Competitiveness of the German Automotive Industry in Europe - Challenges and Need for Action

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Executive Summary

The automotive industry generates a turnover of €226bn and an export surplus of €80bn, and makes investments of €12bn, making it one of the key sectors in the German economy. It also spends more than one third of all the money invested by German industries in research and development activities, which employ 85,000 people, so it is also the most important industry promoting technology in Germany. A policy that enhances the competitiveness of the automotive industry in Europe is therefore indispensable to Germany's welfare.

Tougher competition on the global automotive markets, and the competition between industrial production locations, pose challenges for the assembly plants in the EU and especially those in Germany. For several years now the passenger car market in Germany has been weakening, which steps up the pressure on Germany's relative importance within the automotive production network.

The VDA therefore expressly supports the work of the CARS 21 High Level Group and its objective of in future anchoring the competitiveness of the European automotive industry as a key criterion for new EU policies. The Association is willing to work with the German Federal Government and the Commission in any way appropriate to support the work of CARS 21.

The automobile is not only one of the most heavily regulated industrial products, but at the same time the speed at which new regulations appear has also notably increased in recent years. So the industry has not only been burdened with new requirements, it has also had to cope in particular with contradicting major political targets, the unpredictability of new measures, and the varying implementation of the regulations by the EU member states, which causes significant costs. Furthermore, considerable funding has been tied so that it is no longer available for raising the industry's profile in competition with Asian and American firms, while the potential revenues on the most important market have suffered lasting falls.

CARS 21 offers an opportunity to ensure that clear priorities are set for future EU policy in the automotive sector, and that succeeding political initiatives can be synchronized with the development cycles in the automotive industry, the implementation of European law is harmonized in the member states and, most importantly, the impact for the competitive position of legal requirements for vehicles are properly assessed in advance.

This involves careful comparison with the regulations on the markets of our most important competitors. Conversely, it also involves the EU taking measures to promote global harmonization of technical requirements in the automotive sector.

A neutral assessment of the possible consequences of new EU Regulations and Directives is the most important prerequisite for avoiding future burdens on the competitive position of the European industry. As part of this process, the affected industry should be involved from the beginning just as the member states are, and in particular the EU Competitiveness Council.

1. Overall Economic Importance of the Automotive Industry in Germany

There is no other industrial nation in Europe or indeed in the world whose national economy is as dependent on the success of the automotive industry as Germany:

- In 2004 the automotive industry contributed €226bn to the total **turnover** of German industry (€1.2 trillion). Automobiles and their parts created an export surplus of over €80bn. This contributed significantly to Germany being able to generate any growth at all from exports.
- Total industrial **investment** came to €48bn, of which €12bn went on the automotive industry alone.
- In the last 10 years the automotive industry has raised the number of its **employees** by 21 %, and in the difficult overall economic situation of the year 2004 it even managed a further increase of 0.5 %. This clearly goes against the employment trend in Germany: in the same period German industry as a whole shed 13 % of its jobs, and in 2004 alone there was another 2 % fall compared to 2003.
- Since 1994 the automotive industry has directly created 135,000 jobs. In total, including upstream and downstream businesses, 5.3 million jobs in Germany are dependent on the automotive sector (i.e. one job in seven).
- This industry contributed €36bn in **wages and salaries** to private consumer potential in Germany.
- The automotive sector is thus a key factor for **highly qualified jobs**. In the period from 1999 to 2003 alone, the number of graduates in the automotive industry went up by over a third, with the automotive supply industry leading the field with 40 %.
- The automotive industry is an especially stable sector. In 2004 the number of **insolvencies** went down by markedly more (- 30 %) than the average across the German economy (- 2%), as compared to 2003.
- Industrial **research and development** in Germany is dominated by the vehicle industry. In 2004 34 % of all industrial research and development expenditure, totaling €15.6bn, flowed into the automotive chain. Over 85,000 people in Germany work in automotive R&D, which amounts to one job in nine in this industry.
- The automotive industry has proved itself to be a key stability factor, especially in the **East German states**, with 7 production manufacturers' locations and over 700 supplier companies located there. Almost one half of the world's 100 largest supplier companies now have production plants in Eastern Germany.

Today Germany is no longer a classical vehicle-exporting country, but it is the innovative heart of a **worldwide production network**. The German automotive industry now has over 2,000 production plants around the world - including its own plants and licensees. Today German automotive companies employ a total of 160,000 people in the new EU member states, which means these countries are a very significant part of this industry. Automotive companies are important factors in generating new, permanent jobs offering exceptionally attractive income prospects to their employees in relation to their economic surroundings – especially in the new member states. And national economies such as the Czech Republic, Slovakia and Hungary are benefiting from the technology arising from the impulse generated by the commitment of the automotive industry. But the clearly enhanced presence in the USA, Mexico and Canada (with over 300 locations), or the presence in China (now running at 140 plants), also points up the global commitment not only of the vehicle manufacturers but also of the small and medium-sized companies in the supply industry.

However, **Western Europe** (including Germany), with 668 locations, remains by a good margin the focus of production by German vehicle manufacturers and suppliers. At this time 57 % of global production by German brands is sold on Western European markets, and 62 % across the EU. These figures make it clear that the competitiveness of the German automotive industry on its German and European home market is the most important prerequisite for success for secure jobs in Germany in the future.

2. Current Situation in the Industry

Challenges on the markets

In 2004 the German automotive industry was already in a relatively weak situation for the most important markets (+ 2% in the EU, + 1% in the USA) - but it was successful, thanks primarily to its **increasing market share** on important markets, and it increased its global production by 4 per cent to 12 million light vehicles. However, it is expected that 2005 will bring a clear weakening of the market dynamism in Europe, the USA, and China. Growth on the world passenger car market will fall to +1 % this year. Therefore there will be even more pressure from competition.

The **German passenger car market** is stagnating for the fifth year in succession. Only minimal year-on-year growth was achieved in 2004. The major causative factor is the private passenger car market, which has shrunk by 27 % since its record level of registrations in 1999. This lasting slump in private demand can be traced back largely to the lack of confidence of private consumers. However it has not had an effect of the same magnitude on the economic situation of the automotive industry - which is due to the stable company car segment with its growth of 2 % in the same period. The two-figure slump that occurred over several months in 2003 following the discussion on the planned increase in taxes on company cars, does however show just how sensitive this particular decisive market segment is to political intervention.

Germany's market weakness leads to vehicles being **kept on the road for longer**. At the moment the average age of cars on the country's roads has risen to nearly 8 years, which is a record high. The proportion of vehicles in the pollutant classes Euro 0 and Euro 1 is now 35 %, so at the same time there is a considerable untapped potential in Germany not only for stimulating turnover and employment in the automotive industry, but also for lessening the burden on the environment.

However, the continuing market weakness in Germany has other, further-reaching implications, including economic ones. Over the past decade the relative **importance of Germany** to the German automotive industry has was been continually falling. While production abroad went up by 119 %, exports of passenger cars rose by 62 % and those of commercial vehicles by 83 %, passenger car production in Germany only rose by 27 %. Since 1994 foreign turnover has gone up by 168 %, i.e. more than twice as much as domestic turnover, which rose by 68 %. This means that Germany as an automotive location is coming under pressure in the long term just as much as the whole European automotive industry in relation to the whole EU.

Increasing cost pressure

According to a study by the Deutsche Bank, the **operating margin** of the manufacturers active in Asia and North America clearly improved in the period from 1991 to 2002. It climbed from 1.6 to 5.7 % in Asia, and from -1.9 % to 5.3 % in the USA. By comparison, the manufacturers operating in Europe managed only 3.1 % in the same period, obviously lagging behind.

However, the traditional advantages of the German vehicle producers in global competition, the strength of their brands – especially in the premium segment – their technological leadership in vehicle performance, safety and comfort, and high fuel efficiency, will not be sufficient on their own to ensure success as hoped. In fact there will be a considerable further increase in pressure on the total **costs** arising in the supply chain:

- For example, owing to the recently concluded supply contracts for a whole range of raw materials, the year 2005 will once again obviously bring additional costs associated with raw materials.
- In 2004 and 2005 the automotive industry must accept rises in the prices of steel products of around 40 – 60 %. In the passenger car sector alone the price increase will amount to roughly €2bn.
- The prices noted for important metals such as aluminum, copper and lead have shown increases in double figures. In addition, the prices of the plastic components used in the automotive industry (which are becoming ever more important) have also risen in double figures as a consequence of the skyrocketing prices of crude oil.

Taken together, these factors increase the pressure on those cost parameters that the companies can still influence, such as the **personnel costs** in particular. The results of the current negotiations between corporate managements and employee representatives in the German automotive industry show, however, that vehicle producers and their suppliers are making equal efforts towards the most extensive cost optimization and flexibilization in deploying the workforce, so as to ensure responsible employment in Germany as far as possible. If a study by the Centre for European Economic Research, carried out for the European Commission in connection with the discussion on the competitiveness of the industry, bemoans the severe obstacles to reducing capacity in the automotive industry, this is the other side of the coin with employment-oriented corporate strategies.

Differences between markets and productivity levels

Not least the Commission’s publications concerning CARS 21 point out the low productivity of the European vehicle producers as compared to their competitors, in particular those from the USA. However, the comparisons made in these documents are insufficient since they ignore significant differences in the frame conditions:

- **Methodological limits on productivity comparisons**
  Comparisons of productivity are influenced by the great volatility of the exchange rates. In the year 2001 one euro was worth less than 90 US cents, but now the

exchange rate is around USD 1.30. Based on the current exchange rates, German productivity is running roughly at only 10 per cent below that of the United States.

It appears more useful to do the calculation using sector-specific purchasing-power parities. But this is only true if one can balance out quality differences between similar products. However, there are severe limitations on this. For example, standardization based on dimensions and engine performance must exclude significant quality features in particular of German premium-class vehicles, such as complex chassis or engines, extensive safety equipment and high-quality interior materials. And there are more features that are likewise decisive for the consumer's purchase but almost impossible to analyze, such as brand image, which would probably skew the results additionally in favor of the German vehicle producers.

The considerable problems of measuring productivity are also revealed by comparisons within the EU: according to data from the Centre for European Economic Research, France had about 50 % greater productivity than Germany in 2001. According to the statistics of the European Community itself (Carlsson-Aubry, Christine, 2005, Die Kraftfahrzeugindustrie in der Europäischen Union, Statistik kurz gefasst, Nr. 4/2005) in that year labor productivity was almost 9 per cent higher in Germany. If in addition one takes into account the shorter total working time in this country (according to the GGDC), the Germans' productivity advantage amounts to 12.5 per cent. Compared to the average of the EU-25, Germany has an advantage of 18 per cent (calculated per employee), and compared to the EU member states not including Germany the figure rises to 34 per cent.

- **Differences between the home markets**
  The various different home markets exhibit some considerable differences, which has implications for the companies' economic success and productivity. In the USA, for example, most segments are dominated by large vehicles with high consumption, generally less developed technology, and few product variations. By contrast in Europe - and in Germany in particular – it is aspects such as low consumption, high safety standards, the most up-to-date technical equipment and a wide range of individual product variations that enjoy significantly higher priority amongst customers. This results in cost and revenue structures varying from one manufacturer to another, which makes a comparison of productivity practically impossible. For example, in Europe considerable sums go on development, but companies who concentrate mainly on the American mass-market do not have to make such investments. Companies using the technology developed by others can exploit cheaper, mature technical standards, and achieve productivity advantages using simple, standardized vehicles - advantages which European leaders in technology cannot catch up on owing to the demand structure on their home markets. According to the McKinsey Global Institute, the different product mix and the much greater number of variations of models in Europe alone explain a large proportion of the productivity lag behind the USA.

- **Differences in the production structure**
  The European automotive industry is characterized by an increasing division of labor between manufacturers and suppliers. The suppliers' proportion of value-

added has risen markedly in recent years. In the USA the picture is different. Here, the manufacturers still account for 55 per cent of value-added. By comparison, for example in Germany, a whole 70 per cent of the value-added is created by companies in the supply industry. And this not only makes it more difficult to measure productivity, but a comparison - principally with the US American data – also becomes less meaningful as a result. A good proportion of the overall productivity lag in the automotive industry is explained by the generally higher productivity of the manufacturing companies in comparison to the suppliers. On the other hand, however, precisely the differentiated supply structure of the German automotive industry and the much greater importance of the small and medium-sized enterprises (SMEs) in particular have proven themselves to be important success factors for gaining market shares – mainly in demanding market segments - through innovation and cutting-edge technology. Here the European firms already have considerably more experience than their American competitors.

- **Production structure split into relatively small sections**
  Production sites in Europe are pretty much split up into different sections. Attempts at consolidation often fail because of political resistance and public pressure. In the USA plants can be closed down, but this is virtually impossible in Europe. At the same time, American firms can exploit larger economies of scale owing to their bigger home market.

- **High labor costs**

  Industrial production in Germany bears a heavy burden in the form of wage costs. For example, between 1990 and 2001 the labor costs per hour in the EU rose from 19.1 dollars (in purchasing power parity) to 32.7 dollars. In Germany the figure increased even more sharply (from 20.5 dollars to 36.8). The USA, on the other hand, has been able to stabilize costs, especially since 1995, and at 33.8 dollars is now almost 10 per cent below the German figure. The German automotive industry has traditionally been characterized by particularly costly wage structures. It is still the case that most competitor countries have considerably lower unit labor costs than the companies in Germany. However, since the mid-1990s German businesses have been able to improve their position considerably. And most recently several companies have taken measures to reduce wage tariffs.

Table: Labor costs per unit of value-added

	2002	**Annual change from 1997-2002 in per cent**
Germany	67.27	-2.58
France	51.36	-1.65
Great Britain	69.81	2.74
Japan	53.02	2.57
USA	42.66	-4.81
EU-15	63.95	-0.20
EU-15 not incl. Germany	59.32	1.72

- **Job creation**
  In past years the automotive industry has increased the number of people it employs – by 20 per cent since 1995. This means that measured by the number of employees it is the fasted growing industry in Germany. This tends to bring down the productivity indicators, just as cutting the number of jobs increases productivity. A less strongly employment-oriented corporate policy would have reduced the productivity deficit more quickly.

3. Need for Action in European Policy

Challenges for the High Level Group CARS 21

Against the background of the current difficult market situation for the German automotive industry, it is all the more important that the European Commission, together with the member states, has convened the High Level Group CARS 21. Its mandate is to define steps to ensure that in all areas of politics the future legislation of the European Union will, right from the beginning, always take account of the consequences for the competitiveness of the automotive industry. This means from VDA's perspective:

- What specific consequences do the regulations have, and what costs will be incurred as a result?
- Will the measures taken in the European home market adversely affect the revenue potentials of the enterprises, compared to their American competitors, and above all their Asian ones?
- Will competitive disadvantages on third markets arise in comparison to these markets (especially USA, Japan, China, etc.)?
- Will fulfilling the regulations tie up funding that will no longer be available for improving the performance of the products in important areas of technology?
- Will disadvantages arise for the European automotive industry owing to differing implementation in the EU member states?

Example: Effects of the new Block Exemption Regulation

According to a current study by the college *Hochschule Nürtingen-Geisslingen*, the new Block Exemption Regulation has permanently reinforced the competitive position of the Korean automobile brands in Germany, in particular by making it easier for dealers to sell more than one brand. The study reported that the 80 % growth in Korean sales in Germany since the year 2002 has been facilitated by such factors as the fact that the Korean brands have successfully targeted established and successful dealers as sales bases. They utilize the fact that the existing large dealers are already well known because of their business with the established German brands, in order to achieve sales figures that would otherwise be impossible. Thanks to the attractiveness of the "core brands" of the dealer, they are achieving a number of initial customer contacts that would not have occurred based on the attractiveness of their own brands alone, or (under the conditions of exclusive brand dealership) could only have been realized with much higher financial investment.

Deficits in current EU legislation from the industry's point of view

The above-mentioned demands should be seen against the fact that in recent years a host of new regulations has been passed by the European legislators concerning nearly all technical aspects of vehicles. It is primarily in the areas of the environment and consumer protection that the **regulations have achieved a density and a dynamism** that is unique in comparison with other industrial products. And that is not all: in the EU legislation, political objectives have repeatedly collided with one another, and contradicting legal regulations have been passed with competing objectives. And these regulations have accumulated detrimental effects on the competitiveness of the industry. Here are just a few examples:

- The regulations governing vehicle **exhaust emissions** have been tightened up 19 times since 1970. Again and again, the legislators have required technical adaptations and the installation of additional components, which increase the weight of the vehicle and thus the consumption and the emissions, too. This does not mean that no action should be taken in one of the two areas of action. It does mean that it would be better to have an integrated view of the various policy areas and synergies, and that conflicting objectives should also be considered right from the beginning.

- The regulations governing **vehicle recycling** have banned certain materials, brought in recycling quotas and labeling requirements, and extended manufacturers' responsibilities. This has led to significantly more resources going on the construction of vehicles, to restrictions in vehicle design, and to additional costs arising from diverse material bans. Additional costs arise not least because of the differing implementations of the Directive on end-of-life vehicles in the EU. Above all, though, the prescribed quotas based solely on the principle of separating and re-using materials lead to long-term difficulties with bonded materials. These latter are, however, very important in further reductions of vehicle weights. On the other hand, a paradigm shift in EU waste management policy, the abolition of the recycling hierarchies and the associated disappearance of prescribed quotas (which would allow simpler and cheaper treatment of mixed materials), would result in significant potential ecological benefits.

- Up until now, the European Commission's top priority has been to achieve further reductions in CO_2 emissions in the EU via successive **reductions in vehicle fuel consumption**. At its core is the agreement between the European vehicle manufacturers' association ACEA and the European Commission on bringing down the CO_2 emissions from new passenger cars to 140 g/km. The European manufacturers achieve 163 g/km, i.e. below the target corridor of 165-170 g/km, with a clear lead over their competitors from Japan (172 g/km) and Korea (179 g/km). However, the experience gained in realizing this agreement shows that the cost of saving every additional gram of CO_2 is higher than for the previous reductions. This exponential growth in costs is all the more burdensome since the costs of avoiding each tonne of CO_2 in the transport sector are now much higher than those of corresponding reductions in other sectors, such as private households. The automotive industry is therefore demanding an expanded perspective of CO_2 emissions from traffic, a view which must include the whole automotive chain, from the behavior of the driver to the composition of the fuels to the vehicle to the transport infrastructure. There are still considerable potentials for reduction here,

e.g. through adding synthetically produced fuels, the use of bio-fuels and natural gas. Within the scope of CARS 21, the industry wishes to formulate strategies for this “integrated approach”.

- The Commission’s intention to abolish the protection of **design rights to parts** implies a sea-change to the existing balanced competitive conditions prevailing until now in the most important European markets. The consequence of this move would be that above all spare parts principally from the Far East would be able to enter the EU unrestricted. This would bring about not only considerable losses for parts businesses, but also clear disadvantages for the European manufacturers on their most important market in comparison to the income situation of their American and Japanese competitors, who can operate on their home markets under much more favorable conditions. In addition the appraisal by Prof. Strauss of the Max Planck Institute in Munich (commissioned by the automotive industry) stated that the EU proposal contravened the WTO TRIPs agreement. Moreover, such deregulation would also result in risks affecting items ranging from product quality to safety properties, since the relevant parts would no longer necessarily correspond to the manufacturers’ requirements. For example, imported parts would not have to be subject to the requirements of the new European chemicals policy, and at the same time would not optimized for the above-mentioned requirements of the Directives on end-of-life vehicles; this will result in further burdens for the automotive industry.

- The requirements of the European **Pedestrian Protection Directive** have been defined exclusively from the point of view of pedestrian protection. The consequently required softer versions of vehicle hoods conflict with other requirements for improvements, e.g. frontal crash properties. At the same time, the negative effects on consumption and CO_2 output owing to the corresponding increase in vehicle mass are not taken into account. This Directive is one of many examples of how requiring one individual technical solution to an individual problem within the complex of automobile safety makes it more difficult to achieve overall optimization of its performance profile.

- In the medium term clear political demands are emerging, including the area of increased **vehicle safety**, to use communication between vehicles (e.g. warning signals when the brakes are on full and in crashes, or using emergency signaling systems in vehicles) to define detailed technological requirements involving the installation of certain parts by the manufacturers, and at the same time to regulate by law the requirements on a corresponding transport infrastructure. From the point of view of the industry, however, one can expect the introduction of the corresponding technologies sooner - if as much flexibility as possible is maintained - in order to achieve the technically best and economically most efficient solution. Therefore, before the European legislators act again as they have done in the past and put detailed technical regulations into effect, all the potentials should be exploited for realizing the corresponding technologies as a “business case” for the vehicle manufacturers, their suppliers and the corresponding service providers.

- The Commission’s proposal formulated within the scope of the current WTO negotiations, to reduce **import duties on “environmental goods”** to 0, positively invites demands from third countries to apply this basic principle, also in the case of the most important European import duty still in existence, the 10 % on the im-

port of passenger cars. The consequence would be that the relative cost positions of the European manufacturers and their Asian competitors in particular could in future be dependent upon environment-policy assessment decisions and their amendments over the course of time. At the same time, the Asian competitors would be the sole beneficiaries of such a measure - through additional price flexibility on the EU market. However this would not apply to developing countries, who are primarily intended to benefit from the reduction of import duties on environmental goods within the scope of the Doha Agenda. And during the realization of this project, the relative economic weight of the European import duties would be reduced. The result of this would be that in return for reductions of the general import duty on passenger cars and commercial vehicles, only small benefits would be achieved. However, not only from the point of view of trading policy should we fundamentally reject preferential rights for “environmental goods”, but also for reasons of environmental policy and internal market specifics. In particular, there must not be any discrimination against products that do not come into the category of “environmentally friendly goods”.

- While the automotive industry is obviously the most important area of industrial R&D, it is right at the bottom of the rankings when it comes to using **public funding**. Some areas of industry that do not make a fraction of our contribution to the national economy, receive many times what we do in direct and indirect funds from tax revenues. The German Federal Ministry of Education and Research (BMBF) has a focal area ‘mobility and transport’, with only approx. €47m to spend every year, and within this focal area public transport receives special promotion. In comparison to the total amount of research in Germany, this area is not only clearly able to expand, but it also largely benefits other modes of transport. For the automotive industry it is clear that its future research and development must continue to be funded first and foremost by its own efforts within the enterprises. It does not in any way demand subsidies for its efforts to bring about innovations in the sense of a traditional industry and structure policy. But the politicians of the EU and the member states should make all the more effort to provide targeted support to the interfaces between different sectors of industry, and innovations in the areas of safety and environmental protection, including using appropriate funding for research. This is relevant, for example, to the investigation of the potentials of alternative fuels and the interaction between vehicles and the infrastructure in the areas of traffic safety, active and passive safety in the vehicle, materials and assembly technology (such as nanotechnology).

Consequences for the industry

The policy pursued until now of making the regulations ever stricter, incurs considerable **costs for the industry**. It can be expected that the end-of-life vehicle directive, the European chemicals policy and the implementation of the Euro 5 pollutant standard will burden the European automotive industry to the tune of several billion euros for the German manufacturers alone. Additional climate-policy measures have either been passed already or are being called for by politicians at this time - ranging from changes in vehicle air-conditioning systems to reductions in emissions from new cars to 120 g/km. These measures will cause ever greater additional burdens on the German and European manufacturers. Achieving the “120 g target” solely through developments in vehicle design would incur costs out of all proportion to the price of the vehicles and would thus lead to unacceptable burdens.

The above would require an **investment of capital and know-how** that in the great majority of cases would bring about an imperceptible additional benefit to the customer, and which above all, however, would not allow any differentiation in competition - and certainly not outside the EU in competition with American or Asian companies. However, at the same time funds are being tied so they are no longer available for innovations that might be better spent raising the profile of the European manufacturers in comparison to their competitors. But first and foremost the resources needed reduce the companies’ earnings on their home market, which are low enough in any case.

There is a basic danger that political approaches not coordinated with market development, and the costs this brings for consumers, will create an imbalance between the politically induced additional costs on the one hand, and the customers’ **ability and willingness to pay** and their real preferences influencing their purchases on the other. This excessive strain on “purchasing power” on the European home market must have a lasting effect on the industry’s ability to produce innovations and thus also its viability for the future, and its effects on employment.

Therefore, we are calling for a practical European industrial policy that leaves the enterprises with **sufficient flexibility** for dynamism and innovation, thus also allowing efficiency to increase in the areas of environmental, safety and consumer protection. Legislation that is strictly technology-neutral (defining limits to be achieved rather than prescribing a particular technology) and reliable in relation to the development, model and investment cycles in the automotive industry, is the major prerequisite for the amortization of the invested capital and for allowing growth.

4. Consequences for Future EU Policy

Reliability, transparency and resolution of conflicting objectives

There is no way round clear prioritizing of the political objectives and an unequivocal decision amongst competing legal alternatives, if the competitiveness of the European automotive industry is not to suffer permanent damage. Preparations must be made for the competitiveness of the European industry to be taken into account sooner and more comprehensively than before in the formulation of political objec-

tives and in elaborating new regulations. To this end, the following points must be considered:

1. For the future success of the German and European automotive industry, a **reliable context** and economic growth potential on the European home market are indispensable. This means that retroactive measures, for example those forced through in the case of the end-of-life vehicles directive, must be avoided just as much as a protracted discussion of new requirements even before the previous ones have come into force, as in the case of the legislation on exhaust emissions. The industry needs predictability and a reliable “schedule” for EU legislation, for planning its investments.

2. An essential part of a reliable context is a clear **setting of priorities** in EU politics, which is also binding on the member states. This involves such things as frank discussion and resolution of conflicts between competing objectives, and thus an end to the current practice of tightening up demands in various areas without any coordination. This applies both to the level of “protected goods” (e.g. CO_2 reductions vs. safety) and also within areas where political action is taken (e.g. CO_2 reductions vs. increased consumption due to denoxing and minimizing particulate emissions).

3. In addition to the content of any new requirements for the industry, a sufficient **lead time** is necessary when new regulations are introduced, with consideration of the specific product cycles in the industry. In the past this has commonly been ignored (e.g. on-board diagnosis of commercial vehicle emissions).

4. At this time it is principally the areas of environmental and consumer protection that determine EU legislature concerning vehicles. So there is an increasing danger that the linking of the relevant Community objectives to the main goal of the EU – creating standardized conditions on the **internal market** – will be lost altogether. At present the internal market remains incomplete. This is seen in the lack of harmonization in taxation more than any other area. What is needed is the harmonization of taxes on mineral oil and vehicles, along with the abolition of vehicle registration taxes and greater harmonization of VAT levels, in order to create equal conditions.

5. The end-of-life vehicles directive has shown amongst other things that **varying implementation** of EU law in the member states distorts the competition conditions within the EU. In particular in the area of the environment, a high degree of sensitivity in drawing up a standard EU legal framework is necessary so as not to massively hamper the internal market through diverging national implementation (especially for the product-related areas of regulation) in its ability to function, and not to damage the aim of harmonization with simultaneous additional burdens on the industry. In this context, we need to resolve the common systematic conflict between Articles 95 (internal market) and 175 (environmental protection) of the EU Treaty. At the same time, having individual countries pushing ahead of others endangers the success of the internal market.

6. Against this background, the criterion for assessing the impacts of new Directives and Regulations must not solely be the strictly equal treatment of all domestic and foreign firms. In addition to this, it should be taken into consideration that the eco-

nomic basis of the European manufacturers and suppliers is significantly more severely affected by measures affecting their **home market** than, for example, that of their Asian competitors.

7. Furthermore, the automotive industry expects the EU to work consistently towards the formation of a body of rules relevant to vehicles that is **harmonized around the world** as far as possible. This ranges from the demands on the vehicles in environmental and safety issues to fuel quality. An increased effort in the EU's foreign and trade policy (e.g. towards an increased proportion of diesels in the USA) can in some cases be expected to produce greater relief than tightening up EU requirements by going it alone.

8. The level of **regulation in other states** with which the European industry competes should be considered from the very beginning when new rules are developed. Disconnecting the requirements in the EU for example from the regulations in the USA or Japan does not mean we are playing a pioneering role, but instead endangers the basis for the success of the European economy in the long term.

9. Policy in the automotive sector must also consistently observe all the framework conditions affecting the **use of its products**, both directly and indirectly. The costs of individual mobility must not be increased even further by taxation and other measures. The quality of the road infrastructure must be improved. And considering vehicle production spread over several sites and the upstream supply chain, the automotive industry itself is also dependent on high-performance and affordable **transport systems** and a high-quality **traffic infrastructure** in the existing members states, and even more so in the new ones.

Assessment of the consequences of future legislative projects

An exact assessment of the consequences of new regulations for vehicles, the companies involved in their development, and their users is essential for realizing these success criteria. The automotive industry therefore gives its whole-hearted support to the cross-sector demand for a compulsory **impact assessment** of political projects with a legal obligation to include the following criteria:

1. Institutional requirements

- Inclusion of the affected industry right from the beginning.
- Implementation by the Directorate-General responsible for industrial policy, independent of the office of the Commission managing the project.
- Political link with the Competitiveness Council.

2. Requirements concerning content

- Comprehensive comparison with requirements outside the EU.
- Clear and comprehensible methods of determining the impacts on the industry with competitiveness as the central criterion. Caution in the use of concepts related to welfare aspects that may be manipulated (external costs).
- Integration of targets that the planned measures are intended to achieve and of the expected costs into the overall context of the relevant policy areas (contribution to realizing the objectives of climate protection and “avoidance costs” in other sectors).
- Inclusion of the advantages and disadvantages for the automobile user.
- Analysis of the impacts of each project in relation to other regulations.
- Possible additions to the range of tools proposed by the managing office of the Commission; inclusion of alternatives (e.g. voluntary agreements).

3. Procedural requirements

- Implementation should begin with a conception phase for new projects and “tracking” of the impacts on the industry that is continued during later formulation.
- In addition, there should be a compulsory “ex post” investigation of the consequences of new rules for the industry and in comparison to competitors. For this monitoring of the most important legislative projects, relevant indicators are to be defined following the Impact Assessment Set.

Finally, in the case of the **overarching political focuses** a consistent answer is also required to the question of whether the obvious “special treatment” of the automotive industry, e.g. the Block Exemption Regulation, is justified. Precisely because a future EU industrial policy also means a clear rejection of the formulas of industrial control as seen in the 1960s and 1970s, it must start from the positive contributions which this industrial sector makes to the economic performance of the EU.