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**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND COUNCIL**

A Competitive Automotive Regulatory Framework for the 21st Century

Commission's position on the CARS 21 High Level Group Final Report

A contribution to the EU's Growth and Jobs Strategy

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(Text with EEA relevance)

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EXECUTIVE SUMMARY

This Communication outlines the direction of future automotive policy. In the spirit of **better regulation** it aims to promote coherent interaction between different policy areas, provide predictability and seek the protection of public interest (e.g. environment and safety) while attempting to reduce the regulatory burden on industry.

It presents the **Commission's position on the CARS 21 High Level Group** which brought together the main stakeholders (Member States, industry, NGOs and MEPs) in 2005 to examine the main policy areas impacting the European automotive industry and to make recommendations for future public policy and regulatory framework.

At the outset of the CARS 21 Group, industry raised concerns about the high cumulative cost of legislation. The review conducted in CARS 21 concluded that the current type-approval system was effective, should be maintained and that most of the legislation was necessary and useful in the interest of protecting health, safety, consumers and the environment. The CARS 21 Group did, however, identify **38 EC directives which can be replaced** with international UNECE (United Nations Economic Commission for Europe) regulations. It also identified **25 directives and UNECE regulations**, for which **self- or virtual testing can be introduced**. The Commission supports these recommendations, but will ensure that in referring to UN/ECE regulations, the Community will keep its ability to legislate independently from the UN/ECE system, where appropriate.

In the area of the environment, the Communication endorses the further limiting of pollutant emissions in line with the Thematic Strategy on Air Pollution. Furthermore, it describes the key elements of the future Commission strategy to reduce **CO₂ emissions from cars** set out in the Communication on results of the review of the current Community strategy. The future strategy is based on an **integrated approach** to achieving the EU objective of 120 g/km CO₂ by 2012 through a combination of EU and Member States action. The Commission will propose legislation, focusing on mandatory reductions of the emissions of CO₂ to reach the objective of 130 g/km for the average new car fleet by means of improvements in vehicle motor technology, and a further reduction of 10 g/km of CO₂, or equivalent if technically necessary, by other technological improvements and by an increased use of bio-fuels. It will encourage additional efforts by the Member States and the consumer. The strategy is to be seen in the context of the recently adopted Commission Communication on Energy for Europe¹.

The Communication identifies a series of measures to be considered in the area of road safety. A number of vehicle-related actions are proposed with the inclusion of the **Electronic Stability Control** in new vehicles being the most significant. The Communication stresses the need to adopt a holistic approach to road safety involving vehicle features, infrastructure and road users.

The Communication aligns the main concerns of the automotive sector to trade policy. It proposes to assess the potential of using **bi-lateral trade agreements** (particularly in the Asian region) to improve market access and reinforces the need enforce **intellectual property rights** globally.

¹ COM(2007) 1.

In the area of research and development, the Communication identifies **clean renewable fuels and intelligent vehicles and roads** as core research priorities. It adopts a forward-looking approach and outlines the Commission's intention to set up a Joint Technology Initiative on **hydrogen and fuel cells** as well as to put forward a regulation on vehicles which use hydrogen as a fuel.

This Communication reflects extensive **stakeholder consultation and dialogue** on automotive issues and the Commission hopes that it will contribute to the policy-making culture and methodology in the future.

1. INTRODUCTION

Mobility provided by road transport is a prerequisite for the way Europeans live today. Vehicles underpin our lifestyle by facilitating social interaction and the reliable distribution of goods across the continent.

The automotive industry's complex value chain plays a **substantial role in the European economy** and its importance is largely derived from linkages within domestic and international economic structures.

The vehicle industry operates world-wide and is one of the drivers of **globalisation**, characterised by the rapid opening of global markets and the ensuing increase and diversity in the movement of capital. The ongoing **technological revolution** is transforming the automotive industry from a traditional manufacturing-based sector into an increasingly knowledge-based one. Domestically, the vehicle industry is taking important and often difficult steps to **optimise its cost-base and production processes** raising fears related to **restructuring and relocation**.

These factors combined with the need to **protect the natural environment, safeguard human health and lives** and operate in a **high oil price environment** have created a situation where industry faces new challenges, responsibilities and opportunities which could alter both the industry and its products.

The policy interactions with industry should seek to improve the framework conditions for vehicle production and carefully analyse the cost and competitiveness impacts of future regulatory activity. The Commission believes that public policy should be predictable while correctly reflecting the increasingly complex demands of society and anticipating trends in world markets. In line with the **Better Regulation** initiative the Commission initiated a comprehensive automotive-related regulatory and policy review by setting up the **CARS 21 High Level Group**, which brought together all the main stakeholders to advise the Commission on future policy options².

This Communication provides the **Commission's assessment and public policy response to the report presented by the CARS 21 Group**³. As such, it outlines to the European Parliament and Council the direction in which the Commission intends to steer future automotive policy.

The proposals and initiatives contained in this Communication aim to:

- further improve the functioning of the internal market
- further simplify automotive legislation and pursue the internationalisation of the automotive regulatory environment
- further promote environmentally sustainable road transport

² For more details:

<http://ec.europa.eu/enterprise/automotive/pagesbackground/competitiveness/cars21.htm>

³ The CARS 21 final report can be found on:

<http://ec.europa.eu/enterprise/automotive/pagesbackground/competitiveness/cars21finalreport.pdf>

- further enhance safety on European roads
- contribute to a fair global operating environment for the European automotive industry
- encourage increased research and development into areas of strategic interest

2. AN INDUSTRY IN TRANSITION?

Recent efforts by automotive companies to seek productivity improvements and reduce costs have attracted public attention and raised concerns about the future of automotive manufacturing in European economies with high production costs and little or no demand increase for vehicles. There are fears that automotive production could be transferred to third countries as industry searches for a lower cost base and for markets likely to experience fast future growth. Existing overcapacities in the EU and the increased role of flexible production and automation in improving production efficiency coupled with investments into additional capacity in some Member States lead to risks of reduction in automotive-related employment.

Some of the current restructuring is a reaction to structural problems which have existed in parts of the industry for some time. Despite variations between individual producers, most manufacturers' challenges relate to managing productivity levels, costs and labour market regulations. High fixed costs, structural overcapacity and recent record prices in global commodity markets combined with aggressive price competition among manufacturers, have led many companies to focus on their long term competitiveness by concentrating on improving productivity and optimise cost structures. This, in turn, can lead to the reorganisation of production processes and a tendency towards workforce reduction. The overall impact can be further aggravated by knock-on effects on the automotive supply chain given the integral part of suppliers in vehicle construction.

In the medium term it appears probable that vehicle assembly for the European market will largely be conducted in Europe. Although this industry is becoming increasingly global, the characteristics of demand remain relatively distinctive in different markets and most automotive companies keep a significant proportion of their production *in situ*. The high level of sunk costs into existing production facilities, the rise of flexible production and the skill level of European workers seem to reinforce this conclusion. However, the challenges posed by more aggressive international competition are likely to grow in the longer term. In terms of production location, fast-growing, low-cost areas close to but outside the EU, are attracting significant attention from European vehicle manufacturers.

In line with the Commission's strategy for growth and jobs⁴ this Communication strives to create favourable framework conditions for an innovative and thriving automotive industry and thus minimise the need for restructuring. Where a company nonetheless takes decisions on its organisation and working arrangements, the Commission cannot interfere with such commercial decisions. However, any resulting transition should be carried out in accordance with Community Directives on information and consultation of workers, collective redundancies and European Works Councils⁵. Furthermore, in the longer term perspective,

⁴ See Commission Communication COM(2005) 474: Implementing the Community Lisbon Programme: A policy framework to strengthen EU manufacturing - towards amore integrated approach for industrial policy.

⁵ E.g. Directive 2002/14/EC, Directive 98/59/EC and Directive 94/45/EC.

regional policy can play a role in minimising transition costs by fostering necessary structural changes. Instruments such as the European Social Fund, the European Regional Development Fund and the newly-established Globalisation Adjustment Fund can play a role in mitigating the short-term social costs of transition, for example by providing workers with training in order to find new jobs. These funds also play a significant role in creating better structural conditions for economic activity, which in turn provides new job opportunities. Moreover, the Commission should strive for favourable framework conditions that allow companies to anticipate at an early stage competitive challenges and to respond to them in a socially responsible way. In this regard, the Commission will convene a restructuring forum on the automotive industry in order to address challenges and better anticipate and adapt to change⁶.

The automotive industry in Europe is currently characterised by strong price competition, high raw material and energy prices, a strong emphasis on cost management and a restructuring of production processes. From a policy perspective, the pressure on employment and focus on cost control imply that the Commission will carefully analyse the employment and competitiveness impacts of future regulatory activity.

3. IMPROVING THE INDUSTRY'S REGULATORY FRAMEWORK

3.1. Internal market: the type-approval of vehicles

The internal market policy for motor vehicles currently regulates three categories of vehicles (passenger cars, motorcycles and tractors) on a mandatory basis. It is based on the **EC Whole Vehicle Type-Approval system**⁷ which has proven highly effective. The Commission believes that it should be maintained and its **benefits extended to cover more automotive products** (e.g. light commercial vehicles, buses and trucks).

The Commission believes that **the internal market should function more efficiently once the vehicle has reached the market**. In particular, problems with roadworthiness and registration procedures are still a source of concern for citizens and enterprises.

The Commission⁸:

- has adopted a proposal for a new Framework Directive for the approval of motor vehicles⁹ to extend the EC Whole Vehicle Type-Approval procedure to all vehicle categories on a mandatory basis and urges the European Parliament and Council to adopt this proposal as soon as possible
- has included, in the new Framework Directive proposal a provision for an authorisation scheme for parts and equipment which are critical for safety and environmental performance

⁶ See the Commission's Communication on Restructuring and Employment - COM(2005) 120.

⁷ Council Directive 70/156/EEC (OJ L 42, 23.2.1970, p. 1).

⁸ It should be noted that actions which have already been proposed or implemented are presented with indents, whereas the actions which the Commission intends to propose in the future are consecutively numbered throughout the Communication.

⁹ COM(2003) 418.

Furthermore,

the Commission:

1. will, in 2007, update the Commission's interpretative communication on procedures for the type-approval and registration of vehicles previously registered in another Member State¹⁰

3.2. Simplification and the internationalisation of the regulatory environment

One of the reasons for setting up CARS 21 was the concern expressed by industry that the cumulative cost of regulation had a negative effect on competitiveness and made vehicles unnecessarily expensive. A dedicated sub-group was set up as part of CARS 21 to scrutinise the regulatory framework¹¹ and to identify possibilities for withdrawing or simplifying the legislation in force.

After examination, the CARS 21 Group concluded that most of the legislation in force should be maintained as it is needed for the protection of health, safety, consumers and the environment. Nonetheless, in the light of the fact that the Community has acceded to more than 100 international vehicle-related regulations adopted under the auspices of the UN/ECE which are applicable as alternatives to corresponding Community legislation, the CARS 21 Group recommended that **38 directives could be replaced by UN/ECE Regulations** without any loss in the level of safety and environmental protection. In addition, the CARS 21 Group also identified one directive which could be repealed¹² and **25 directives and UN/ECE Regulations in which self-testing and virtual testing** could be introduced so as to reduce regulatory compliance costs for industry by making administrative procedures less costly and time-consuming.

The Commission supports these recommendations, but is conscious of the need to maintain the possibility for the EU to legislate independently from the UN/ECE system where this is required to meet EU objectives in terms of health, environment or other policy objectives and will seek to implement future movement towards UN/ECE regulations in a manner compatible with this need.

The Commission:

2. will propose replacing 38 EC directives¹³ with corresponding UN/ECE regulations as soon as the Framework Directive on type-approval has been adopted (expected in 2007)
3. will, in 2008-2009, propose the introduction of necessary technical provisions for using self testing and virtual testing in 25 EC directives and UN/ECE regulations¹⁴

¹⁰ OJ C 143, 15.5.1996, p. 4.

¹¹ Details of this review can be found in Annex II of the CARS 21 Final Report.

¹² Council Directive 72/306/EEC (OJ L 190, 20.8.1972, p. 1).

¹³ The relevant directives have been listed in Annex 2.

¹⁴ The relevant directives and UN/ECE regulations have been listed in Annex 1.

- | | |
|----|---|
| 4. | will issue an annual paper to the European Parliament on the progress being made at the UN/ECE and the comitology process |
| 5. | will, in 2008-2009, consider simplifying Directives 71/127/EEC ¹⁵ , 74/297/EEC ¹⁶ , 76/115/EEC ¹⁷ and 78/932/EEC ¹⁸ as well as UN/ECE Regulation No 122 ¹⁹ |

3.3. Environmentally sustainable road transport: the integrated approach

Cars are responsible for 12% of Europe's **greenhouse gas emissions** and a significant part of **pollutant emissions**. Consequently the two main environmental policy areas linked to the vehicle industry are the Thematic Strategy on Air Pollution²⁰ and the Community Strategy to reduce CO₂ emissions²¹. EU policies on waste and noise also interact with the automotive sector. Increased energy (cost and supply) and environmental concerns are likely to play an important role in the debate on the shape and functioning of future vehicles.

3.3.1. Pollutant emissions

Since the adoption of the first Euro emission limit standards **reductions of approximately 70-90% for NO_x and particulate matter emissions** have been achieved as measured under type-approval conditions. The Commission intends to continue the tightening of Euro emission limits for light- and heavy duty vehicles in line with the Thematic Strategy on Air Pollution and will seek to work towards a better reflection of real-life emissions during the emissions' testing process.

The Commission:

- has adopted a proposal for **Euro 5**²² emission limits to reduce pollutant emissions from passenger cars and light-duty vehicles. The adoption of the proposal will lead to a further 80% reduction in particulate emissions from diesel vehicles and a 20% and 25% reduction of NO_x emissions from diesel and petrol vehicles respectively
- has contributed, together with the European Parliament and Council, to further NO_x emissions reduction (**Euro 6**) from passenger cars and light-duty vehicles
- has adopted a proposal for a Directive on the promotion of clean road transport vehicles by public procurement²³ which aims at improving air quality (particularly in cities) and should support the market introduction of clean vehicle

¹⁵ Council Directive 71/127/EEC (OJ L 68, 22.3.1971, p. 1).

¹⁶ Council Directive 74/297/EEC (OJ L 165, 20.6.1974, p. 16).

¹⁷ Council Directive 76/115/EEC (OJ L 24, 30.1.1976, p. 6).

¹⁸ Council Directive 78/932/EEC (OJ L 325, 20.11.1978, p. 1).

¹⁹ Regulation No 122 of the UN/ECE: Uniform technical prescriptions concerning the approval of vehicles of categories M, N and O with regard to their heating systems, 23 February 2006.

²⁰ COM(2005) 446.

²¹ COM(95) 689: A Community Strategy to reduce CO₂ emissions from passenger cars and improve fuel economy. For additional information also see:

http://europa.eu.int/comm/environment/co2/co2_home.htm

²² COM(2005) 683.

²³ COM(2005) 634.

- has adopted the proposal for Community Strategic Guidelines for Cohesion 2007-2013, which promote investment in sustainable transport networks and common public transport services providing distribution networks for alternative vehicle fuels

The Commission:

6. will, in 2007, come forward with a proposal for **Euro VI** emission limits to achieve further significant pollutant emissions reduction from heavy duty vehicles
7. is working towards the adoption of global technical regulations on heavy duty vehicles' emission test cycles (both steady and transient cycles), off-cycle emissions and on-board diagnostic systems so that real-life emissions conditions are better reflected
8. is examining options to ensure that the emissions testing process for passenger cars also takes better account of real-life emissions

3.3.2. *Reducing CO₂ emissions from the road transport sector*

The Commission will pursue its integrated approach with a view to reaching the **EU objective of 120 g/km CO₂ by 2012**. This can be achieved through a combination of EU and Member States action. The Commission will propose a **legislative framework**, if possible in 2007 and at latest by mid 2008, to achieve the EU objective of 120 g/km CO₂, focusing on mandatory reductions of the emissions of CO₂ to reach the objective of **130 g/km for the average new car fleet by means of improvements in vehicle motor technology**, and a further reduction of 10 g/km of CO₂, or equivalent if technically necessary, by other **technological improvements and by an increased use of bio-fuels**, specifically:

- a) setting minimum efficiency requirements for air-conditioning systems;
- b) the compulsory fitting of accurate tyre pressure monitoring systems;
- c) setting maximum tyre rolling resistance limits in the EU for tyres fitted on passenger cars and light commercial vehicles;
- d) the use of gear shift indicators, taking into account the extent to which such devices are used by consumers in real driving conditions;
- e) fuel efficiency progress in light-commercial vehicles (vans) with the objective of reaching 175 g/km CO₂ by 2012 and 160 g/km CO₂ by 2015;
- f) increased use of bio fuels maximizing environmental performance.

The above will be measurable, monitorable, accountable and non double-counting the reductions of CO₂.

The Commission agrees that the legislative framework implementing the **average new car fleet target** will be designed so as to ensure competitively neutral and socially equitable and sustainable reduction targets which are equitable to the diversity of the European automobile manufacturers and avoid any unjustified distortion of competition between automobile manufacturers.

The legislative framework will be **compatible with the overall objective of reaching the EU's Kyoto targets** and will be based on a **thorough impact assessment**. Such an impact assessment shall address the benefits and costs of different options as compared to the actual situation of average CO₂ emissions, taking into account latest available technology for environmental improvements in car technology.

Beyond the legislative framework, the Commission strategy to reduce CO₂ should encourage **additional efforts** by other means of road transport (heavy duty vehicles, etc.), **by the Member States** (CO₂ related taxation and other fiscal incentives, use of public procurement, traffic management, infrastructure, etc.) **and by the consumers** (informed choice as a buyer, responsible driving behaviour).

The Commission:

9. presents its future strategy to reduce CO₂ emissions from cars through an integrated approach as described above in parallel to this Communication in its Communication to the European Parliament and Council on the results of the review of the Community strategy to reduce CO₂ emissions from cars²⁴
10. will explore the possibility of including the road transport sector in the EU Emission Trading Scheme for the third allocation period starting in 2013
11. will, following the recent adoption of the Biofuels Progress Report²⁵, as part of the Communication on Energy for Europe which proposed a minimum binding target of 10% biofuels by 2020, bring forward a proposal to revise Directive 2003/30/EC²⁶ on the use of biofuels or other renewable transport fuels in 2007
12. will assess the options available to develop a policy framework to encourage the use of biofuels offering greater greenhouse gas savings and will continue its support for R&D efforts into 2nd generation biofuels
13. will, in 2007, put forward a proposal for a Regulation on motor vehicles using hydrogen as a fuel to ensure the safe use of this technology
14. will, in the framework of the i2010 Intelligent Car Initiative²⁷, pursue the research and development of Information and Communications Technologies' (ICT) based technologies and applications, which will contribute to cleaner and more energy efficient mobility, including tools for environmentally friendly driving
15. will put intelligent transport systems, including Galileo, at the heart of its forthcoming action plan on logistics and the green paper on urban transport with a view to optimising transport operations and achieving safe and sustainable mobility for Europe

²⁴ COM(2007) 19.

²⁵ COM(2006) 845.

²⁶ Directive 2003/30/EC (OJ L 123, 17.5.2003, p. 42).

²⁷ COM(2006) 59.

16. encourages the European Investment Bank to support the Community policy on CO₂ reductions by contributing to the financing of economically viable projects in the fields of fuel efficiency and renewable fuels

3.3.3. *Other environmental policies*

In addition to the above, EU policies concerning the recycling of vehicles, noise and mobile air conditioners bear a relevance to the automotive industry.

The Commission:

- has proposed a phase-out of certain fluorinated greenhouse gases from mobile air conditioning systems (MACs)²⁸ which has been adopted by the European Parliament and Council

Looking to the future:

The Commission:

17. will, during the next revision of the End-of-Life Vehicles Directive²⁹ address the issue of non-harmonised implementation of this directive across the Member States (2009)
18. will, in 2007-2009, seek to pursue a holistic approach to tackle noise issues, which would involve all relevant stakeholders and systems (e.g. traffic management, driver behaviour, vehicle and tyre technology, road surfaces)

3.4. **Increasing safety on European roads: a joint effort**

Noteworthy progress has been made in improving European road safety: during the last 30 years traffic on European roads has tripled while the number of casualties has halved during the same period. The ever greater mobility enjoyed by Europeans still comes at a high price: latest estimates show that about 41,600 people were killed on European roads in 2005³⁰. The Commission's stated aim is to achieve a 50% reduction in deaths³¹ on European roads by 2010.

The Commission believes an effective road safety strategy should be based on the **interaction between improvements in vehicle technology, road infrastructure, driver behaviour and enforcement.**

The Commission:

- has adopted Recommendation 2004/345/EC³² on best practice regarding the monitoring of the application of rules on drink-driving, speeding and seat-belt use

²⁸ Directive 2006/40/EC (OJ L 161, 14.6.2006, p. 12).

²⁹ Directive 2000/53/EC (OJ L 269, 21.10.2000, p. 34).

³⁰ Mid term review of the European Road Safety Action Programme - COM(2006) 74.

³¹ COM(2001) 370: The mid-term review of the European Commission's 2001 Transport White paper was completed in 2006 - COM(2006) 314.

³² Commission Recommendation of 6 April 2004 (OJ L 111, 17.4.2004, p. 75).

- has acceded to UN/ECE Regulation No 104³³ and amended UN/ECE Regulation No 48³⁴ to improve the conspicuity of heavy-duty vehicles
- has adopted a Communication on “Bringing eCall to Citizens”³⁵ with the aim of accelerating the deployment of eCall systems, which have been identified as a priority under the eSafety Initiative
- has adopted a Communication on the Intelligent Car Initiative³⁶ which aims to foster the deployment of advanced safety technologies in order to contribute to the reduction of road casualties in the EU
- has adopted a proposal for a Directive on Road Infrastructure Safety Management³⁷
- has adopted a proposal for a Directive on the retrofitting of mirrors to heavy goods vehicles registered in the Community with the aim of avoiding blind spots in the rear field of vision³⁸
- has adopted a proposal for Community Strategic Guidelines for Cohesion 2007-2013 which, among the recommended guidelines for action, include investment in proper traffic management, with particular attention to safety

Taking into account the recommendations of the CARS 21 Group, the Commission has adopted a forward-looking approach to road safety and assessed the possible future initiatives in this field. Consequently,

Between 2007 and 2009, the Commission will assess the opportunity to come forward with proposals to:

19. make the inclusion of Isofix child restraint systems obligatory for all new M1 vehicles
20. make the use of daytime running lights obligatory (a public consultation was launched on this subject on 1 August 2006)
21. make the inclusion of the Electronic Stability Control mandatory starting with heavy-duty vehicles and followed by passenger cars and light-duty vehicles as soon as a test method has been developed
22. make seat-belt reminders mandatory for all new vehicles
23. amend phase II requirements of the Pedestrian Protection Directive in order to improve the provisions of Directive 2003/102/EC³⁹

³³ Regulation No 104 of the UN/ECE: Uniform provisions concerning the approval of retro-reflective markings for heavy and long vehicles and their trailers, 22 January 1998.

³⁴ Regulation No 48 of the UN/ECE: Installation of lighting and light signalling devices.

³⁵ COM(2005) 431.

³⁶ COM(2006) 59.

³⁷ COM(2006) 569.

³⁸ COM(2006) 570.

³⁹ Directive 2003/102/EC (OJ L 321, 6.12.2003, p. 15).

24. improve the cross-border enforcement of fines imposed for the infringement of traffic rules of another EU Member State (a public consultation was launched on this subject on 6 November 2006)

The Commission will also:

25. investigate the costs, benefits and feasibility of introducing Emergency Braking Systems in vehicles (particularly heavy-duty vehicles). The Commission is conducting a study into such systems and has set up a stakeholder working group to assist with the work
26. continue efforts to promote the development, deployment and use of active in-vehicle safety systems and vehicle-infrastructure co-operative systems in the framework of the i2010 Intelligent Car Initiative
27. will adopt in 2006, the 3rd eSafety Communication, which brings to the attention of the European Parliament and Council further measures aiming at full deployment of eCall starting from 2010
28. will encourage and support the conditioning of Community financing in the road sector to projects which follow best practice in road safety
29. calls on the Member States to further improve the enforcement of bans on drunk driving, enforcement of speed limits, enforcement of motor-cycle helmet use and to promote and enforce seat-belt use

3.5. Trade and overseas markets: striving for fair global competition⁴⁰

Most of the global demand increase for the industry's products over the next decade will come from rapidly developing economies (e.g. China, India, Russia etc.) and the international dimension is crucial to the competitiveness of the European automotive industry.

The Commission believes that **multilateral negotiations** provide an opportunity to improve market access for European industry while there is also a need to pursue **bilateral or regional approaches** (through Free Trade Agreements or similar arrangements) in trade relations with third countries, as appropriate.

In a global industry conditions relating to **foreign direct investment** and the establishing of **local production** in third countries are as important as the more traditional export-import flows. European policy should seek to ensure that European companies' operations overseas are not subjected to unfair discrimination.

The Commission is committed to enhancing and widening regulatory governance on the international level, in particular through the UN/ECE framework (as discussed in section 3.2.)⁴¹, to reduce **non-tariff barriers to trade** and to further the development of a level

⁴⁰ The Commission's approach to trade policy has been outlined in a recent Communication "Global Europe: Competing in the World" - COM(2006) 567.

⁴¹ As outlined in section 3.2. the Commission will seek to move to international harmonisation in a manner, which would enable the EU to legislate independently in areas related to safety and the environment should this be necessary in the future.

regulatory playing field worldwide. The automotive industry has also expressed serious concerns about the enforcement of **intellectual property rules** (IPR) in some areas of the world.

The Commission has concerns regarding market access to **China** and operating conditions there. These are significant not only due to China's market potential but also because similar concerns may arise in other large emerging markets.

The Commission:

- has, adopted a policy of encouraging increased international technical harmonisation of motor vehicle regulations in the framework of both the 1958 and the 1998 Agreements of the UN/ECE
- has formally requested the establishment of a WTO Dispute Settlement Panel to resolve outstanding issues related to the treatment of imported vehicle parts by China. The United States and Canada have brought similar complaints

With regard to future policy direction:

The Commission:

30. will, on a case by case basis, assess the potential of negotiating bilateral Free Trade Agreements with third countries (particularly in South East Asia) and open such negotiations, if and when, appropriate
31. will continue monitoring Chinese business and regulatory developments to ensure that improved market access resulting from China's WTO accession is implemented in practice
32. will pursue a formal dialogue with China on issues related to China's regulatory environment to ensure that there is a level playing field and legal certainty for the business community in this market. In this respect, the Commission will continue to follow the development of the draft Chinese Anti-Monopoly Law
33. will continue building closer automotive ties with Russia in the framework of the EU-Russia Common Economic Space
34. will continue its policy of ensuring that IPR are promoted and enforced globally through existing international agreements and will include comprehensive IP provisions in future bi-lateral agreements

3.6. Research and Development: the key to future competitiveness

With approximately € 20 billion (ca. 5% of the sector's turnover) invested into research and product development the automotive industry is the **largest industrial R&D investor in Europe in absolute terms**.

Technology Platforms play an important role in identifying research needs relevant to industry. The "**Vision of road transport in 2020**", the Strategic Research Agenda developed

by the **European Road Transport Research Advisory Council (ERTRAC)** and those developed under other relevant technology platforms⁴² have been central to defining the direction of future R&D efforts for the whole automotive value chain at the EU, national and regional levels.

The Commission:

- has, in the 7th Research Framework Programme (FP7), proposed the creation of a dedicated priority theme for “Transport (including aeronautics)”, the proposed budget of which (€ 4 180 million in current prices) represents a significant increase in the allocation of Community funds for innovation in the automotive sector
- has, in FP7, under the Information and Communications Technologies theme, proposed continuing research in the area ICT for mobility, environmental sustainability and energy efficiency, building on the research conducted under 5th and 6th Framework Programmes

The Commission believes that it is necessary to focus European research in FP7 on both incremental research (e.g. **technologies for clean and energy efficient thermal engines, integrated safety systems**) and on breakthrough technologies (e.g. **hydrogen and fuel cells, development of rechargeable hybrids, 2nd generation biofuels**). Furthermore, the Commission considers that the creation of lead markets in areas relevant to this sector is important (e.g. hydrogen and fuel cells, biofuels etc. could be potential candidates).

From a wider perspective new, safer, more efficient and less polluting automotive technology forms part of the Intelligent Transportation Systems (ITS) concept. The automotive industry is actively involved in several Technology Platforms⁴³, which contribute directly or indirectly to competitiveness of the automotive industry and to the development of better transportation systems.

The Commission:

35. will continue to develop R&D co-operation between the EU and industry (primarily through FP7)
36. will aim to reinforce coherent research collaboration between the EU, the Member States and the automotive industry within a system’s approach and use different types of instruments for R&D support in the automotive sector including collaborative projects and networks of excellence
37. will focus research programmes on making the road transport system more efficient while enhancing environmental compatibility and safety. Particular focus will be placed on clean renewable fuels as well as intelligent vehicles and roads (e.g. the “intelligent car” project in the framework of the i2010 initiative)
38. will aim to use public-private partnerships as a new instrument of industrial research, technological development and demonstration. It is preparing, jointly with the

⁴² Examples include the hydrogen and fuel cell platform, the advanced engineering materials and technologies platform, the smart systems integration platform, etc.

⁴³ For example, NESSI, the platform for software and ARTEMIS, the platform for embedded IT systems.

automotive industry (and other stakeholders), the setting up of a Joint Technology Initiative in the area of hydrogen and fuel cells

39. encourages European financing institutions, such as the European Investment Bank, to continue supporting research in the automotive sector and to focus its activities on projects that lead to improved energy efficiency, emissions reduction and enhanced safety, notably through the new Risk Sharing Finance Facility

3.7. Taxation and fiscal incentives and competition in the aftermarket

3.7.1. Taxation and fiscal incentives

Discussions in the CARS 21 Group indicated that the diverse vehicle-related **taxation regimes** in the Member States are considered to be **among the main barriers to an effectively functioning internal market** while the use of fiscal incentives should be coordinated across the Member States and should demonstrably contribute to the EU's policy objectives in areas such as the environment and safety. In this context, further to the Commission's proposal, an article that regulates the conditions for the granting of financial incentives was agreed by the European Parliament and the Council in the Euro 5 and 6 Regulation⁴⁴.

The Commission:

- has proposed a directive on passenger car related taxes⁴⁵, which is now before the European Council and Parliament. The Commission urges the Parliament and Council to adopt the proposed directive as soon as possible

3.7.2. Competition in the aftermarket

With regard to the distribution of vehicles, the Commission will continue its efforts to ensure that Regulation (EC) No 1400/2002 on **motor vehicle distribution**⁴⁶ is applied throughout the Community while in the light of the increasing complexity of vehicles it has become imperative that all vehicle repairers in the Community have access to the appropriate **technical repair information**. Action on the latter follows a clear mandate from the European Parliament as laid down in Article 4 of Directive 98/69/EC⁴⁷.

The Commission:

- has introduced a provision in the Euro 5 proposal⁴⁸ whereby vehicle manufacturers are obliged to provide unrestricted, standardised access to vehicle repair and maintenance information to independent repairers through web-sites in a format developed by a technical committee of stakeholders (OASIS format)

⁴⁴ COM(2005) 683.

⁴⁵ COM(2005) 261.

⁴⁶ Commission Regulation (EC) No 1400/2002 of 31 July 2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector.

⁴⁷ Directive 98/69/EC (OJ L 350, 28.12.1998, p. 1).

⁴⁸ COM(2005) 683.

4. NEXT STEPS

The Commission is committed to implementing its better regulation policy and believes that there exists a unique opportunity to develop a **distinct policy-making culture with regard to industrial policy**. The Commission believes that principles such as the quality of legislation, simplification, impact assessments, stakeholder consultations, lead times and choice of instruments should be at the heart of developing legislative proposals.

The most difficult challenge inherent to such a policy process lies in the **relationship between predictability on the one hand and quality and flexibility on the other**. Indicating the long-term direction of future regulations will inevitably raise questions relating to the quality and availability of data used to make assumptions about the medium and longer term future. A mechanism for **regular revision and review** should therefore be put in place.

To ensure that the European Parliament and Council are regularly informed about the UN/ECE process the Commission plans to issue an annual paper to the European Parliament providing an update on the work being conducted at the UN/ECE and the comitology process.

The Commission:

40. will together with all relevant stakeholders, conduct a mid-term review of the actions proposed in this Communication in the course of 2009 to monitor progress made and, if appropriate, adapt the automotive regulatory policy framework on the basis of the results of this review
41. will regularly inform the co-legislators on the status of changes in automotive regulations by issuing an annual working paper on progress made at the UN/ECE

ANNEXES

1. List of directives to be proposed for self- and virtual testing
2. List of directives to be proposed for replacement by UN/ECE regulations

Annex 1: List of directives to be proposed for self- and virtual testing

To be proposed for **self-testing**:

EC Directives:

70/222/EEC (rear registration plate)

77/389/EEC (towing hooks)

78/316/EEC (identification of controls)

78/317/EEC (defrost/demist)

78/318/EEC (wash/wipe)

78/549/EEC (wheel guards)

92/21/EEC (masses & dimensions, cars)

97/27/EC (masses and dimensions)

92/114/EEC (external projections of cabs)

UN/ECE Regulations:

28 (audible warning)

48 (installation of lighting)

121 (identification of controls)

122 (heating systems)

43 (part on installation of safety glass)

55 (couplings; only for geometric requirements)

To be proposed for **virtual testing**:

EC Directives:

77/389/EEC (towing hooks)

77/649/EEC (forward vision)

78/318/EEC (wash/wipe, for geometric requirements)

78/549/EEC (wheel guards)

92/114/EC (external projections of cabs;)

UN/ECE Regulations:

46 (for the field of rear vision)

21 (for the geometric requirements of interior fittings)

26 (exterior projections)

48 (installation of lighting)

55 (couplings; only with regard to geometric requirements)

Annex 2: List of directives to be proposed for replacement by UN/ECE regulations

70/157/EEC (sound levels)
70/221/EEC (fuel tanks)
70/311/EEC (steering effort)
70/387/EEC (door latches & hinges)
70/388/EEC (audible warning)
71/127/EEC (rear visibility)
71/320/EEC (braking)
72/245/EEC (radio suppression)
74/60/EEC (interior fittings)
74/61/EEC (anti-theft and immobiliser)
74/297/EEC (protective steering)
74/408/EEC (seat strength)
74/483/EEC (exterior projections)
75/443/EEC (speedometer/reverse gear)
76/756/EEC (installation of lighting)
76/757/EEC (retro-reflectors)
76/758/EEC (lamps)
76/759/EEC (direction indicators)
76/760/EEC (rear registration plate lamps)
76/761/EEC (headlamps)
76/762/EEC (front fog lamps)
77/538/EEC (rear fog lamps)
77/539/EEC (reversing lamps)
77/540/EEC (parking lamps)
77/541/EEC (seat belts)
78/316/EEC (identification of controls)
2001/56/EC (heating systems)
80/1269/EEC (engine power)
89/297/EEC (lateral protection)
92/22/EEC (safety glass)
92/23/EEC (tyres)
94/20/EC (couplings)
95/28/EC (flammability)
2001/85/EC (buses and coaches)
96/79/EC (frontal impact)
96/27/EC (side impact)
98/91/EC (transport of dangerous goods)
2000/40/EC (front underrun protection)