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COMMUNICATION FROM THE COMMISSION

"Responding to the crisis in the European automotive industry"

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Introduction

The European automotive industry is one of Europe's flagship industries. It is a key driver of growth, exports, innovation and jobs. Its impact filters down across a wide variety of other sectors. And it has a particularly important cross border reach, with suppliers, manufacturers and sales and servicing downstream creating a web of mutual interest that touches every one of the EU's Member States.

The Commission believes that the EU needs a dynamic and competitive automotive sector. The economic crisis has put the automotive sector under particular pressure. Properly targeted support is needed to help the industry and its workforce through the downturn and to address structural problems by making the sector more competitive and more in tune with the needs of the future.

The European automotive industry has a strong future. Its export performance shows it can make the right products for a global market that will continue to grow. Its workforce has the skills to maintain its technological edge. And it is already working to produce the new generation of motor vehicles needed for the low carbon age.

This communication sets out how the EU can bring policy levers into play to support the automotive industry. It represents a European framework for action: a framework which sets out how both the EU level and Member States can take the decisive measures needed. Different Member States will use different mixes of action to address the needs of manufacturers, suppliers, retailers and their workers. All can be most effective working with the confidence provided by a common EU framework.

The internal market has been a major cause of the vitality of the European automotive industry, the competitiveness of its manufacturing and the scale of its sales. It will be critical to the recovery phase. It is therefore essential that state aids and other measures are well directed, working to build the future strength of the industry rather than introducing short-term distortions that will damage long-term competitiveness. That means cooperation and working upstream of national decisions to ensure they fit in well with the EU's overall ambitions.

At the same time, the EU can offer a variety of other steps to build a platform to stabilise the industry and help it to recover. This includes measures to invest in strategic technologies. It includes steps to help workers whose jobs are at risk to retrain and find new work, as well as safeguarding and developing the key skills of some of the most valued technicians in Europe. It includes a determined and concerted effort to combat any move towards protectionism in global markets. And of course, the industry will benefit directly from the core measures of the European Economic Recovery Plan to get credit moving again, as well as from specific measures like the European green cars initiative.

This European framework for the automotive sector shows how the intelligent application of EU and national policies can not only offer a cushion for the automotive industry in a time of

intense pressure, but a springboard for the future. The common goal is a dynamic, competitive and sustainable automotive sector in the EU for the coming decades.

1. The particular situation of the automotive sector

The automotive industry is **central to Europe's prosperity**. The EU is the world's largest producer of motor vehicles, producing over 18 million vehicles a year and almost a third of the world's passenger cars. It is a huge employer of skilled workforce, directly employing over 2 million people but responsible for some 12 million jobs. It is a key driver of knowledge and innovation, investing more than €20 billion a year in R&D, making it Europe's largest private investor in R&D. With an annual turnover of €780 billion and a value added of over €140 billion, it makes a major contribution to the EU's GDP. It exports far more than it imports, with a surplus of over €60 billion on overall exports of €125 billion. In addition, the sector plays a central part in tackling many of the key economic, social and environmental challenges faced by Europe today, such as sustainable mobility and safety

Automotive manufacturing is closely linked with **many other sectors**. Electronics, mechanical and electrical engineering, information technology, steel, chemicals, plastics, metals and rubber are all key suppliers. 20% of the EU's steel and 36% of its aluminium production goes into automotive production. It also has a very significant **cross-border** dimension in Europe and globally. Within the EU, the 250 production lines are split between 16 Member States, and every single Member State is involved in the supply chain for manufacturing and the downstream chain for sales. Typically, there are around 50 upstream component suppliers for a car, spread all over Europe and around 75% of the value-added of a new car is generated by these suppliers. As a consequence, the value of intra-Community trade in automotive products is substantial with around €360 billion in 2007 although the start of the crisis saw this drop to €315 billion in 2008. Any downturn in the automotive sector therefore strongly affects other sectors and all EU Member States.

The current economic crisis is being marked by a sudden downturn for manufacturing. EU industrial production slumped by 8.4% in the last quarter of 2008, and there is every sign that this drop is accelerating as orders already on the books start to dry up. As some 60-80% of new cars in Europe are purchased with the aid of credit, the financial crisis at the origin of the downturn has hit the automotive industry particularly hard: the 20% contraction seen is the largest recorded. Similar trends are to be observed for sectors with close links to the automotive industry like steel where consumption is expected to decline by 30% in the first quarter of this year and 16% in the second quarter. The difficult situation of the European automotive industry has three major reasons:

First, there has been a sharp and uniform **drop in demand for passenger and commercial vehicles** both in the EU and worldwide. Tight credit conditions, declining share and asset prices, and the uncertainty created by the global economic environment are translating into very low consumer confidence and declining purchasing power. In the last quarter of 2008 new car registrations in Europe declined by an average of 20%. New passenger car sales fell by 1.2 million in 2008. In January 2009, the European passenger car market was 27% lower than a year before. The producers of commercial vehicles were even harder hit with orders for heavy duty vehicles falling from 38,000 in January 2008 to 600 in November 2008, which is two thirds of the daily production capacity of an average heavy duty vehicle producer. The situation varies between individual Member States but the downturn has now reached every market in the EU, and all major producers on the European market are severely affected.

Second, parts of the automotive industry are reporting **problems with access to credit financing** and fears of **liquidity shortages**. Some companies are unable to get loans on reasonable terms, with credit ratings downgraded in light of market outlook. It is estimated that the five largest captive finance businesses of automotive producers in Europe will need to raise around €10 billion in medium- to long-term debt during 2009. In addition, suppliers are expressing an additional concern about money not moving down the supply chain. The situation is particularly difficult for smaller lower-tier suppliers which are less capitalised and diversified than their larger counterparts.

Third, the industry suffers from longer-term **structural problems** pre-dating the crisis. Automotive companies already faced a very competitive business environment. High fixed costs, structural overcapacity and intensive price competition has meant that many automotive companies were already focusing on reducing costs and improving internal efficiency. There has also been significant consolidation in the supply sector. Recent falls in demand and production have made the situation worse and average overcapacity in Europe is estimated to be at least 20%. Globally, vehicle production capacity is currently at ca. 94 million per year at a time when demand for 2009 is estimated at ca. 55 million.

The situation is aggravated by the rising risk of **protectionism**, threatening reduced access to third country markets for European producers who have thrived on the export market. The first cases have come in the form of new import licensing requirements, e.g. in Argentina and Brazil, or rising import duties, e.g. in Russia.

Current **forecasts for 2009 are not encouraging**. Available forecasts suggest a further decline in the passenger car market of between 12% and 18% (ca. 1.5 – 2.5. million vehicles). Industry expects commercial vehicle demand to fall by around 30%. This is likely to put further pressure on the whole automotive value chain particularly in terms of production volumes, capacity utilisation, employment and research investment. A reduction in demand is likely to lead to continued production decreases, following estimates of reductions by 25% in the first two quarters of 2009 alone.

Falling production levels and subsequent cost-cutting by automotive firms has already led to reductions in **employment**. Up to now it has mainly affected temporary workers. But the industry has indicated that worsening market conditions could put 15 to 20% of its labour force at risk while as many as 1 out of 3 suppliers are vulnerable because of the crisis. Negative employment effects could be magnified as a result of regional impacts because of the clustered and geographically concentrated nature of the automotive industry. Additional pressure comes from potential spill-over effect from restructuring of GM and Chrysler. For example GM has announced that out of 47.000 jobs to be cut over the next years, 26.000 will fall outside the US.

However, the **long term global outlook** for the automotive industry is promising: world-wide demand for vehicles is projected to double or even triple in the next 20 years as a result of motorisation in emerging markets. The imperative of a "greener" car fleet will bring new opportunities for innovative technology. And since the current decline in demand in mature markets such as Europe and U.S. is lengthening the period needed for overall fleet renewal there will be even further room for a market upturn. This makes it particularly important for

the EU automotive industry to be able to weather the downturn and be ready to take advantage when demand returns.

2. POLICY RESPONSE

Building on the re-launched Lisbon partnership for growth and jobs in 2005, which identified the automotive sector as a European asset, the **European Economic Recovery Plan**² identified the automotive sector as requiring a strong policy response. A key priority for the future is to ensure that European industry is able to respond to the current crisis and emerge from it in a stronger position to compete globally once market conditions improve. This will be notably the case if the automotive industry will master the triple challenge of technological leadership with an environmental and safety performance that is world class.

The Recovery Plan emphasises the importance not only of addressing the causes of the current problems of the automotive sector, but doing so in a way which will secure and further reinforce the longer-term competitiveness of the industry. This means in particular responding to evolving consumer demand – in Europe as well as globally - by speeding up the development and production of "green" cars through high levels of investments in R&D and innovation. Such an approach will in turn make a major contribution to make industry fit for the low-carbon economy and thus to achieving Europe's ambitions in reducing CO₂ emissions and improving energy security.

Primary responsibility for dealing with the crisis lies **with industry**, individual companies and their managements. Industry itself is called upon to address the structural problems of production efficiency and capacity utilisation in a way that improves its long-term competitiveness and sustainability.

In addition, as part of the overall industrial policy approach, the EU and its Member States can contribute to creating **framework conditions** in which industry can thrive. They can also promote fair competition in open global markets. Targeted and temporary **public sector support** at EU and Member State level can help to complement industry's efforts to withstand the crisis and cushion the negative employment effects of likely restructuring. This public support should preferably be covered by horizontal policy instruments applicable to industry as a whole and should be met through a combination of European and Member State level action. At an informal meeting with Ministers on 16 January, Member States shared these views and agreed to a number of key principles to guide their responses to the current situation, such as the need for open global markets, fair competition, respect of better regulation as well as cooperation and transparency.

It will be important to ensure that measures taken at Member State level be **coherent, efficient and co-ordinated**. As much of the importance of the European automotive industry is derived from its knock-on impact for the broader EU economy, it is particularly important to ensure the proper functioning of the internal market, and retain competitive neutrality and a level playing field, thus also ensuring solidarity between the Member States.

In the European Economic Recovery Plan, the Commission has set out the key elements of the public support relevant for the automotive sector. Some of these measures are general, while others target specifically the automotive industry. The main **objectives** of the proposed

² Communication from the Commission to the European Council of 26.11.2008, "A European Economic Recovery Plan", COM(2008) 800.

approach are: (1) to support demand in order to assist with remedying the effects of the credit squeeze; (2) to facilitate the adjustment by cushioning the costs associated with restructuring, in particular for workers and upgrade their training (3) to encourage the modernisation of the plants with a view to ensure a sustainable competitiveness of this industry at world level and (4) to assist industry to implement the radical technological change required by the climate change challenge. While some progress has been achieved already, it is important to ensure that the objectives are fully met in an efficient and coherent way.

a) Framework conditions and CARS 21

Through the CARS 21 process, the Commission has developed a medium to long-term, co-ordinated and predictable policy framework for the automotive industry based on continuous dialogue and consultation with all main stakeholders. In the current economic climate, a clear orientation towards long-term competitiveness, based on innovation, safety and environmental performance, is even more important. The Commission therefore reconfirms its commitment to fully take into account the recommendations of the CARS 21 process (see Annex 1), fully respecting the principles of Better Regulation. The Commission will ensure that a coherent and co-ordinated forward-looking approach to future road transport and sustainable mobility requirements is adopted through the follow-up to CARS 21. Given the impact of the current crisis the Commission will weigh up the costs and benefits of any new legislative initiative and seek, as far as possible, to avoid creating new economic burdens.

b) Access to finance and continuous investment into innovation and research

It is key to **restore the availability of financing at reasonable terms and restoring liquidity** so that viable companies are not driven out of business and that consumers can access the credit necessary for new car purchases. Ensuring that the financial system starts operating properly remains the first priority in steering the economy towards recovery. This is particularly important in the automotive sector, characterised by capital intensity and credit financed private demand. The car industry will have to finance research and innovation in particular to design new engines that meet the ambitious European legislation on the reduction of CO₂ emissions, starting from 2012. The new vehicles will also have to comply with stricter thresholds for pollutant emissions and tougher safety requirements. It is therefore imperative to assist companies to access finance.

The issue of financing is not only relevant to the future of the European automotive industry, but to the economy as a whole. It should be **primarily** addressed through **measures to support the financial sector** at both the European and Member States' level. In this respect the Commission has already taken important initiatives, with the adoption of the Communication concerning the application of State aid rules for the banking sector³ and the Communication on recapitalisation of financial institutions in the current financial crisis⁴. With specific regard to the automotive sector, it should be noted that the financial branches of car makers may also qualify for aid under the schemes adopted by the Commission for the banking sector. In addition, the Commission is conscious of potentially damaging **liquidity**

³ Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, December 2008 (2009/C 16/01); revised on 25.02.2009 (COM(2009)1270)

⁴ Commission communication Recapitalisation of Financial institutions in the current financial crisis: limitation of the aid to the minimum necessary and safeguards against undue distortions of competition: O.J. C 10, 15.01.2009, .2

problems, in particular in the supply sector and will, together with the European Investment Bank (EIB) and the Member States, seek ways to improve the flow of credit to SMEs, including automotive suppliers.

From the State aid perspective, the new **Temporary Framework for State aid** measures adopted in December 2008⁵ and revised on 25 February 2009 was designed to allow Member States to provide aid to companies facing problems of access to liquidity. Typical instruments authorized under this framework are subsidised loans, subsidised guarantees and subsidised loans for the production of "green" products including cars. In this context it needs to be stressed that aid granted on the basis of these frameworks fully respect internal market rules in order to avoid distortions and fragmentation. This framework only applies to companies whose difficulties do not pre-date the crisis. For companies whose difficulties are mainly due to structural problems rather than the current crisis, any State aid must be supported by a restructuring plan that ensures long term viability, in line with the objectives of promoting the competitiveness of this industry.

The wide range of "**traditional**" **State aid instruments** (see list in Annex 2) available to Member States for supporting their industries can also be an important tool for promoting research and innovation, environmental development and restructuring, where this appears necessary, for the automotive industry, while maintaining a level playing field within the internal market.

The Commission, together with the European Investment Bank and the Member States, will support industry in their efforts to **maintain investments into future technologies** (particularly green technologies such as fuel efficiency and alternative propulsion) throughout the economic downturn. This will be done primarily through the **European Investment Bank** as well as through the **7th Research Framework Programme**.

The EIB has already increased the amount of loans planned to the automobile sector notably through the new European Clean Transport Facility to an annual amount of €4 billion in 2009 and in 2010. Loans granted to automotive industries can also draw on horizontal programmes, in particular those targeting SME's, convergence or safety. Work is already well underway and the EIB is expected to approve €3.8 billion worth of automotive sector projects in March, while the additional projects in the pipeline add up to a total of €6.8 billion. The Commission and the EIB will continue working together closely to ensure that the financing provided is as effective as possible. The possibility to further front load the lending planned for 2009 and 2010 is being kept under permanent review. Procedures for granting support have been streamlined allowing the shortest possible processing for decisions following a request for support while maintaining strict appraisal procedures to ensure the viability of investments in the long term.

These efforts will be backed up by a **research partnership** between the public and private sector, on the mobility of the future, with an estimated total value of €1 billion]. In line with preparatory work done under the 7th Research Framework Programme and the relevant European Technology Platforms, the main focus of this partnership will be on the development of "green" vehicles including passenger cars, buses, urban vehicles and trucks, but also addressing related issues such as infrastructure and logistics. Furthermore, all

⁵ Temporary Framework for State aid measures to support access to finance in the current financial and economic crisis, O.J.C 16, 22.01.2009, p.1

potential for further administrative simplification of public R&D programmes and public-private R&D partnerships should be exploited. The Commission also calls on the Member States to provide support for R&D into environmental research and step up investments into "green" transport related infrastructure, such as for electric cars and hydrogen vehicles, and do so in a co-ordinated way to avoid costly overlaps and maximise impacts.

Finally, the Commission is working on establishing the necessary **standardisation** required to ensure that future technological solutions are provided with legal certainty and can be applied throughout the internal market.

c) Boosting demand for new vehicles and accelerating fleet renewal

Member States have taken demand-side measures as they are the most effective means to **counter the short-term decline in demand and improve consumer confidence**. As nine Member States have already established vehicle recycling and recovery schemes ("scrapping schemes") and more are considering doing so, the Commission invited Member States experts for the first time on 16 February 2009 in order to ensure transparency of all initiatives and provide for an exchange of best practices. The Commission has discussed with the Member States common principles which shall allow smooth adoption of such scrapping schemes (see Annex 3). Furthermore, the Commission has committed itself to speed up the process of their approval under Directive 98/34/EC.

The Commission invites Member States to make full use of **public procurement** to boost demand for cleaner and more fuel efficient vehicles in the short term, assessing the possibility to advance investment into infrastructure and into the renewal of the public transport fleet including heavy duty vehicles.

d) Safeguarding skills and employment and minimising social costs

The outlook for the employment in the automotive sector is of serious concern and merits full political attention. Member States will have to face substantial challenges and several regions may be hit very hard.

In line with this, the European social partners and industry organisations of the sector have launched in October 2007 a "**European Partnership for the anticipation of change** in the automotive sector". A comprehensive two-year work programme is being carried on to anticipate and mitigate the social impact of restructuring.

Various EU funds and policy instruments can be mobilised to support **the social cost of adjustment and to ensure that necessary skill levels** required for the future competitiveness of industry are retained in the industry. This should be done in ways which support moves over time to new forms of production and should not preclude necessary restructuring. Such measures apply to all sectors; they are particularly relevant for the automotive sector with its supply chain as it will have to tackle significant overcapacities.

The Commission has also proposed an increase of advance payments from the **European Social Fund (ESF)**, and simplification of the criteria. This can be used to support to implementing measures to retain jobs and combat unemployment in the automotive industry, such as: i) supporting short-time workers by financing training and a part of wage and non-wage labour costs; ii) supporting company and sector restructuring; iii) financing retraining; iv) anticipating change requirements and matching skills. There are already successful examples of how the ESF has supported restructuring in the automotive industry in the past, which can be drawn on for inspiration.

Possibilities to benefits from interventions financed by the **European Globalisation Adjustment Fund (EGF)** should also be fully explored. The EGF has already intervened in four automotive sector cases with a fifth in the pipeline. The availability of this support will be further improved once the European Parliament and the Council have adopted the Commission's recent proposal. This will allow the Fund to intervene more swiftly and, for a limited period of time, will allow interventions to be justified by the current economic crisis, irrespective of any link to globalisation.

e) Open markets and fair competition world-wide

Times of economic uncertainty increase the likelihood of countries seeking to protect their industries through erecting barriers to trade. **Fair competition in open markets** can help to fight the current crisis, whereas any protectionist measures threaten to deepen it. The EU is committed to avoid any new trade restrictions being created towards third countries. It expects the same attitude from its trading partners and will not tolerate a revival of protectionism.

The Commission will follow closely international developments and encourage **international dialogue**, in particular with its main trade partners including the US, Japan, Korea and China. Together with them it will work to keep world markets open and to ensure fair competition.

3. STRENGTHENING THE PARTNERSHIP

The Commission is committed to bring together Member States and other actors to ensure a coherent and coordinated approach in support of the European automotive industry. It will keep progress under constant review. The Commission suggests that the CARS 21 process should be strengthened, with a round table with Member States, automotive industry (producers and suppliers) and trade unions. Its main aims should be to provide a platform of mutual information, dialogue and best practices. It should support the efforts of the sector to restructure so that it can compete in world markets with a strong focus on retaining skills in the industry, retraining workers for future tasks and for new jobs in this and other sectors.

The round table should also monitor the development in the following areas:

- Reviving **private demand** and frontloading **public demand**;
- Financial support for **research**
- Active support for reducing **overcapacity** while maintaining **skilled workforce** via the European Social Fund and the European Globalisation Adjustment Fund;
- Strict respect of **CARS 21 recommendations**, in particular as regards Better Regulation and the need to weigh up costs and benefits of any new legislative initiative with a view to avoid, as far as possible, creating new economic burdens;

The Commission stands ready to make full use of the potential of the TEC to intensify the dialogue with the US with regards to the situation of US automotive producers and its spill-over to the EU.

Annex 1: Conclusions of the CARS 21 Mid-Term Review

Annex 2: Inventory of State aid instruments

Annex 3: Guidelines for Scrapping Schemes

CARS 21 MID-TERM REVIEW

FINAL CONCLUSIONS

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

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

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

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

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

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

Conclusion 1: CARS 21 process

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

Conclusion 2: Application of Better Regulation principles

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

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

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

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

The cumulative effect of regulation should be given particular attention in the case of the automotive sector, which is subject to legislative activity in a variety of areas. The cumulative cost of regulation is recognised as being highly important due to its potential effect on consumer affordability (impact on retail prices) and fleet renewal, which in turn has an effect

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

on both the competitiveness of the automotive industry and the environmental and safety performance of the vehicle fleet on European roads. The importance of an overall framework, which is supportive of fleet renewal is therefore stressed. The preparatory process of future legislative proposals should systematically place the individual pieces of legislation being considered into the context of the overall cumulative effect of automotive regulation and should consider the relationship between manufacturer costs, the effect on retail prices and the ability of consumers to pay for additional costs. The interaction between individual regulatory requirements should be assessed and their extent determined in order to incorporate the effects of conflicting impacts and positive synergies into the process of legislative development.

Conclusion 4: International harmonisation and regulatory simplification

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

Conclusion 5: Improving the functioning of the internal market

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

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

Conclusion 6: Taxation and financial incentives

Stakeholders note that differing vehicle-related taxation regimes in EU Member States may have a detrimental effect on the functioning of the internal market² while recognising that a variety of considerations have an impact on how taxation policy is determined by individual Member States. Stakeholders note the limited progress being made on the adoption of the

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

Directive on passenger car taxation while also taking note of the fact that an increasing number of Member States are moving towards CO₂-based taxation. Stakeholders agree that co-ordination between Member States on vehicle taxation should be encouraged to the extent possible in order to improve the overall effectiveness of the measures and avoid the fragmentation of the internal market. Stakeholders agree that technology-neutral financial incentives, which avoid fragmenting the internal market, can play an important role in encouraging the introduction of innovative solutions and recommend that the Commission updates the guidance paper it has previously issued on the application of fiscal incentives.

Conclusion 7: Fuel efficiency and CO₂ emissions' standards

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

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

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

The integrated approach should cover a broad range of actions to maximise CO₂ reduction potential and achieve cost-effective CO₂ reductions from both new vehicles and the existing vehicle fleet. In principle, all measures which can contribute to reducing CO₂ emissions should be included and their application should be encouraged. However, what concerns that part of the future CO₂ reduction framework, which is subject to quantification (and which can thus contribute and count towards the meeting of targets or CO₂ reduction obligations), it should include all those measures and activities whose contribution is measurable, quantifiable and monitorable. Furthermore, it should enable clear identification of which stakeholders are responsible for delivering the improvements (and, in the case of joint initiatives, to what extent each stakeholder is contributing).

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

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

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

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

Conclusion 8: Measuring real-life emissions

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

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

Conclusion 9: Future of mobility

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

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

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

Conclusion 10: Road Safety

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

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

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

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

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

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

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

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

Conclusion 11: Trade and overseas markets

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

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

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

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

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

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

Conclusion 12: Research and Development

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

Conclusion 13: Intellectual Property Protection

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

Conclusion 14: Block Exemption Regulation

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

Conclusion 15: Access to vehicle repair information

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

Conclusion 16: Restructuring

The automotive sector in Europe is constantly changing as a result of market trends, international competition, technological innovation and regulatory changes. Stakeholders support the role of CARS 21 in establishing a policy and legislative framework, which aims to provide supportive conditions for industrial competitiveness. Stakeholders welcome the role which the European Social Fund, the Globalisation Adjustment Fund and the establishment of the European Partnership for the Anticipation of Change in the Automotive Sector are playing in establishing an anticipative framework with regard to restructuring and skills needs. Stakeholders underline the importance of continuing to implement the work

programme agreed under the European Partnership. Given the fundamentally important role of quality, productivity, skills and innovation for the future competitiveness of the European automotive industry, stakeholders reiterate the need to focus on furthering the education and availability of high-skilled labour in Europe.

ANNEX 2

Public support measures for the automotive industry/sector

On 26 November 2008, the Commission adopted the European **Economic Recovery Plan** which encompasses measures aimed at boosting demand, saving jobs and restoring confidence in the short-term while focusing on the 'smart investment' which will make the European economy competitive in the long-term. This plan has led to the adoption of the **Temporary Framework for State Aid**¹ which aims at reducing the negative impact of the crises in the real economy by providing Member States with additional possibilities to grant State aid and which is also applicable to companies in the car sector. This Framework is complemented by the **Communications on State aid measures to support the banking sector**² in the context of the global financial crisis adopted earlier by the Commission through which the Member States can support financial institutions specialized in car finance.

1. Public support to the car industry which does not entail State Aid

There are many ways in which Member States can support the car industry which, in principle, do not raise competition policy concerns:

First, there are measures aiming to encourage demand for certain products. They consist generally of a financial support granted to consumers for scrapping their old cars and buying more environmentally friendly cars. If such supports are granted without discrimination with regard to the origin of the product, they do not constitute State aid.

Second, there are the general policy measures which, if open to all companies on their territories, do not constitute State aid. For instance, Member States can alleviate financing problems of the companies in the short and medium term, by general tax measures or by extending payment deadlines for social security and similar charges. If such measures are applicable to all undertakings, in all sectors, in principle, they do not constitute State aid.

Third, under the **De minimis Regulation** Member States are free to grant aid of up to EUR 200,000 per company over any period of three fiscal years (or State guarantee amounting to EUR 1.5 million) and this aid is not deemed to amount to State aid³.

Fourth, under the **Reference Rates Communication** and **Communication on Guarantees**⁴ Member States may grant loans or guarantees to the car industry which will not constitute State aid provided they are given on market conditions.

Finally, Member States can apply for co-financing of active social protection measures from the **European Adjustment Globalisation Fund** in order to support the workers made redundant as a result of major structural changes in the world trade.⁵

¹ Official Journal C 16, 22.01.2009, page 1

² Official Journal C 270, 25.10.2008, page 8 and Official Journal C 10, 15.1.2009, page 2

³ Official Journal L 379 of 28.12.2006, page 5

⁴ Official Journal C 14, 19.1.2008, p.6 and Official Journal C 155 of 20.06.2008, page 10,

⁵ Official Journal L 406, 20.12.2008, page 1

2. State Aid that can be granted to the car industry without prior authorization

Member States can support the car industry through measures which constitute State aid but which can be granted without prior notification through measures provided for in the **General Block Exemption Regulation** of 2008⁶.

This Regulation can be used to support the car sector, including car producers and their suppliers and distributors, by numerous types of aid: favouring research, development and innovation, regional development, training of employees, aid to SMEs, risk capital, environmental protection, aid measures promoting entrepreneurship, newly created companies in assisted regions and female entrepreneurship. These categories of aid can be granted without prior notification and the subsequent Commission's authorization. The Member States only have to inform the Commission afterwards, using a simple information sheet, that such aid was granted. If a Member State wishes to grant State aid measures not included in the GBER, it might still do so subject to notification to the Commission. The Commission will examine such notifications on the basis of the existing legal rules (see section 3).

3. Support authorised under other State Aid legislation

In order to enhance the long-term competitiveness of the car industry, Member States can grant car sector various forms of State aid. This aid has to be notified to the Commission for its approval. In particular, the car industry can benefit from the following categories of State aid:

Environmental aid

The **Guidelines on State aid for environmental protection of 2008**⁷ enable the Member States to grant, among others, the following types of aid to the car sector:

- Aid to companies which improve the environmental performance in their production process
- Aid for environmental studies
- Aid for the acquisition of new green transport vehicle under certain conditions
- Aid for energy saving
- Aid for sustainable biofuels (which indirectly benefits car manufacturers developing motors using biofuels)

Aid for Research & Development & Innovation (R&D&I)

The **Framework for State aid for Research and Development and Innovation**⁸ enables the Member States to grant to the car sector:

- Aid for research and development projects for cars, including for the development of green technology

⁶ Official Journal L 214, 9.8.2008, page 3

⁷ Official Journal C 82 of 01.04.2008, page 1

⁸ Official Journal C 323 of 30.12.2006, page 1

- Aid for the loan of highly qualified personnel (can be used to improve the automotive value chain)
- Aid for technical feasibility studies
- Aid for process and organisational innovation in services
- Aid for innovation clusters which can help car manufacturers to invest in open research and testing Infrastructures

Regional aid

Allowed by the **Guidelines for national regional aid 2007-2013**⁹, national regional investment aid promotes the economic, social and territorial cohesion of the EU by addressing the handicaps of the disadvantaged regions through supporting investments and job creation linked to such investments. In disadvantaged regions, Member States can grant car sector investment aid for setting up a new establishment, extending an existing establishment, diversifying the establishment's output into new products or introducing fundamental change in the overall production process.

Aid in the form of risk capital

The risk capital constitutes an important instrument for the financing of SMEs, though closing an equity gap on the market. In the car sector, the **Guidelines on state aid to promote risk capital investments in SMEs**¹⁰ enable the Member States to grant high-growth-prospect companies aid in the following forms:

- Aid to risk capital investors or venture capital funds for their risk capital investments
- Fiscal incentives to investment funds and/or their managers or investors
- Constitution of investment funds ("venture capital funds")

Rescue and restructuring aid

For companies in difficulties, a forward-looking instrument aiming to their restructuration is an appropriate response; this is the aim of the **Guidelines on state aid for Rescuing and Restructuring firms in difficulty of 2004**¹¹. A company in difficulty can receive state aid in order to restructure its operations if it can prove that such aid will help it to be viable in the long-term. If any urgent assistance is necessary, Member State can, before preparing a comprehensive restructuring plan, grant to a car sector company either a loan or a state guarantee on commercial loan for duration of six months. By granting such aid, Member States gain time which allows the company to prepare a restructuring plan or, if the difficulties were overcome, to repay the aid or stop using the state guarantee.

⁹ Official Journal C 54 of 04.03.2006, page 13

¹⁰ Official Journal C 194, 18.08.2006, page 2

¹¹ Official Journal C 244 of 01.10.2004, page 2

4. State Aid authorized under the Temporary rules: Temporary Framework and Communications to support the banking sector

4.1. The Temporary Framework

On 17 December 2008, the Commission adopted a **Temporary framework for State aid measures to facilitate access to finance in the current financial and economic crisis**.¹² Some technical adjustments to this Framework have been introduced on 25 February 2009. The Framework provides Member States with possibilities in the State aid area (in addition to "traditional" instruments mentioned in sections 2 and 3) to tackle the effects of the credit squeeze in the real economy. These temporary measures are based on the Article 87(3)(b) of the EC Treaty which allows the Commission to declare as compatible with the common market aid "to remedy a serious disturbance in the economy of a Member State".

The measures apply to all companies, including companies in difficulties which were not in difficulty on 1 July 2008 but only entered into difficulty thereafter due to the global financial and economic crises. For car manufacturers which were already in difficulty before this date or for those whose difficulties are mainly due to structural problems rather than the crisis, the Guidelines on state aid for Rescuing and Restructuring firms in difficulty of 2004 (see section 3) are the appropriate instrument to ensure long-term viability. Member States have to notify the schemes containing these measures, and once the scheme is approved, they can grant individual aid immediately without further notification.

The aim of the Temporary Framework is to facilitate the access to credit. It can therefore be beneficial for the car manufactures as well as car parts suppliers. Likewise, it encourages the car sector companies to invest into a sustainable future, including development of green products.

The following measures under the Temporary Framework can be applied until 31 December 2010:

"Small amounts" of aid

- Aid up to EUR 500,000 per company for the next two years, to relieve them from current difficulties

This aid can be only granted under aid schemes. If a car sector company has already received de minimis aid prior to the entry into force of the Temporary Framework or will so during the validity of the Temporary Framework, the sum of the aid received under the Temporary Framework and de minimis aid received under the De Minimis Regulation must not exceed EUR 500,000 between 1 January 2008 and 31 December 2010.

State guarantees

- State guarantees for loans in the form of a reduction of the premium to be paid

The Commission will (i) authorise a two years reduction of up to 15% of the annual premium to

¹² Official Journal C 16, 22.01.2009, page 1

be paid for new guarantees for large car sector companies and up to 25% for SMEs operating in the car sector and (ii) will allow these companies to apply a premium fixed in the communication for other eight years. The maximum loan amount must not exceed the total annual wage bill of the beneficiary. The state guarantee may not exceed 90% of the loan but may cover both investment and working capital loans.

Subsidised loans

- State Aid in the form of subsidised interest rates applicable to all types of loans

In order to help bridging the current difficulties of car companies to access financing, the Commission accepts that a reduced interest rate is applied for interest payments until the end of 2012 for public or private loans. The reduced interest rate will be calculated on the basis of the central bank overnight rate¹³, instead of one-year inter-bank offered rate (which is the reference under the Commission Communication on the method for setting the reference and discount rate of 2008¹⁴).

Subsidised loans for green products

- State aid in the form of subsidized loans for the production of green products

This measure is, in particular, applicable to the car sector. In order to encourage the production of green products, the Temporary Framework allows the Member States to grant subsidised loans for products involving the early adaptation to or going beyond future Community product standards which have been adopted but did not yet enter into force.

Large undertakings and SMEs can benefit from an extra rebate of 25% and 50% respectively from the subsidised interest rate described in the previous subsection. The subsidised interest rate for green products is applicable during a period of maximum 2 years following the granting of loan.

Improving access of the risk capital for SMEs

Under the Temporary Framework a Member State can grant increase of the tranche of finance from EUR 1.5 million per SME to EUR 2.5 million per SME. At the same time, the level of private participation is lowered from 50% to 30% (equally in and outside assisted areas).

Simplification of the requirements of the short-term export credit

The Commission accepts that certain non-marketable risks are taken on the account of public insurers if a Member State can demonstrate that such a cover is not available on the market. The Temporary Framework introduced a procedural simplification of the Member State burden of proof.

¹³ This rate must be at least equal to the central bank overnight rate plus a premium equal to the difference between the average one year interbank rate and the average of the central bank overnight rate over the period 1 January 2007 to 30 June 2008, plus the credit risk premium corresponding to the risk profile of the recipient.

¹⁴ OJ C 14, 19.1.2008, page 6.

4.2. The Communications to support the banking sector

The **Communication on measures taken in relation to financial institutions in the context of the current global financial crisis**¹⁵ and the **Communication on recapitalisation of financial institutions in the current financial crisis**¹⁶ permit Member States to devise support schemes for financial institutions, such as guarantees or recapitalisation schemes. These schemes are approved by the Commission if they are well-targeted, proportionate to the objective of stabilising financial markets and contain certain safeguards against unnecessary negative effects on competition.

The Commission has already approved several schemes notified by Member States. Institutions specialized in car finance are among those eligible for aid under the Communications and the schemes approved by the Commission. Car manufacturers usually have such a branch and according to the information available, financial branches of car makers have indeed already benefitted from these rules.

¹⁵ Official Journal C 270, 25.10.2008, page 8

¹⁶ Official Journal C 10, 15.1.2009, page 2

ANNEX 3

GUIDANCE ON SCRAPPING SCHEMES FOR VEHICLES

1. Introduction

In its response to the economic crisis the European Commission has presented in November 2008 the European Economic Recovery Plan, which was subsequently endorsed by the European Council in December 2008. This plan includes a number of measures designed for the automotive sector, including demand-side measures which aim at boosting the demand for new vehicles and assisting with the scrapping of older ones.

Several Member States have already introduced or are planning to introduce in the near future so-called "scrapping schemes", as listed in the attached table. These schemes allow for a financial benefit for scrapping an old vehicle provided that newer vehicle is acquired.

The Commission is committed to support the Member States that choose to introduce such schemes. It is willing to strengthen the coordination of national measures, as requested by the Member States at the ministerial meeting on 16 January 2009, with a view to ensuring full effectiveness of the measures and prevent distortion of the Internal Market.

This paper aims at giving practical guidance to Member States on how to design scrapping schemes for the vehicles and explaining the relevant Community legislation.

2. Guiding principles for the design of scrapping schemes to address the consequences of the economic crisis in the automotive sector

When designing scrapping schemes, the Member States should respect the following guiding principles:

- The schemes must be **non-discriminatory** with regard to the origin of the product concerned. In particular, they should avoid favouring only the sale of vehicles of domestic manufacturers. Moreover, the proposed schemes should not include cars characteristics which could discriminate against similar cars coming from other Member States. However, in order to prevent circumvention of the schemes Member States should be allowed to set additional requirements, including those relating to the place of registration of the vehicle.
- Such measures must be designed in such a way that all possible **circumventions** of the system are **to be avoided**. The measures shall be therefore conditional on presenting the evidence that the vehicle for which the incentive is being granted has been in fact destroyed and not subject to further re-sale. Member States may consider setting the requirements concerning the minimum period of the ownership of the vehicle to be scrapped.

- The schemes must be **compatible with the relevant Community legislation**, in particular concerning type-approval of vehicles which requires at present Euro 4/ Euro IV emission limit values.

Where Member States choose to make reference to CO₂ emissions from cars benefitting from the scrapping scheme, they must not discriminate with regard to the origin of the product concerned.

Moreover, Member States should consider the impact of the scrapping schemes on the existent recycling and recovery infrastructure for the end-of-life vehicles.

Without prejudice to any legal obligations, Member States are invited to **always notify** their scrapping schemes to the Commission in the interest of transparency and to avoid problems after a scheme has been put in place. The Commission commits to assess the scheme within 15 working days and to verify compliance with Directive 98/34/EC.

3. Background

a) Directive 98/34/EC

In accordance with Directive 98/34/EC, technical regulations have to be notified at a draft stage. Technical regulations include so-called *de facto* technical regulations which are *inter alia* "*technical specifications or other requirements or rules on services which are linked to fiscal or financial measures affecting the consumption of products or services by encouraging compliance with such technical specifications or other requirements or rules on services; technical specifications or other requirements or rules on services linked to national social security systems are not included.*" (third indent of the second subparagraph of point 11 of Article 1 of Directive 98/34/EC).

In practice, scrapping schemes based on technical specifications which are linked to fiscal or financial measures affecting the consumption of products by encouraging compliance purchase of products with certain technical specifications (such as with respect to CO₂ emissions, Euro emission standards etc.) constitute *de facto* technical regulations and have to be notified to the Commission (which subsequently circulates them to all Member States) at a draft stage according to Article 8 of this Directive.

However, according to Article 10(4) of Directive 98/34/EC no standstill period is laid down for the adoption of technical specifications, 'other requirements' or rules on services linked to fiscal or financial measures by Member States. However, the Commission and Member State have the right to issue comments on the notified technical specifications and to issue a so-called detailed opinion where the measure envisaged may create obstacles to the free movement of goods within the internal market. With regard to fiscal or financial incentives such comments or detailed opinions may only concern aspects "*which may hinder trade [...] and not the fiscal or financial aspects of the measure*" (Article 8, point 1, last paragraph).

Attention should be drawn to the judgment of 30 April 1996, in which the European Court of Justice established that the breach of the notification obligation renders the adopted technical regulation inapplicable vis-à-vis third parties. In its judgment, the Court ruled that Articles 8 and 9 of Directive 83/189/EEC (today Articles 8 and 9 of Directive 98/34/EC): "*are to be interpreted as meaning that individuals may rely upon them before the national court which must decline to apply a national technical regulation which has not been notified in accordance with the directive.*" ("CIA Security", Case C-194/94, ECR 1996 I-2201).

b) State aid

Measures that are only targeted at private individuals and which do not discriminate with regard to the origin of the product do not raise State aid concerns.

Measures that are genuinely open to all undertakings active in a Member State do not constitute State aid.

Measures that are open only to certain undertakings can constitute State aid and need to be notified under State aid rules¹ unless they meet the criteria under the relevant *de minimis* regulation². Aid notifiable shall not be put into effect before the Commission has taken or is deemed to have taken, a decision authorising such aid.

¹ Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 (now Article 88) of the EC Treaty, Official Journal L 83, 27.03.1999, p. 1-9; Commission Regulation (EC) No 794/2004 of 21 April 2004 implementing Council Regulation (EC) No 659/1999 laying down detailed rules for the application of Article 93 of the EC Treaty, Official Journal L 140, 30.04.2004, p. 1-134.

² Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid, Official Journal L 379, 28.12.2006; Commission Regulation (EC) No 1535/2007 of 20 December 2007 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid in the sector of agricultural production, Official Journal L 337, 21.12.2007, p. 35-41; Commission Regulation (EC) No 875/2007 of 24 July 2007 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid in the fisheries sector and amending Regulation (EC) No 1860/2004, Official Journal L 193, 25.07.2007, p. 6-12.

SCRAPPING SCHEMES IN THE EUROPEAN UNION

Country	Incentive	Vehicle age	Parameters	Duration
Austria	€ 1 500	> 13 years	<ul style="list-style-type: none"> - new car minimum Euro 4 - dealers pay 50% of the incentive - total envelope € 45 m 	01.04.2009- 31.12.2009
Cyprus	€ 257- 1 710	> 15 years	<ul style="list-style-type: none"> - € 257 for scrapping vehicle with valid registration in Cyprus for the past 10 years - € 684 for scrapping vehicle with valid road tax in the last year - € 1 283 as above + replacement with new vehicle of fuel consumption < 7 l/100 km or the purchase/registration of a motorcycle. - € 1 710 as above + replacement with new vehicle of fuel consumption < 5 l/100 km 	2 months The scheme run twice in 2008 and is currently running for the 3rd time since January 2009
France	€ 1 000	> 10 years	<ul style="list-style-type: none"> - new car emits maximum 160 g/km CO₂ - new light commercial vehicle minimum Euro 4 - estimated cost € 220 m 	04.12.2008- 31.12.2009
Germany	€ 2 500	> 9 years	<ul style="list-style-type: none"> - new car (or max. 1 year old) Euro 4 - total envelope €1.5 billion 	14.01.2009- 31.12.2009
Italy	as from € 1,500 (cars) as from € 2,500 (LCVs)	> 9 years	<ul style="list-style-type: none"> - new car minimum Euro 4 and emits maximum 140 g/km (petrol) or 130 g/km (diesel) CO₂ - new LCV minimum Euro 4 - scrapping incentive can be combined with purchase incentive for vehicles with innovative technologies 	11.02.2009- 31.12.2009

Country	Incentive	Vehicle age	Parameters	Duration
Luxembourg	€ 1 500- 2 500	> 10 years	- new car minimum Euro 4 (diesel car ≤ 5 mg/km PM) - € 1 500 if new car emits maximum 150 g/km CO ₂ - € 2 500 (including bonus of 750 € for purchase of low CO ₂ vehicle) - if new car emits maximum 120 g/km CO ₂ (in some cases 160 g/km CO ₂)	01.01.2009- 31.12.2009
Portugal	€ 1 000 € 1 250	> 10 years > 15 years	- new car emits maximum 140 g/km CO ₂ - extension of the system considered	01.01.2009- 31.12.2009
Romania	€ 850	> 10 years	- maximum number of cars scrapped 60 000	01.02.2009- 31.12.2009
Spain	Interest- free loan up to € 10 000	> 10 years or > 250 000 km	- new car maximum value € 30 000 - new car emits maximum 140 g/km CO ₂ - new light commercial vehicle emits maximum 160 g/km CO ₂ - also applicable to purchase of an used car (max. 5 years old) provided the scrapped car is at least 15 years old	01.12.2008- 31.07.2010