

ANNEX 1

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.