



## **FAQ on the economic crisis**

### **Updated 16 January 2009**

#### **Q. How would you describe the situation of the automotive industry?**

A. The current crisis is threefold in nature:

- **Financial:** a drastically limited access to credit; and high costs of credits if available, both for the manufactures, their suppliers and for potential buyers of cars and trucks
- **Economic:** a dramatic drop in demand for both passenger cars and commercial vehicles
- **Structural:** low margins due to an increasingly complex and diverse product portfolio; the current recession presenting a more urgent need than ever to address overcapacity in our sector; and with an increasingly pressing demand to adapt our manufacturing, logistics, vehicles and R&D to meet environmental needs

Passenger car sales in Europe fell 7.8% in 2008, and 19.3% alone in the 4th quarter. Commercial vehicle registrations declined by 7.7% from January-November, and by 30.8% in November alone.

As a result, pressure on production and employment is mounting. Most manufacturers have acted responsibly by using existing flexibility arrangements with their workforce. Temporary contracts are not being renewed. If the situation does not improve within a reasonable timeframe, other steps will most likely be necessary.

#### **Q. What has the automotive industry done itself to resist the crisis?**

A. The industry has already reacted swiftly and responsibly within the boundaries of existing instruments and economic viability and continues to do so:

- **Production:** manufacturers have and are adapting their output to the anticipated significant decrease in demand for vehicles
- **Employment:** manufacturers are readjusting their employment base in an as socially responsible way as possible, using the flexibility agreements at their disposal (extended vacations, taking weeks out of production, shortening working weeks, non-renewal of short-term contracts and non-filling in of vacancies), and in close contact with unions and governments
- **Costs:** manufacturers are cutting all discretionary costs by limiting travel and meetings, downsizing advertising and sponsorships, by insourcing activities, and much more
- **Investments & R&D:** as much as manufacturers want and need to keep up investments in strategic projects, they are forced to review their expenditures on new product programmes and R&D
- **Marketing & sales:** manufacturers are adjusting their products and marketing to the new constraints and demands of their customers
- **Support for suppliers,** whose access to credit is even more critical: manufacturers scrutinise the situation of their key suppliers on a daily basis and provide support to the extent they can.



In short: manufacturers are doing what they have to do to come out of the current crisis in a strong way, ready to take on future challenges. To make sure that we do not enter a prolonged period of recession, with the inevitability of wider and more permanent loss of employment and competitive strength, EU governments and institutions need to act urgently.

**Q. Why does the automotive industry need government help?**

A. Because the current circumstances are extraordinary. 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). In addition, the credit crunch limits the manufacturers' access to liquidity to sustain production and investments.

The auto industry is one of the key players in the EU economy, supporting the jobs of 12 million families. The multiplier effect of the 2.2 million direct employees at vehicle manufacturers and their suppliers is enormous. By definition, one job at a vehicle manufacturer ensures 4 more at suppliers and another 5 in related sectors and retail. The health of this sector contributes heavily to the situation of EU economy as a whole.

The industry is also the largest private investor in R&D in the EU and thereby a driver of innovation and economic growth. This is a strategic sector and should be supported.

**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.

European new passenger car registrations fell by 7.8% to 14,712,158 units in 2008, recording the sharpest decline since 1993. In the fourth quarter of 2008, registrations were down 19.3%.

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. 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 EIB 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.

**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 need 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 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.