Scene setter

You are meeting [redacted] from the German Association of the Automotive Industry (VDA).

The VDA represents the interests of the German automotive industry, with over 650 member companies that span from large vehicle manufacturers to small component suppliers. Along with other European associations,[1] they are proponents of a technology-neutral approach to the climate transition in the automotive sector; this includes the use of synthetic e-fuels, which are carbon neutral, in internal combustion engines (ICE), allowing ICE-powered vehicles to be sold beyond 2035. Moreover, they favour an ETS for the transport sector as soon as possible, and call for the rapid implementation of charging infrastructure around the EU to activate EV demand.

Topics of discussion are

- general situation of the automotive industry
- war in Ukraine, sanctions, and impact on the sector
- fit for 55, AFIR in particular,
- access to data,
- ITS.

VDA is also meeting Commissioner Hahn the next day.

VDA has welcomed the Fit for 55 package but **criticised the proposed revision of CO2 performance standards for cars and vans**. They argue that the 100% emission reduction target for new vehicles in 2035 would effectively ban the combustion engine, including in hybrid motors, thus arguably constraining consumer choice. *[see defensive points]*

VDA has welcomed the proposed new regulation on the deployment of alternative fuels infrastructure (AFIR - that would ensure adequate recharging infrastructure across the EU) and welcomed the proposed revision of the Renewable Energy Directive, but has called for greater ambition.

VDA is fully supportive of a switch of legal format to a regulation and the introduction of mandatory deployment targets. However, VDA asks for significantly higher fleet based targets for LDV of 3 KW per BEV (as compared to 1kW per BEV and 0.66 kW per PHEV) under the assumption that 60% of all charging will be done at publicly accessible recharging points (currently 10-15%). Furthermore, VDA asks for shorter distance between recharging stations along TEN-T, significantly higher power output for recharging pools for HDV and hydrogen targets for 2027 and every 100 km along the TEN-T network. *[see defensive points]*

On in-vehicle data, there is a strong opposition between the two stakeholder groups, with on the one hand the vehicle manufacturers and on the other hand the after-market services, on what type of in-vehicle data should be shared, when and how.

[1] Along with their French, Italian and Spanish counterparts, the VDA outlined their vision for the transition in the automotive sector in a letter addressed to President von der Leyen on July 12.

Objectives

- Show our commitment to ensure that supply chains must be preserved and that the negative impact of the war is minimised.
- Describe the adopted sanctions as regards road transport.
- Discuss the issues on Fit for 55 proposals.

Speaking points

IMPACT OF THE WAR IN UKRAINE ON EUROPEAN MOBILITY

- Like Covid-19 before it, the war in Ukraine has affected the transport of people and goods. The war led millions of Ukrainians to flee west. Air connectivity with Asia has suffered from the shutting of Siberian overflights and the closure of ports on the Sea of Azov and the Black Sea has disrupted vital Ukrainian grain exports. We also see decreasing use of the Northern Corridor.
- The Commission has encouraged Member States to apply measures to facilitate road transport in the exceptional circumstances. Possible measures included issuing temporary driver cards (tachograph); exploiting flexibilities on driving and rest times; reduced rates / exemptions from toll payments or user charges for vehicles carrying out emergency services, etc.

RESPONSES TO SUPPLY CHAIN DISRUPTIONS

- The Commission recently adopted a Contingency Plan for transport. This draws lessons from the COVID-19 pandemic and provides guidance for European freight and passenger transport in similar future events. It exploits a network of national transport contact points and provides guidance / guidelines for transport operators and passengers.
- During Covid-19, the “Green Lanes” initiative meant that 90% of the 178 crossing points on the Trans-European Transport Network (TEN-T) met the objective of freight vehicles crossing borders in no more than 15 minutes.
- In the current Ukraine crisis, the EU-Ukraine Solidarity Lanes are both an emergency response and part of a medium- to long-term solution. The idea is to put EU operators and Ukrainian grain-sellers in touch and to design new links between Ukraine’s borders and EU ports – putting in operation alternative routes to mitigate the impact of the Russia’s blockade of the Ukrainian Black Sea ports on the UA exports and imports.

FIT FOR 55

- The Fit for 55 (FF55) legislative proposals are now under negotiation. They contain several elements promoting transition to zero-emission mobility. My thanks to VDA for your commitment to supporting these objectives.

AFIR/CO2 standards for cars and vans

- The transport sector needs to reduce its CO2 emissions by 90% by 2050. The rapid shift to zero-emission mobility and renewable and low-carbon transport fuels is of key relevance in this respect.
- After a bit of a slow start, I am impressed by the effort the German automotive industry. Many attractive models have been entering the markets recently and more are still to come. Massive investment in zero emission drivetrains and battery production has been announced by all manufacturers. We witness continued strong growth in registrations, in spite of the overall challenging conditions for effective value chain operation.

- The Fit for 55 package and here particularly the Commission's proposals for new CO2 emission performance standards and for AFIR aim to provide certainty to the sector to accelerate those investments. At the same time, we are pushing for much greater ambition on renewable transport fuels to serve the existing stock of vehicles. The Commission proposal for the revision of the Renewable Energy Directive doubles the ambition for 2030.

- We absolutely need to accelerate rollout towards sufficient publicly accessible recharging and refuelling infrastructure. Two weeks ago, the Council agreed on its position on AFIR. The Council – unanimously - supports the shift to a Regulation and the setting of mandatory deployment targets. As noted, our aim is to set a sufficient minimum, on which market demand will deliver further.

- For the electric recharging infrastructure, the Council also maintained the overall ambition level for 2030, but allowed for some flexibility for low traffic TEN-T segments. The thresholds for flexibility are set rather high though.

[redacted]

[redacted]

On access to vehicle data

- The Data Act proposed in February 2022 sets the horizontal framework for connected products, such as connected cars, with rules on access to data by consumers and third parties, while preserving incentives to invest in ways of generating value through data, ensuring businesses across sectors are in a position to innovate and compete.
- The proposal is also giving new leverage to third parties by bringing in the concept of unfair contractual terms for SMEs.
- Repair and maintenance information from vehicles is subject to specific data access/sharing obligations under Type Approval legislation. These will be revised, as sector-specific legislation, by end of 2022 (DG GROW in the lead), while not diverging from the balance proposed in the Data Act.

ITS

- The ITS Directive's focus is on digitalisation, which of course is also expected to provide environmental benefits through the reduction of congestion and increase in road safety.

- In terms of digitalisation in mobility, Europe has some catching up to do. The sector is dominated for the most part by non-European actors. With the revision of the ITS Directive we wish to raise the bar and accelerate the deployment of mobility services able to compete with the global giants.

- That is why we've presented an ambitious proposal aimed to increase the availability of data, improve collaboration between stakeholders and ensure cross-border interoperability of services. This is paramount to support our automotive industry in the development of automated vehicles and innovative services.

[redacted]

[redacted]

Defensive points

CO2 standards / F55

Why 55% emission reduction target for in 2030 for cars and 100% in 2035? This is going too fast!

- The impact assessment compared several options for the targets and this showed that the case for the high ambition option is very strong compared to the lower ambition options.
- Firstly, this option is more effective in achieving the specific objectives of reducing CO_2 emissions and providing the needed air quality benefits.
- Secondly, it delivers higher benefits over the lifetime of a vehicle from a societal perspective.
- Thirdly, it brings the lowest TCO (total cost of ownership), both for first and second end-users of the vehicles. In addition, by accelerating the market uptake of zero-emission vehicles, it is expected to further bring down vehicle costs and make such vehicles more affordable and attractive for buyers.
- The transition towards zero-emission mobility will require a transformation along the entire value chain of the automotive sector.
- The cumulative investments for automotive manufacturers will need to increase compared to what was necessary to attain the current targets. These investments in zero-emission technologies will be key to maintain and strengthen the leadership of the EU industry in new automotive technologies.
- Recently announced business decisions of the manufacturers already show that investment in zero-emission technologies has quickly become their priority.

You are proposing de facto a date to ban internal combustion engine cars and vans in Europe. This is not a technology neutral approach and it constraints choice for consumers

- Road transport has a vital role to play in the transition towards climate neutrality by 2050 and in improving the quality of air in our cities and metropolitan areas. Nearly all cars and vans on the roads will need to be zero emissions by that time, as noted in the Sustainable and Smart Mobility Strategy
- The Commission therefore proposes more ambitious targets for cars and vans starting to apply from 2030 onwards.
- It will be for manufacturers to decide which technologies they choose to use to achieve this target.
- Vehicle manufacturers are already preparing for and actively implementing the switch to zero-emission vehicles, as illustrated by the surge in battery electric car registrations. Other innovations are on the table as well, such as fuel cells electric vehicles.
- The proposal therefore sends a clear signal to the EU industry to invest in innovative zero-emission technologies, which will also be key for maintaining its technological leadership as well as for the employment of highly-skilled workers.
- In addition, the transition to zero-emission cars and vans will provide benefits for consumers and citizens through lower energy expenditure and better air quality, which cannot be delivered by internal combustion engine vehicles.

How can we ensure that the roll-out of electric cars does not only benefit higher income citizens?

- Over the past years, the zero-emission vehicles market has developed much faster than expected. Yet, the current prices of zero-emission vehicles are still significantly above those of comparable vehicles with internal combustion engines.
- Ambitious targets help create economies of scale, as a great increase in production decreases production costs per unit, in particular for batteries. This will increase the number of affordable zero-emission vehicles models coming to the market,
- Also, as the market expands, manufacturers will add more smaller models to their portfolio of vehicles, and will thus make zero-emission vehicles more affordable for more consumers, including to the second hand market.
- At present, continued market support is needed, however. Particularly the further implementation of the Recovery and Resilience Facility is of importance here.

Why does the proposal remove the incentive mechanism for zero- and low-emission vehicles as of 2030?

- The stricter targets applying from 2030 onwards will require manufacturers to deploy significantly more zero-emission vehicles. Therefore, the incentive scheme for zero and low emission vehicles, which was intended to kick-start the uptake of such vehicles, is no longer necessary at that point in time.
- The removal of the scheme also simplifies the legislation.

Why are you not including a mechanism to account for the contribution of renewable and low carbon fuels?

- The core objective of our policy regarding transport fuels is to reduce their greenhouse gas intensity and we need to do so by the most effective means.
- The Impact Assessment underpinning the Proposal analyses mechanisms to account for renewable and low-carbon fuels when assessing vehicles manufacturers' compliance with the CO2 emission standards. .
- Such an accounting would reduce the planning certainty for automotive manufacturers and their suppliers, thus risking to hamper the transition towards zero-emission vehicles.
- As a consequence, the market deployment of zero-emission vehicles would be lowered, with negative impacts also on air pollution.
- The mechanism would create an incentive to direct to road transport those fuels that will be needed to decarbonise sectors with less alternatives, like aviation and maritime. Therefore, it would create an incoherent approach to fuels decarbonisation, while dedicated specific instruments are proposed for this purpose (RED II, emission trading for road transport and buildings, Energy Taxation Directive, and specific initiatives on fuels in aviation and maritime).
- In addition, in case a voluntary fuel crediting system is established between fuel suppliers and vehicles manufacturers, the compliance costs for manufacturers would increase and thereby impact the total cost of ownership for consumers.
- Finally, the mechanism would increase the administrative burden and complexity, blurring the responsibilities between fuel suppliers and vehicle manufacturers.
- For these reasons, the proposal does not include a mechanism to account for renewable and low-carbon fuels to assess vehicles manufacturers' compliance with the CO2 standards.

VDA considers a power output of 3 kW per BEV necessary to ensure sufficient infrastructure across the EU. What was the Commission's logic to propose a value of 1 kW?

- The objective of AFIR is to provide sufficient infrastructure in all Member States on which basis private investments could fill possible additional demand.
- The required power output per electric vehicle is dependent on a number of factors, in particular the share of publicly accessible compared to private recharging and the expected average occupancy rates of publicly accessible rechargers.
- Currently, the share of publicly accessible recharging is only between 10-15%. But this is expected to change over the next years with more people buying electric vehicles who do not have access to private rechargers. The share of public recharging is therefore expected to increase to 40% while occupancy rates of recharging points of approximately two hours per day ensure return on investment in the long run. Under those assumptions, 1 kW power output per BEV is deemed to provide sufficient infrastructure on average.
- A target of 3 kW would basically assume that each recharging point is occupied only 45 minutes per day leaving a lot of infrastructure idle for most of the time not providing any return of investment. This risks an inefficient use of public funds and would also risk that private investments would not take place meaning that the deployment of recharging infrastructure would be almost entirely left to public investment.

Why does the Commission already propose targets for 2035 now? Isn't that premature?

- By strengthening the CO2 standards for cars and vans from 2030 onwards, the Commission aims to provide sufficient time for the industry to prepare for the transition, both in relation to investments and labour force needs.
- At the same time, by setting a 100% emission reduction target for new cars and vans sales by 2035, the Commission seeks to provide the clear long-term signal for the automotive sector on the scale of transformation needed.
- This would help stimulate timely investments in zero-emission technologies, key for innovation and industry competitiveness.

Background

German automotive industry

The automotive sector is a key industry in Germany and its automotive market is the largest in the Europe. Germany is home of three major global manufacturers (the VW group, BMW Group and Mercedes-Benz) and of several global suppliers (Bosch, ZF, Continental, Mahle etc.). This makes Germany the biggest automotive manufacturer in Europe, which is likely stay that way.

- In 2021, manufactures reported record low production and sales due to the effects of the pandemic and supply shortages.
- In 2021, car production in Germany dropped to a low point of only 3.2 million cars. However, IHS data expects pre-pandemic production figures of over 4 million for this and the coming years. In 2021, 2.9 million cars were sold in Germany and stable sales figures of over 3 million cars are forecast in the years ahead.

In the response to the war in Ukraine, so far all German manufacturers and suppliers have supported the European Union's sanctions against Russia. They have halted their operations in Russia and stopped exports to the Russian market. In the bigger picture, the war in Ukraine

will most likely further accelerate the shift to electric vehicles in the German market, which might also lead to other dependencies such as raw material supply (e.g. for batteries) and on the US and Chinese markets.

  - BMW operated a production plant in Kaliningrad (with a capacity of 50k vehicles per year) in cooperation with the Russian manufacturing company Avtotor. The Russian market represents 2% of BMW's sales.
  - VW has production sites in Kaluga and Novgorod, which produced 170k vehicles in 2021.
  - Mercedes-Benz invested 250 million in a new car assembly plant in the Moscow region, which started production in 2019. In 2021, Mercedes-Benz produced 17k cars in Russia and sold 45k units.

- German car manufacturers have been increasingly catching up with international competitors, particular Tesla, in the area of electric mobility in terms of range and affordability of their vehicles.
  - VW wants to increase the share of all-electric cars in Europe to 70 percent of its sales. In the U.S. and China, VW wants to increase the share of e-cars to 50 percent by 2030. BMW announced that electrification would account for a third of its sales by 2025 and 50% by 2030. Mercedes wants to reach hundred percent battery electric vehicles by 2030.
  - All manufacturers consider the rapid development of a large network of charging infrastructure of a key factor for the success of electric mobility.
- The effects of the COVID pandemic heavily impacted the German automotive industry causing a production decline of 23% of the domestic car production in 2020 compared to 2019. All manufacturers experienced significantly lower sales numbers, decreasing profits and production plant shutdowns. The German government prevented major impacts on employment through extensive short-time work schemes.
- In addition to the ongoing pandemic and lower demand in Europe, in 2021 global shortages of semiconductors forced manufacturers to stop production and resulted in even lower production figures than in 2020. For the next few years, the supply of semiconductor will remain below demand until the production of semiconductor has structurally adopted.

- All in all, however, German manufactures reported very high net-profits in 2021 due to higher margins in their premium car segments where the sales numbers especially in the US and Asian markets increased.

Mercedes-Benz Group	Mercedes-Benz had the highest net profit with 23.4 bn EUR in 2021 in comparison 4 bn EUR in 2020. Mercedes announced that its top-end and SUV vehicle sales had increased by 30% but also sales of electric cars surged 64% in 2021 (especially to higher sales in the US and China, while the European market saw declining sales).
BMW Group	BMW achieved a record net profit of 12.5 bn EUR in 2021 in comparison to 3.9 bn EUR in 2020. This was possible due to an increased profit margin in the automotive segment of 10.3% in 2021 from just 2.7% in 2020, which is the result of BMW channelling semiconductors in high priced models.
Volkswagen Group	Volkswagen almost doubled its net profit from 8.8 bn EUR in 2020 to 15.4 bn EUR in 2021. VW's profit margin increased from 4.3 percent to 7.7 percent especially due to the performance of its brand Audi.

Fit for 55

AFIR

Council agreed on a GA on AFIR on June 2, keeping the fleet based target as proposed by COM. The GA also introduced some flexibility with regards to the distance based targets and a phase in of targets of HDV. With respect to hydrogen the GA only foresees mandatory targets on the TEN-T core network reducing the minimum number of stations by 2030 to approx. 230 instead of around 750 in the COM proposal. EP will vote in plenary in September or October this year. We expect EP to propose higher fleet based targets at least for the initial phase of market uptake and higher and earlier targets for hydrogen infrastructure

Data on zero-emission vehicles and infrastructure, 2021

- 4 million electric cars (2.2 million battery electric and 1.8 million plug-in hybrids) were registered in the EU. In Germany 1.3 million (700,000 battery electric and 600,000 million plug-in hybrids) were registered.
- This corresponds to a share in the passenger car fleet of 1.6% (2.6% in Germany) and a share in new registration of 18% (26% in Germany).
- Recharging infrastructure deployed in the EU in 2021: 307,000 of which 30,000 are fast chargers above 50kW (59,000 in Germany of which 9,000 are fast chargers)
- Average annual growth of electric vehicle fleet in last two years: approx. 100%. Average annual growth infrastructure: 35%
- HDV uptake trucks 1,200 (660 in Germany) and 8,000 busses (1,500 in Germany)
- Hydrogen vehicles are still very limited with 3,000 cars (1.250 in Germany), 16 trucks (0 in Germany) and 160 busses (90 in Germany). Number of hydrogen refuelling stations: 136 (in Germany: 89)

Co2 standards

[redacted]

Parliament adopted the CO2 standards for cars & vans report was with a good majority (+ 339, -249, 24 abs) and referred back to the ENVI Committee for interistitutional negotiations. The report is very close to the COM proposal, in particular:

- 100% reduction targets for both cars and vans in 2035
- 2030 and 2025 targets confirmed for both cars and vans
- No 2027 target
- No fuels accounting for compliance with the targets (smaller majority against this amendment: - 316, + 280, 11 abs)
- Mass parameter maintained for calculating manufacturers' specific targets

Changes compared to the COM proposal: i) Incentive scheme for Zero and Low Emission Vehicles removed from 2025 onwards (2030 in COM proposal); ii) Derogation for small volume manufacturers maintained until 2036 (2030 in COM proposal) (Italian point)

In Council, negotiations are still ongoing with Germany supporting COM's proposal. The file is expected to reach General Approach in ENVI Council on 28 June.

ITS

[redacted]

Sanctions to Russia/Green lanes

In March 2020, some Member States closed their borders in the face of COVID and transport largely came to a halt. This created major disruptions to our supply chains, including for essential goods and the economies at large. The Commission acted quickly to keep goods flowing across borders by adopting the Green Lanes Communication. The Green Lanes principles have been widely recognised by Member States and industry as playing a key role in keeping passengers and transport workers safe, protecting the single market by keeping supply chains intact, and thereby minimising the economic impact of COVID restrictions on transport operators and supporting the fragile recovery.

The key Green Lanes principles are:

- all freight vehicles and transport personnel such as drivers should be exempted as far as possible from COVID measures and passing through “green lane” border crossings should not exceed 15 minutes;
- additional border crossings should be opened, focused exclusively on goods passage, if those on the TEN-T Network are saturated;
- procedures should be minimised and streamlined, and they should be digital whenever possible and derogations for driving restrictions (e.g. bans on weekend driving) should be envisaged to prevent hold ups.

The Commission adopted an action plan for EU-Ukraine Solidarity Lanes to facilitate Ukraine's agricultural export and bilateral trade with the EU (COM(2022) 217 final) on 12 May 2022. This action plan aims at supporting Ukraine's economy and economic recovery, as well as at contributing to stabilising world food markets and improving global food security and in this way it contributes to the efforts to mitigate the negative impacts of the war against Ukraine.

On 23 May, the Commission adopted a Contingency Plan for Transport to strengthen the resilience of EU transport in times of crisis. The plan draws lessons from the COVID-19 pandemic and takes into account the challenges that the EU transport sector has been facing since the beginning of Russia's military aggression against Ukraine. Both crises have severely affected the transport of goods and people, but the resilience of this sector and the improved coordination between Member States were key to the EU's response to these challenges.

On the sanctions

The Regulations prohibit any road transport undertaking established in Russia or Belarus to transport goods by road within the territory of the Union, including in transit. This also concerns bilateral transport. Road transport undertaking means any natural or legal person, entity or body engaged with a commercial purpose in the transport of freight by means of motor vehicles or combinations of vehicles.

This prohibition does not apply to road transport undertakings transporting mail as a universal service, or, for Russian hauliers, goods in transit though the Union between the Kaliningrad Oblast and Russia, provided that the transport of such goods is not otherwise prohibited under the Regulation.

By way of derogation, the competent authorities of a Member State may authorise the transport of goods by a road transport undertaking established in Russia or Belarus if the competent authorities have determined that such transport is necessary for:

(a) the purchase, import or transport into the Union of natural gas and oil, including refined petroleum products, as well as titanium, aluminium, copper, nickel, palladium and iron ore;

(b) the purchase, import or transport of pharmaceutical, medical, agricultural and food products, including wheat and fertilisers whose import, purchase and transport is allowed.

A FAQ was published by the Commission's services on 9 May on these derogations. The Slovak and Czech Republics have already adopted derogations.

On the impact of sanctions

The total trade between EU and Russia by road represented 24.8 million tonnes (13.7 imports, 11.1 exports), or 78 billion EUR (11.7 billion EUR imports and 66.3 billion EUR exports) (Eurostat). The prohibition however only affects Russian and Belarus hauliers. It does not concern exports and imports of goods made by EU hauliers and does not apply to trade as such. Derogations can also be granted for certain goods.

It seems that Russian and Belarus trucks have generally exited the EU on entry into force of the sanctions. Before entry into force, Russian and Belarus trucks were stuck in long queues at the EU's eastern borders as hauliers tried to leave. Lorries were backed up for more than 40km in Poland and have been waiting between three and 10 days to leave according to sources from the logistics industry and the press. In this respect the impact has certainly be much greater on Belarus which has developed an important road transport sector compared to the size of the country than Russia.

Belarus adopted on 16 April 2022 a similar ban on EU hauliers. An exception is made in cases when motor vehicles are moving via special crossing points to designated areas for freight operations. Goods can therefore circulate provided they are transferred from EU trucks. The restriction does not apply to motor vehicles registered in the EU as well as mail

and livestock which can move without restrictions. This retaliation measure should have a limited effect on the EU road transport sector given the limited size of the territory of Belarus and its economy.

There is no impact of the sanctions on food security as heavy goods vehicles transporting agricultural products are excluded from the sanctions. No supply chain disruption has been reported as a result of the sanctions.

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