possible.

Some stakeholders mention the need to ensure that innovative concepts enjoy more support in bringing them to the market. In this context, stakeholders stress the role of public procurement as a useful tool for driving innovation and encouraging the take-up of new technologies. Standards and incentives are also mentioned as means for pulling through innovations and creating viable markets for new products and services.

In terms of the overall research and development strategy stakeholders stress the importance of concentrating on strategic areas related to energy efficiency, climate protection and safety of citizens. That said, there is also a feeling among stakeholders that prioritisation should be a key element in the EU's approach to R&D. Stakeholders have indicated that research efforts should be focused on creating or sustaining world leadership in areas where the EU already has a comparative advantage or where there are clear opportunities to take the lead. This, in turn, implies that European research should be selective and should avoid trying to become a world-leader in every area.

Intellectual Property Rights

IPR is still identified as an essential factor in maintaining the competitiveness of the European automotive industry. Broadly, the industry welcomes the initiatives that the Commission has taken in this area, both within the EU itself (for example, with regard to the fight against counterfeiting and the more effective enforcement) of intellectual property rights) and worldwide (for example, the inclusion of IPR provisions in multilateral and bilateral trade agreements).

There is support among stakeholders for the Commission's efforts to reach agreement on the establishment of the Community patent. It is believed that intellectual property protection in



Europe would significantly benefit from products patented in one Member State also automatically gaining patent protection in other EU Member States. The automotive industry points to this being of particular importance in case of the automotive industry, which has a high R&D intensity and operates on a single European market.

9. COMPETITION (BLOCK EXEMPTION REGULATION, ACCESS TO REPAIR INFORMATION)

9.1. Areas covered:

- Review of the Block Exemption Regulation
- Access to Technical Repair Information
- Design Protection

9.2. Main actions taken:

The Commission adopted its evaluation report on the operation of the BER on 28 May 2008⁵⁵ the key finding of which is that competition in the motor vehicle distribution and servicing market and the functioning of the internal market has improved in recent years. The Commission is expected to come to a decision regarding the future of the BER regime in the spring of 2009.

Detailed rules regarding the provision of repair information have been laid down in the Regulation on Euro 5/6 exhaust emissions standards for passenger cars.

The Commission's proposal regarding the liberalisation of the market for visible spare parts has not progress in the Council since the original CARS 21 exercise.

9.3. Feedback from stakeholders:

The issue of the **Block Exemption Regulation** is raised by many stakeholders. Stakeholders have conflicting views on the evaluation of the revision of the Block Exemption Regulation: essentially ACEA believes that the situation has improved and believes that the application to the automotive sector of a more flexible regime using the general principles applicable to vertical restraints would be appropriate. Consumer representatives put forward the view that in order to safeguard consumer interests, there is a need for a new BER, which should cover not only sales of vehicles but also the aftermarket in repair services. CECRA also believes that although the situation has improved since 2002 some problems remain particularly with regard to security-related information and the fact that often access to non-security related information requires prior access to security-related functions. Hence, repairers believe that BER should be renewed as well as stating that the Commission should continue to be vigilant in the future in order to avoid setting back the clock on the improvements already made. Automotive suppliers also indicate that the reasons for introducing the BER remain valid and that its provisions are neither obsolete nor easily substitutable.

⁵⁵ http://ec.europa.eu/comm/competition/sectors/motor_vehicles/documents/evaluation_report_en.pdf



Repairers also indicate that using the provisions of the Euro 5/6 Regulation to address access to repair information is likely to create a gap as the pre-Euro 5 car park would not be subjected to legislation requiring access to repair information. Repairers are concerned that the consequence of such a situation could lead to numerous market exists as well as a generalised market failure.

It should be noted that the position put forward by CECRA on both the BER and on access to repair information is broadly supported by all aftermarket participants who responded to the CARS 21 public consultation (notably from France, Germany and Belgium). Such responses also pointed to the opinion of the European Economic and Social Committee on CARS 21 which stressed the need to focus more on the entirety of the automotive value chain when considering the competitiveness of the European automotive industry.

It is also indicated that any changes to the BER regime should have minimal market disruption (UK).

In conclusion, stakeholder opinions differ significantly on the need to renew the BER and the review process has reached an advanced stage. All stakeholders, however, agree that fair competition needs to be maintained in the aftermarket and that the competitiveness of small and medium sized enterprises needs to be retained. Furthermore, there is agreement on the importance of following better regulation principles (particularly impact assessments and stakeholder consultations) and the need to base any future decisions on sound evidence.

Access to vehicle repair information is raised. FIA expresses regret that the new type approval framework directive has been agreed without a provision for access to technical information. At the same time the securing of access to technical information through Euro 5 and 6 is welcomed as is the fact that a mandate has been given to CEN to arrive at the specifications of an access system based on the OASIS format. FIA calls on these steps to be strengthened either by means of a renewed and reformed BER (see previous point above) or through a specific Directive on access to repair information. CECRA also fears that without clear provisions, such as article 4(2) of the BER, the situation with regard to access to technical information will worsen and seeks assurance that no legal vacuum is created regarding ante-2009 vehicles. Industry on the other hand believes that it would be more appropriate to regulate access to repair and maintenance information through type-approval legislation. FIA has specifically asked for agreement on consumer-oriented recommendations in relation to access to technical information, the design directive and the BER.

ACEA believes that Regulation 715/2007 should be at least as effective as the BER in enforcing the provision of repair information since it provides for ex-ante control, obliging manufacturers to demonstrate the availability of their repair information as a condition for obtaining type-approval and requiring national authorities to establish a complaints procedure and lay down effective sanctions for noncompliance. ACEA also points to the fact that manufacturers will in any event continue to make repair information available for free for Euro 5 cars beyond 2010 and that the Commission will always be able to use competition law powers under articles 81 and 82 of the Treaty to rectify the failure by any manufacturer to disclose repair and maintenance information to third parties.



CLEPA believes that in order to ensure maximum consumer benefit, effective competition should be maintained in servicing and repair markets and holds that access to repair information should be available as required to multi-brand workshops, publishers, road assistance providers and manufacturers of diagnostic tools.

Design protection legislation is raised by many stakeholders and the conflicting views which were expressed over this issue in the last CARS 21 exercise continue to persist. Vehicle manufacturers seek to understand why the Commission wishes to abolish design rights as these provide legitimate encouragement for innovation and ensure the protection of intellectual property while consumers believe that the blocking of the Directive is not good for the functioning of the aftermarket and hence detrimental to SMEs and consumers. CZ indicates its support for retaining the protection of original spare parts while CECRA suggests that it is important for the legislative process in this area to come to a conclusion.

Suppliers have indicated that in their view the harmonisation of design rights throughout the EU is necessary and that the most appropriate instrument for standardisation is the Commission's proposed amendment to Directive 98/71/EC on the legal protection of designs.

10. RESTRUCTURING

10.1. Areas covered:

- State of play on industry restructuring in the European Union
- Framework conditions (industrial policy)
- Use of Community funding to mitigate transitional effects (European Social Fund, European Regional Development Fund, Globalisation Adjustment Fund)
- Restructuring Forum and European Partnership for the Anticipation of Change

10.2. Main actions taken:

The European policy approach to restructuring has been outlined in the Commission Communication on Restructuring and Employment⁵⁶, which addresses the issue of participating and managing change for the benefit of companies, workers and regions. Its main conclusions are as follows:

- Restructuring can underpin economic and social progress if correctly anticipated;
- Importance of a long-term perspective encompassing the various Community policies, that should be better co-ordinated;
- Need for participation of all the stakeholders – strengthening partnerships;
- Need to reform the Community financial instruments to better anticipate and manage restructuring.

⁵⁶ COM(2005) 120 final



Actions related to enhancing co-ordination and developing partnerships:

- Restructuring Task-Force
 - set up in 2005 to follow and coordinate policies and actions from different services relevant for restructuring in order to create favourable conditions to anticipation;
 - the Task-Force has analysed one more than one occasion the automotive sector. On the meeting held on March 2007 the group reaffirmed the need to launch a reinforced follow-up of the automotive sector which led to the organisation of a session of the Restructuring Forum entirely dedicated to this sector and to the launching of the European Partnership.
- Restructuring Forum (17/18 October 2007, Brussels)
 - Object: to review the evolution of the automotive sector, to open dialogue between the different actors and to help them to adapt to the change;
 - Main objective and concrete output: launch a "European Partnership for the anticipation of change in the automotive industry";
 - Participants: two hundred high level representatives from the European institutions, companies, social partners, central governments and regional authorities.
- European Partnership for the anticipation of change
 - Parties: document subscribed by the European Commission and all the economic and social players of the sector (ACEA, CLEPA and EMF). The partnership is open to other partners, namely public authorities (local, regional and national);
 - Content: Innovative document that refers to the roles and responsibilities of each actor (European Union, Governments, companies, trade unions and regions) and commits the partners to a series of 14 actions in a 2-year period (2008-2009) aimed at monitoring the developments in the industry, while the partners will exchange know-how on anticipating and managing restructuring in a socially responsible way, including by issuing recommendations on socially responsible restructuring; anticipation of skills needs and exchange of good practice in this field is another important focus of the partnership.
 - State of play: The work programme is being implemented by the economic and social players of the sector with the financial support of the Commission. During the forthcoming 12 months several analytical actions as well as dissemination, mobilisation, exchanges involving all the major actors are foreseen.



Actions related to the use of financial instruments in the anticipation and management of restructuring:

There are 2 main instruments:

- An anticipative one, the European Social Fund, which is the main financial instrument for the anticipation of change, adaptability and mitigation of negative effects of restructuring and as for years contributed to these objectives by, i.a. support improving adaptability of workers and companies; support investment in human capital and lifelong learning; establishing employment and innovation pacts and partnerships at national, regional and local levels; etc.
- And one aimed at mitigating short-term social costs of transition, the EGF, which complements the structural funds and intends to help workers made redundant as a result of changing global trade patterns to find another job as quickly as possible.
- The second primary instrument is the European Globalisation Adjustment (EGF). Four applications for assistance on the automotive sector have been received by the EGF in 2007 and 2008, of which 3 were approved and paid and 1 remains for approval by the budgetary authority:
 - France, suppliers to Peugeot-Citroen, workers target for assistance 267, EGF support requested 2.558.250 €
 - France, suppliers to Renault, workers target for assistance 628, EGF support requested 1.258.030 €
 - Portugal, Region Lisboa - Alentejo, workers target for assistance 1.549, EGF support requested 2.425.675 €
 - Spain, Delphi, EGF support requested 10.901.544 €(for approval by the budgetary authority)

10.3. Feedback received from stakeholders:

There seem to be two key areas to which attention needs to be paid: anticipating restructuring activities themselves and anticipating the skill needs of employees in the automotive sector.

Stakeholders agree on the need to concentrate on implementing the European Partnership for the Anticipation of Change in the Automotive Sector.

Stakeholders indicate that in the long-term the only answer to addressing restructuring concerns is to create framework conditions in which European companies can thrive. Industry in particular, continues to stress the importance of supportive framework conditions in ensuring that manufacturing and employment and kept in Europe.

There is widespread consensus among stakeholders that Europe will only be able to defend its position as a leading automotive production location if it is able to retain its competitive advantage based on skills and labour. Consequently, the need to deploy the European economy to activities with more value-added through investment into innovation and human



resources is cited as a main priority. Consequently, the key concern for industry (particularly suppliers) with regard to operating conditions and restructuring relates to the **availability of high-skilled labour**. In this context, automotive suppliers point to the need to focus on technical and engineering professions. Industry sounds a warning note in terms of other regions in the world catching up rapidly with regard to skills in such professions which could lead to an increasing shifting of production and development to areas where the necessary labour is available.

The representatives of trade unions have the greatest interest in this issue. The EMF welcomes and acknowledges the quality of the dialogue between the Commission and the different social partners. The EMF also welcomes the long-term perspective which the CARS 21 process offers. The EMF also considers that only progress in innovation can ensure that the automotive industry continues producing vehicles in Europe. It is believed that a long-term framework for innovation and skill improvement should be given preference over short-term strategies to maximise financial results if a sustainable car industry is to be retained in Europe. The EMF also believes that innovation in medium-sized companies should be encouraged and supported as these represent a substantial part of employment in the automotive sector.

The EMF indicates disappointment with the fact that knowledge management and networking were not discussed during the last CARS 21 exercise. The EMF raises the importance of labour qualifications and the availability of high-skilled labour in Europe as a problem area citing an increasing lack of qualified workers.

Trade unions raised the following subjects as of particular importance to them:

- Skills needs
- Effective R&D planning and activity
- The need to rebalance the relationship between suppliers and OEMs
- The need to cushion the effects of foreseeable transitions and a better use of structural funds and the Globalisation Adjustment Fund towards this end
- The need to strengthen European Works Councils and increase worker involvement in the restructuring process

ACEA, on the other hand, believes that the European Works Council Directive is working well.

It is interesting to note that ACEA puts restructuring primarily into the context of access to growing markets suggesting that if access to such markets is not sufficient, vehicle manufacturers could see a reduction of production sites, to start with in Western Europe, and relocation of production to emerging economies, such as China, India, ASEAN and Mercosur. R&D, new and/or complementary investments could be externalized outside the EU as well, notably to save costs. ACEA also believes, however, that EU manufacturing plants will increasingly benefit from sourcing parts and components from Central and Eastern Europe and of Asian origin.



Industry concludes that all measures listed above would undoubtedly have consequences on employment in the EU, both for ACEA members, but also for their tier one and two suppliers, who apply; whenever possible, the “follow sourcing” through direct investments, joint ventures and technical and license agreements with local producers. Stakeholders are of the opinion that the suppliers most hit by any reduction of production will be the SMEs that do not have means to invest abroad, and cannot follow their global customers.

CZ welcomes the inclusion of this chapter in the CARS 21 MTR and in particular stresses the need to conduct analyses regarding the future development and restructuring in the automotive sector.



MEMBERS OF THE CARS 21 MID-TERM REVIEW

Commission

▪ Günter Verheugen, Chairman	Vice-President of the Commission, Commissioner for Enterprise and Industry
▪ Antonio Tajani	Commissioner for Transport
▪ Stavros Dimas	Commissioner for Environment

Member States

▪ Hilary Benn	Secretary of State for Environment, Food and Rural Affairs, United Kingdom
▪ Miguel Sebastian Gascon	Minister for Industry, Tourism and Commerce, Spain
▪ Michael Glos	Federal Minister of Economics and Technology, Germany
▪ Christine Lagarde	Minister for Economy, Industry and Employment, France
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Industry

▪ Panos Cavoulacos	European Petroleum Industry Association, President
▪ Carl-Peter Forster	General Motors Europe, President
▪ Leif Johansson	AB Volvo, President and Chief Executive Officer
▪ Sergio Marchionne	Fiat S.p.A., Chief Executive Officer
▪ Christian Streiff	European Automobile Manufacturers Association, President and PSA Peugeot <i>Citroën, President</i>
▪ Dieter Zetsche	Daimler AG, Chairman of the Board of Management, Head of Mercedes-Benz Cars
▪ Giuliano Zucco	European Association of Automotive Suppliers, President

Trade Union-, Environmental Policy-, Aftermarket- and User Representatives

▪ David Baldock	Institute for European Environmental Policy, Director
▪ Jürgen Creutzig	European Council for Motor Trades and Repairs, President
▪ Max Mosley	Fédération Internationale de l'Automobile, President
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