



Questions and Answers on the economic crisis **17 December 2008**

Q. Why is the crisis hitting the auto industry so hard?

A. The fall-out of the financial crisis hits auto manufacturers hard, as the credit crunch makes it more difficult for the sector to finance daily operations and, at the same time, also weakens demand for new cars. Consumers are increasingly hesitant to make large expenditures and find it more difficult to get their purchase financed.

New car registrations fell 25.8% in November, the biggest drop since 1999 and comparable to the developments during the last severe crisis in 1993. From January – November, the market decreased by 7%.

The manufacturers have a model range that is well up to date and fuel-efficient. The drop in demand is clearly an effect of the financial and economic crises. In the first half of this year, sales remained well on track. Our industry needs a functioning financial market, and governments can help by giving market incentives to restore consumer demand.

Q. Why is the industry asking for a support of this scale?

A. EU automakers are facing a significant decline in sales at the same time that major regulatory programs are adding significant costs in terms of technology development, program integration and production. Huge investments have been made already over the past decade and this level of investment needs to be sustained.

In the timeframe from 2009 to 2015, the auto sector must meet new requirements for emissions (Euro 5/6), fuel economy (CO₂), Complementary measures (tyre-pressure monitoring, gear-shift indicator), mandatory electronic stability control, new refrigerant requirements, pedestrian protection phase 2, brake assist and daytime running lights. This is adding billions of dollars of cost to the industry at a time when revenues are below breakeven for most companies.

In this context, we ask governments to do four things: 1) take immediate measures to stimulate auto sales; 2) provide EIB loans to facilitate new technology development and production with the EUR16 billion for all transport a good start but nowhere near enough; 3) not continue to layer on new regulatory requirements, 4) not give away further access to the European automarket to other auto-producing nations such as South Korea and in the Doha round while not gaining any better/reciprocal access to those markets for European producers.



ACEA

The auto industry is one of the key players in the EU economy, supporting the jobs of 12 million families. The industry is the largest private investor in R&D in the EU. This is a strategic sector and should be supported.

Q. Why 40 billion EUR?

A. This is an indicative number, based on the size and importance of the industry and the costs for new technology and future R&D. The details will need to be worked out in collaboration with the relevant stakeholders in the weeks to come.

Q. Are the EU stimulus package and the Clean Transport Facility of the European Investment Bank sufficient?

A. These initiatives are a positive start, although we believe that greater funds need to be allocated for this purpose. The EU industry expects the EU to swiftly concretise and substantiate its stimulus package and the criteria for funding of R&D and product programmes through the EIB. In addition, measures are needed to restore market demand and ensure fleet renewal.

Q. Aren't you just trying to find excuses for not having to deliver more fuel-efficient cars?

A. Not at all. The industry is ready to meet the requirements as currently debated when the appropriate realistic framework is in place. All manufacturers have and will continue to make large efforts to produce low-CO₂ vehicles; the evidence is in their product programmes.

However, we are currently faced with extraordinary circumstances that are unexpected in their scale, and governments therefore need to provide support.

Q. What is the money going to be used for?

A. The principal goal is to ensure further market acceptance of fuel-efficient technologies and to sustain future R&D. Reducing CO₂ emissions from cars is expensive. There is not 'one solution'; many incremental steps have to be taken, both concerning the engine and drive train and the design and shape of the cars. The investments involved are huge. Consumers need to be better informed, and ready to accept the technologies.

As an indication: the European Commission has done an impact assessment of its legislative proposal and calculated that, on average, the additional cost would be around €1500 per car. Neither the industry nor the consumer has that kind of money right now.



ACEA

Q. Will you use the money for restructuring?

A. Details of the package will still have to be worked out. But it is clear that the industry is not doing well -- sales figures are dropping, prices of raw materials are rising and the overall cost of production is increasing. At some point, the industry may have to lower production capacity. It will be increasingly hard to invest in new technologies and that's where government support can help.

Q. Does this indicate that the industry is in crisis?

A. No, it is a reflection of the extraordinary circumstances that are unexpected in their scale, with sharply deteriorating economic circumstances adding to the already high pressure on the industry's competitiveness caused by legal requirement, in particular environmental ones.

Q. Why can the industry not afford to pay for the investments itself?

A. It can afford them only when there is a supportive market for its products. Carmakers face increasingly hesitant consumers and governments need to stimulate the economy, relieve the credit crunch and restore consumer confidence. Only then will consumers have the means and the confidence to invest in new vehicles, and will manufacturers be able to sustain high levels of investment in future R&D.

Q. What does the European automotive industry think of the developments in the US?

A. The European automotive industry is of course closely following all efforts by governments around the world aimed at providing support to the automotive industry to deal with the serious credit crisis & economic downturn. However, our main priority is to obtain a clear and adapted response to the needs of the European automobile industry from the EU. In this extraordinarily difficult economic time, governments needs to focus on which policy measures make the most sense to attempt to lessen the serious impact that the financial services crisis is having on the real economy.

As the automotive sector is increasingly feeling the challenges associated with the financial services crisis and resulting recession, governments of key auto-producing countries around the world are each looking at what are the appropriate policy measures to ensure the continued viability of this strategic industry. For example, Japan is considering special tax exemptions to stimulate the local vehicle market and promote clean cars. Canada and the U.S. are considering bridge loans and/or additional assistance for research and development. A number of European national



A C E A

governments have recently taken steps to support the automotive sector, including special tax initiatives in Germany, France and the UK.

At the EU level, we welcome the creation of a Clean Transport Facility at the European Investment Bank (EIB) to facilitate the necessary further investments in new CO2 reducing technologies and vehicles (4 billion euro annually between 2009 and 2012), and the specific automotive-related measures that can be taken within the EU economic stimulus package as agreed by the December EU summit. This is a positive start, although greater funds will need to be allocated.

Q. Are the situation of the US and EU automotive industries comparable?

A. The EU industry is in a different position in terms of restructuring, product lines and market demand, regulatory environment. EU vehicle sales only began to crash in July of 2008, where they have been in significant decline in the US for more than a year and are now travelling at 30-40% below recent levels. Unfortunately, EU sales forecasts are showing a similar downward trend line, so while we might hope that the recession will be shallower in the EU, it is premature to say that this will be the case.

In terms of vehicle markets, it is important to note that the US hardly have a diesel market for passenger cars. This is one of the reasons why the vehicle mix in both regions is so different. Another reason is the difference in petrol price. On average, because of taxation, petrol prices in the EU are two and a half times that of the US (approx US\$5/US gallon compared to the current US average of about \$1.80/gallon) This drives quite a different mix of vehicles sold.
