

Concept Note

Strategic Dialogue on the Future of the European Automotive Industry

Context

The automotive industry is a core engine for European prosperity, **providing over 13 million jobs in the EU and contributing some 7 percent of its GDP**. However, this is now being challenged. The industry is in the middle of **deep structural shifts**, driven by **technological** changes and competitive forces including **digitalization**, **decarbonization**, **new competitors** and a **changing geopolitical context**.

Historical competitive advantages and traditional leadership of European automotive firms are eroding, and the European automotive industry could fall substantially behind new international competitors on production costs and mastery of key technologies, such as batteries, software-enabled cars and autonomous driving.

The European automotive industry is facing a challenge of a magnitude unprecedented for decades, and **only decisive and concerted action** can deliver a turn-around and avert substantial losses of employment and value creation. This will require close coordination and collaboration between the public and private sector, and within the European automotive value chain.

Objective

The EU Commission recognizes the **urgency and severity of the situation**, and the need for decisive action to protect **European prosperity** while at the same time achieving **climate goals** and other **societal objectives**. European industrial competitiveness is a core priority of the new Commission's work program. Given the importance of the automotive industry in EU's employment, it is equally important to ensure that the transition is fair and will focus on ensuring high quality jobs and skills for the future.

Within the Commission, **Commissioner Tzitzikostas has been tasked to develop an EU industrial action plan for the automotive sector**. Against this background, the objective of the Dialogue is to engage with European automotive industry players, social partners and other stakeholders to develop a **shared understanding** of the most critical challenges, potential solutions and respective roles, and to translate this into action. The clear ambition is to "roll up the sleeves" and be action- and results-oriented.

Format and Participants

The Strategic Dialogue will anchor on regular meetings bringing together key representatives of industry, notably OEMs and tier-1 suppliers, with social partners, representatives of infrastructure and civil society as well as selected Commissioners, chaired by President von der Leyen. The first meeting will aim to come to a **shared view of the most critical challenges and potential pathways to solutions**. It could also formulate specific goals and ambitions for further work.

Following this, thematic working groups consisting of senior experts from the sector and the Commission will be constituted, tasked with working out more detailed proposals. These working groups will regularly report back to the senior steering group for guidance and decision-making on proposals. Wider consultations with other stakeholders across the

industry as well as other parts of the automotive value chain, such as users of transport services will also be conducted. The Council and European Parliament will be closely involved in the process and will be regularly informed and consulted on the Dialogue.

Potential elements of a work program

The first meeting of the Strategic Dialogue will align on and structure the main themes on which urgent action is needed to give the automotive industry a solid future in Europe and identify potential solutions. The themes, and topics within them, could include:

- **Innovation and leadership in future technologies and capabilities (especially software, autonomous driving, next-gen batteries):** EU automotive companies are falling behind on key technologies. A step-change is required to achieve future competitiveness of the industry and its many SMEs and start-ups, and avoid the loss of value-add depth across the changing technology stack. The Dialogue will assess the “state of play” across key technology areas, identify must-win priorities and ambitions and develop actionable recommendations to deliver them. Within this theme, the work could be structured into different packages, focusing on 1) the overall industry innovation framework conditions and 2) specific priority technology areas. The former could consider topics such as top talent attraction and retention, entrepreneurship and venture capital, refined rules for pre-competitive private sector collaboration on R&D, more effective (in speed and scale) public sector support for R&D and commercialization of emerging technologies. Technology-specific packages could explore topics such as refined data and safety regulation for advanced driver-assistance systems (ADAS) development, frameworks for risk-sharing across the value chain on higher-risk or longer-horizon innovation investments such as next-gen batteries or enhancing demand certainty for emerging new suppliers.
- **Clean transition and decarbonisation:** One of the most critical near- and mid-term challenges for the industry is the transition to clean mobility. This transition is an opportunity for the sector to develop new markets, to innovate and to help lowering the dependence on fossil fuels. Domestically, the EU has set ambitious climate goals, but consumers are confronted with still higher upfront costs of vehicles and lower roll-out speed of charging infrastructure. Several industry participants have requested a review of the current regulatory framework, which could result in penalties for some OEMs. At the same time, others argue that key international markets (which are critical for European players) are rapidly shifting to electric vehicles, and that it is therefore imperative that European OEMs maintain unrelenting focus on regaining cost and performance leadership in electric vehicles (for which a strong domestic market is a key enabler), in order to protect and extend market shares internationally and domestically. The work within this theme could be structured into 1) regulatory framework 2) availability of charging infrastructure and 3) demand stimulation. The latter could explore measures such as improved CO₂-labelling to ensure clear consumer information, enhancing and harmonizing purchase incentives and fiscal measures across Member States, or public procurement / lead markets. Finally, within this overarching theme, questions of social equity and orderly industry transition could also be explored, such as industry collaboration on a lower-cost “small EV” to provide affordable electric mobility to lower-income groups, or coordination on supplier consolidation / ICE component production ramp-down, informed by Commission competition and anti-trust experts.
- **Competitiveness and resilience (energy, labour, raw materials and other inputs):** Ensuring globally competitive input costs (energy, labour, materials) and

security of supply is critical for the European automotive industry to prosper. At the same time, as the Draghi report stated, European firms currently suffer from a sizable cost gap across key inputs (especially energy and labour) and are exposed to supply chain disruption risks (notably on battery materials but also on certain high-tech components such as chips). Urgent action is required. Work within this theme could focus on 1) labour, exploring how to ensure that workforce skills continue to meet evolving needs and that the transition is handled in a socially compatible way, both through industry collaboration and public sector support (for instance through setting up tailored skills academies), but also how to accelerate innovation and deployment of automation and advanced robotics in manufacturing processes and other measures to make labour costs more competitive, 2) affordable clean energy, building on and feeding into the on-going priority Commission work on this topic, and 3) battery raw materials and other critical inputs (e.g. chips). Within the latter package, topics that could be explored include achieving effective and efficient battery materials recycling (as a key lever to reduce material import volumes and improve security of supply as well as domestic value capture), partnerships with a broader set of international raw materials producing countries (supported through Global Gateway), and innovative ideas such as coordinated industry investments into the upstream value chain. Last but not least, within this theme improvements to the overall business environment of particular importance to the automotive sector (e.g. SME regulation, single market) could also be surfaced.

- **Trade relations and international “level playing field”:** over the last years, several countries outside of Europe have started to pursue assertive industrial strategies aimed at capturing a larger share, or even dominating, global automotive manufacturing. These strategies include practices that distort competition, such as substantial state-owned investments across industries involved in the entire lifecycle of cars and trucks, creating an unlevel playing field. The Strategic Dialogue would discuss key industry concerns and priorities to inform on-going Commission deliberations on trade measures. For example, it should seek greater transparency regarding the effects of non-market overcapacity and identify additional measures to ensure fair competition on a global scale, including through coordination with other partners. These discussions should focus on Europe’s trade relations with North America and Asia, which account for the largest export markets as well as the greatest source of imports in Europe. In this regard, the dialogue should also consider the changing patterns and nature of third country direct investments made in the European automotive supply chain, as well as the effectiveness of EU rules of origin to support a competitive industry. Other markets in Africa, Latin America and Australia are also relevant to discuss further, while addressing broader themes such as ensuring that regulatory obligations (e.g. regarding ESG) are applied equally to European and international players.

- **Regulatory streamlining and process optimization:** In addition to the specific themes above, there is also potential to optimize the overall regulatory environment affecting the automotive industry, while ensuring that the objectives of the current regulatory and policy framework continue to be met, especially 1) ensuring coherence and consistency between different regulations (e.g. regarding batteries, safety and data protection) and 2) optimizing the timing and scope of regulations, e.g. ‘batching’ new rules to come into effect at the same time, and allowing sufficient lead time for industry to reflect new rules in the product development process. The Dialogue could for instance surface specific existing regulatory “pain points” and detail concrete improvement proposals and propose mechanisms to ensure greater regulatory coherence and more effective industry consultation in the regulatory process going forward. The Dialogue could also support industry self-organization, e.g. in agreeing common technical standards, such as for charging or battery technology.