T&E

The auto industry in Europe

Why this is not an industry 'crisis'

This note outlines why the current sales challenges facing Europe's car industry are not indicative of an industry-wide crisis, but rather a transitional phase as manufacturers adapt to new regulations and electric vehicle (EV) market dynamics.

1. 2024 car market conditions are not representative

As was expected, EV growth has slowed after 2021 as stricter CO2 standards are only coming in 2025, providing less of an incentive in the years in between for carmakers to increase EV sales. Nonetheless, sales of EVs grew by 28% in 2022, 37% in 2023. On top of the expected structural stagnation, the abrupt withdrawal of EV subsidies in Germany - Europe's largest car market - has pushed down overall sales in H1 2024, but is expected to already pick up again in Q4. In the rest of the EU (excluding Germany) the EV market increased by 9% on average in the first half of the year.

This stagnation ahead of new targets is not a new trend, and was seen before when OEMs held EV supply back during 2019, inflating order books and then doubling the number of EVs delivered in 2020 once the new CO2 fleet targets were in force (+159% for European OEMs alone). This shows the cyclical nature of EV market dynamics driven by the stop start design of CO2 targets in the EU. Another factor driving lower EU EV sales in 2024 is the fact that carmakers are prioritising the UK market where they need to meet the new ZEV mandate target leading to a surge of EV sales during the summer (24% EV share in the UK in August 2024 versus 14.4% in the EU).

On the financial side, after years of multi-billion profits, some carmakers could face lower profits in 2024 mainly because of sluggish economic growth, high energy costs and interest rates. However, the Financial Times expects all carmakers to achieve at least 5% profit margins in 2024. As an automotive expert told Forbes about Volkswagen Group: "If you have made near-record profits for three years in 2021, 2022 and 2023, totalling over €60 billion (...) but still expect to make around €18 billion operationally, then that is not a crisis."

2. There are many options for carmakers to comply with the 2025 car CO2 targets

The European car industry has had since 2019 to plan for next year's emissions target, and manufacturers have numerous pathways to comply without paying fines. These include not just selling more EVs but also hybrids and more fuel efficient engine cars. Carmakers also benefit from flexibilities in the regulation that further (artificially) lower their CO2 emissions, as well as the option to pool their emissions with other carmakers. The profitable European carmakers may need to sell fewer big polluting SUVs, but then that is the aim of the car CO2 regulation.

We expect EV sales to reach 20%-24% next year as carmakers prioritise the launch of new smaller and more affordable (sub-€25,000) models (including the Citroën ëC3, and Renaut 5): 12 new European affordable EV models are planned in the coming years that will boost consumer demand. Most carmakers have themselves stated that they will comply and are ready for the new targets: Stellantis (according to Tavares the CEO "It would be surreal to change the rules now."), Renault, and BMW. *Read more: T&E briefing on carmakers' progress towards their EU CO2 target*

3. 2035 target brings investment certainty and competitiveness of the auto value chain in Europe

The 2035 zero-emission car target is crucial for Europe's climate goals, economy, and job creation. Achieving this target would secure investments in electric vehicles, battery production, and charging infrastructure, while offsetting job losses in traditional industries through new opportunities in the e-mobility value chain.

The car CO2 regulation has been the main driver of investment in the EV value chain in Europe over the recent years. In 2018, European carmakers were investing seven times more in EV production in China than at home, however, with the introduction of the 2020 EU targets, EV investments in Europe increased by a factor of 20 (from €3.2 bn to €60 bn), far outstripping China. Now, with uncertainty over its 2035 zero-emission car target and a weak industrial policy, Europe is proving less attractive to electric vehicle manufacturers. While €70 billion of EV investment by carmakers has been announced for Europe between 2021 and 2023, North America, attracted €97 billion over the same period. This is despite European carmakers being responsible for the largest share of investment announcements (€91 billion). Any weakening of the targets will further reduce the attractiveness of Europe as an investment destination, threatening the industry's long-term survival and jobs.

Delaying or weakening the car CO2 targets will also take away the incentive for carmakers to ramp up mass market EV offerings, and will therefore push them even further behind Chinese OEMs who continue to establish a foothold in the EU market. This regulatory visibility is also key for investments in Europe's battery sector, with recent uncertainty around EV sales contributing to Northvolt's decision to cut staff and postpone investments.

In September 2024, 50 CEOs and executives called on the new EU Commission and MEPs to 'maintain the 100% zero-emission car target in 2035' (see *industryfor2035.org*), highlighting the importance of regulatory certainty for businesses investing in our economy. The target is technically feasible, with a dozen affordable EVs expected from 2025 and charging infrastructure expanding, but political commitment is needed to maintain the momentum and prevent a shift towards less effective alternatives like synthetic fuels. *Read more: T&E briefing: The 2035 zero emission car target*

4. Why not review the car CO2 rules in 2025?

The car industry has recently asked for the 2035 zero-emission car target to be reviewed in 2025 instead of 2026 as is foreseen in the legislation. This is not acceptable for several reasons:

- 2025 would be too early to take into account the impact of current developments in the EU cars market. The law was only approved in 2023 and carmakers are just now introducing a lot of affordable EV models and, so time must be given for the regulation to take effect and first see how consumers react. The EU needs to wait until the year 2025 has fully passed before making any properly informed decisions;
- Frequent reviews disrupt industry planning, delay investments, and send conflicting signals;
- A review in 2025 would not leave enough time for a proper assessment and consultation. A full legislative proposal in 2025 is not possible without cutting corners, which should not be acceptable to policymakers or industry. Preparatory work for the review can only start in 2025, building on the two year reporting, as originally planned, with a proposal in 2026.

- The priority of the new EU Commission and Parliament should be to propose a new comprehensive green automotive industrial strategy to complement the Green Deal, not to start the new mandate by revisiting already agreed rules (see Section 6 below).

5. The case of Volkswagen and 'value over volume' strategy.

Volkswagen's challenges in 2025 are specific to its business strategy, rather than a broader industry trend. The company's declining market share in China – from 21% in 2019 to 12.7% in 2024 – has impacted its profitability. Volkswagen has also delayed the release of its affordable EV, the ID2, which is only expected in significant volumes in 2026. In addition, the abrupt withdrawal of private EV subsidies in Germany has impacted their mass market base the hardest, but they are now recovering by discounting their key EV models. The German private car market is consequently expected to surpass 40,000 units on a three-month rolling basis consistently in the closing months of the year.

In general, European carmakers have pursued a value-over-volume strategy, leading to lower production volumes since Covid-19 (down by two to three million units), as manufacturers prioritised high-margin models over mass-market vehicles. Europe's six biggest carmakers made €130 billion in profit between 2022-2023 (with BMW and Stellantis tripling and doubling their profits respectively) despite selling 25% fewer cars overall. This has resulted in underutilised factories and a shrinking production base across Europe. *Read more: German auto industry reality check largely stems from China*.

6. Complement rather than weaken the Green Deal

Cars and vans account for around half of all emissions from transport, which itself is the highest emitting sector in the economy (29% of EU's emissions). EVs in Europe emit, on average, more than three times less CO2 than equivalent petrol cars and are indispensable in our fight against climate change (*See more: T&E lifecycle analysis of EVs*). If the EU chooses to weaken its car CO2 regulation, it risks discrediting the EU's climate agenda and jeopardising its own climate targets. If targets are delayed or watered down for cars, then other sectors like buildings and agriculture, also part of the EU's so-called Effort Sharing Regulation, will need to do more for the EU to remain on track to meet its 2030 climate target. If carmakers – who have the technology – cannot comply with emission rules, why should airlines or steel mills?

Instead of rolling back the rules, the European Commission should propose a comprehensive green automotive industrial strategy to flank the 2025-2035 car CO2 targets. This should include efforts to create reliable EV demand, e.g. via a mandate to electrify fleets and coordinated EV incentives, an industrial plan to support local battery and component manufacturing (including via a stronger trade defence policy) and measures to speed up and ease grid connection of chargers across Europe.

Further information

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