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Automotive ecosystem call, 20 April 2020

This is the follow-up meeting to the one that took place on 26 March.

The choice of representatives offers a good combination of views across the sector: leaders in electrification, mobility as a service and automation (Renault, BMW), and the pioneer in battery development and manufacturing (Northvolt), heavy-duty vehicles (SCANIA), suppliers (Faurecia, Tubi Style – which is also an SME). These companies represent a significant sample of the automotive ecosystem.

Both associations, ACEA and CLEPA, are represented by [redacted]: [redacted] and [redacted]. [redacted] and [redacted] will also present, this time in listening mode.

All participants were asked to focus on concrete measures needed for industry to rebound once the pandemic is contained and support that can be provided at EU and Member States level.

Participants may also update you on the most recent situation or the new difficulties they face.

Sufficient time (1h 15 mn) has been allocated for the discussion.

Running order (new participants compared to previous call highlighted):

1 Introduction by Commissioner **Thierry Breton**
2 [redacted] Chrysler Automobiles (FCA), [redacted] *(he risks joining the call later since based in the US)*
3 [redacted] Faurecia, CLEPA [redacted] to start with – will give you a status and general overview
4 [redacted] Renault-Nissan-Mitsubishi – outlook on clean mobility
5 [redacted] BMW – outlook on clean and automated mobility
6 [redacted] Northvolt - ecosystem perspective (Swedish battery developer that works i.a. with BMW and VW)
7 SCANIA [redacted] – outlook on heavy-duty vehicles
8 [redacted] Tubi Style [redacted] Italian SME – suppliers/small company perspective

Introductory messages:

- I am very grateful for you presence today. Even though these days we all act under very tight deadlines, thank you for making yourselves available on such a short notice!
- This is the second time I talk to your industry but the first time with several of you.
- I see this meeting as an introduction to the structured dialogue with you on recovery.
- My idea is to gather those of you who represent different segments of the automotive ecosystem. This is how I see industries and this is how I would like to talk to you about the recovery: how the ecosystem of companies which constitute value chains, manufacturing and service around, could be lifted from the crisis.
- During the last call you presented the economic impact of the crisis on your ecosystem. A quick update on your liquidity situation and investment needs would be helpful. You are aware of the horizontal measures that the Commission took over the last weeks, they also apply to your sector.
- Today I am interested in hearing from you what synchronised decisions and what measures need to be taken – at EU and Member State level that you consider needed.
- Such decisions should help you recover – but not necessarily restore a *status quo ante* – and move ahead in a new reality.
- You will have to make difficult choices about strategies, investments and people.
- But if we are to help you in this processs, I want to understand your priorities for the immediate but more importantly, for longer term future.
- I see several items for discussion:
  1. measures stimulating demand (scrapping schemes, bonus, fiscal incentives, etc)
  2. measures focusing on supply: we must develop critical capacities in Europe (resources, production)
  3. Combining industrial recovery and clean mobility
  4. Investments in infrastructure (electric and hydrogen)
  5. Upskilling and reskilling strategies

- I would like to invite you to take the floor and give your view and perspective on the items I mentioned. Of course, do not hesitate to add anything else you consider important.
    - [redacted] Fiat Chrysler Automobiles (FCA), ACEA [redacted] *(he risks joining the call later since based in the US)* – for general overview
    - [redacted] Faurecia, CLEPA [redacted] to start with – update and general overview
    - [redacted] [redacted] Renault-Nissan-Mitsubishi – outlook on clean mobility
    - [redacted] BMW – outlook on clean and automated mobility
    - [redacted] Northvolt - ecosystem perspective (they work i.a. with BMW and VW)
    - SCANIA [redacted]riksson – outlook on heavy-duty vehicles
    - [redacted]Tubi Style [redacted], Italian SME – suppliers/small company perspective

Possible questions to the interlocutors:

- What are your estimates regarding the **financial needs** to repair and invest in your ecosystem? Has your government proposed to help?
- In addition to the horizontal support measures put forward by the Commission and Member States, are there any additional, immediate automotive specific support measures needed?
- Among your suppliers, can you help us identify companies that are critical to your value chain and threatened with bankruptcy due to the crisis?
- What kind of measures do you consider necessary to **relaunch the production and demand** once the health pandemic is over? Do you see any problem accessing essential goods, services and persons (e.g. experts) across EU countries?
- What are your current plans to **convert some of the existing facilities** to produce protective personal and medical equipment (e.g. masks and ventilators)?
- On **clean and automated mobility**, what are your difficulties and your needs, are you still working on innovative projects? What kind of measures are needed to stimulate demand for clean vehicles (scrapping schemes, bonus, fiscal incentives, etc)?

Background:

- Automotive sector gathers a variety of actors: OEMs, engines, parts and accessories suppliers, tyre industry, dealerships, repairers, logistic and mobility services, etc.
- It generates 13.8 million jobs (6,1% of EU jobs), of which 3,4 in manufacturing, 4,6 in automobile use (sales, repair, renting, etc.) and 5,8 in transport or construction.
- It represents 3.2% of total EU output, 12.5% of EU manufacturing output, 4% of EU GDP and generates a trade surplus of EUR 84,4 billion for the EU
- EU automotive sector ranks among the main investors with EUR 57,4 billion invested in R&D annually
- It is one of the most integrated sector in intra-EU value chains, as it relies for almost half of its total production (45.3%) on EU inputs.
- The main car-producing countries in the EU27 are DE, ES, FR, CZ, SK, IT in terms of volume. RO, SE, HU have a much higher share of direct automotive employment in total manufacturing than DE and FR.

"Health bulletin"

- Jobs: according to ACEA figures, at least 1.1 million employees are affected by the crisis. After the crisis, for DE only, at least 100,000 jobs would have to be cut in car manufacturing.
- Demand: new registrations plummeted in March (from -37% in DE to -85% in IT). For the whole year 2020, Moody's estimates that sales will plunge 21% in Western Europe (in 2008, the drop was limited to 8% over two years). Carmakers fear a drop of sales until Q2 2021 as consumers will tend to postpone their car purchases
- Production: industry is at a standstill, due to shutdowns. Losses in the EU are estimated to almost 1.5 million vehicles (on a total of 19 million vehicles produced in 2018); however some manufacturers plan to reopen in the coming days (e.g. VW) as well as dealerships in some MS will resume work (DE).
- Financial situation:
  - *Cash flow*: assuming a sales decline of 50% and maintained operation costs, cash reserves could be exhausted within 5 to 21 weeks until now depending on the group (internal estimates). VW appears to be the most exposed company, due to high operating costs (around EUR 2 bn./week).
  - *Liquidity*: many carmakers face severe liquidity issues. Ford and GM drew approximately $16bn from their credit facilities. Daimler also seeks €10bn in extra credit and Toyota $9.2 bn. Many suppliers are also endangered. On 26th March, Moody's put 14 key EU auto parts makers under review for downgrade
  - *Stock market capitalization*: according to McKinsey, stock value fell on average by 29% between the start of the crisis and the 25th of March (i.e. as much as banks but less than air transport and oil sectors).
- R&D: auto companies are cutting CAPEX to shore up continuing operations, starving R&D funding for advanced technology initiative. This could considerably slow down the transition to clean and automated mobility.

<u>Key EU policy actions relevant for the sector:</u>

- Financial help:
  - A flexible State aid Framework; more than 50 schemes have already been notified.
  - EUR 1 billion will be redirected from the EU budget as a guarantee to the European Investment Fund to incentivise banks to provide liquidity to SMEs and midcaps. This will help 100,000 European SMEs and small mid-caps.
  - The Commission proposed a EUR 37 bln Corona Response Investment Initiative (CRII), to provide liquidity to corporates (covering e.g. working capital in SMEs).
  - The EIB will mobilise up to EUR 40 bln. Amongst them, EUR 10 bln will be dedicated liquidity lines to banks to ensure working capital support for SMEs and mid-caps.
  - The ECB announced a €750 bln Pandemic Emergency Purchase Programme (PEPP) and the expansion of the range of eligible assets under the corporate sector purchase programme which will help major companies of the sector.
- Alleviate the impact of the pandemic on jobs
  - EU will support the financial viability of temporary layoff schemes with a 100 billion guaranty. This mechanism, named SURE (Support to Mitigate Unemployment Risks in an Emergency) will benefit to Member States in the form of loans from the Union.
  - The European Globalisation Adjustment Fund could also be mobilised to support dismissed workers and those self-employed under the conditions of the current and future Regulation. Up to € 179 million is available in 2020.
- Support to the production of health products:
  - The Commission Clearing House facilitates coordination, notably between the automotive and the health industry)
  - The Commission created the RescEU mechanism to secure provision of PPE
  - It implemented the green lanes mechanism to keep bottlenecks on medical products to a minimum and to secure the supply chain of the industry
  - So far, it is not clear whether Industry is ready to engage in the production of health products beyond the pandemic

<u>Expectations and positions of stakeholders:</u>

1. **Financial aid**: carmakers and suppliers fear "*significant liquidity problems in the short- to medium term*"[1]. Massive financial aid is thus expected to avoid chain-linked bankruptcies and to safeguard European jobs and industrial know-how.
2. **Targeted aid for recovery**: scrapping schemes, green bonuses, spending on recharging infrastructure for electric vehicles or other public policy are expected to support purchases
3. **Regulatory framework**: the industry is asking for postponements of several regulatory deadlines as well as consultation processes on the new initiatives.
4. **Border and health issues**: the automotive industry underlines the necessity to find solutions for businesses and employees who live in border regions, as their employees are not considered as critical. It will help the ramping-up of PPE's production, to protect the supply chain and to keep machines running. The idea of a European laissez-passer beyond health professionals has been proposed. Guidelines regarding the health and safety conditions under which workers can return to the factories, dealership and workshops were requested.
5. **Skills**: profound reskilling and upskilling will be needed (notably to prepare the shift to automated and connected vehicles).

[1] ACEA/CLEPA/ETRMA/CECRA, *Letter to President von der Leyen*, 25 March 2020