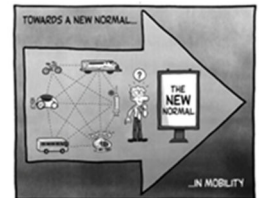
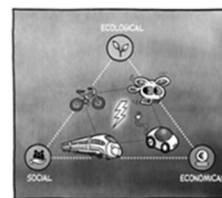


FUTURE OF THE AUTOMOTIVE INDUSTRY



Theses on the effect of tariffs to protect the European automotive industry

In September 2024, the Draghi Report, commissioned by the European Commission, was published in Brussels. In it, former ECB President Mario Draghi laments the EU's declining competitiveness, particularly in digital technologies, due to insufficient investment in research and development, too little venture capital, too much bureaucracy, and a skills shortage, among other factors.

He sees some industries lagging particularly far behind. They have already been left behind: “Even in cases where the EU is the victim of foreign subsidies, there may be some industries where domestic producers have fallen so far behind that making imports more expensive would only impose excessive deadweight costs on the economy. In these circumstances, it would be preferable for the EU to fund higher investments in more advanced technologies while allowing foreign taxpayers to contribute to higher consumption by European consumers” (European Commission, 2024, p. 18).

Mario Draghi is saying that European companies in these industries have fallen so far behind that even tariffs, such as those imposed this year on Chinese car imports into the EU, are no longer helping. The reason, he says, is that even with tariff protection, foreign competitors offer better value for money. Draghi therefore advocates waiving tariffs in these sectors so that European customers can buy products subsidized by the Chinese state and pay higher taxes, which could then be used to support more competitive industries.

The question now is whether European, and therefore also German, car manufacturers have fallen so far behind their Chinese and American competitors that tariffs should no longer be imposed and the door should be thrown wide open. Two theories on this question, which is very important for the German automotive industry¹.

¹ The theses are based on discussions held by the Chair of Business Administration & International Automotive Management at the University of Duisburg-Essen, including a panel discussion at the Lake Constance Business Forum on October 22, 2024, in Friedrichshafen, as well as visits to scientific conferences and discussions in Germany and the most important automotive markets worldwide.

Thesis 1: The Italian automotive industry has already fallen so far behind that tariffs will no longer help.

Mario Draghi is Italian, and his statement is true for the Italian automotive industry: it is already so far behind that tariffs no longer help.

Fiat, formerly an icon of the Italian automotive industry, first merged with Chrysler and has since been absorbed into the Stellantis Group. Today, the company is managed from France and the Netherlands. Many suppliers, such as the automotive division of Magneti Marelli Holding, which develops and manufactures components for the automotive industry, or the tire manufacturer Pirelli, have suffered the same fate. They, too, are no longer Italian companies. The production of passenger cars and vans in Italy fell to 541,900 vehicles in 2023 and dropped again by 40% in the first nine months of 2024 (in the 1960s, Fiat's main plant in Mirafiori alone produced one million vehicles annually).

Thesis 2: The German automotive industry is not (yet) left behind, but tariffs do not help anyway

The situation in Germany is (still) different. The German automotive industry has not (yet) been left behind.

However, tariffs do not help. Tariffs are never beneficial, as buyers bear the cost and the protected companies often delay necessary transformation measures. In addition, there is a threat of counter-measures from the home countries of companies that are disadvantaged by tariff protection, especially China, which has the largest automotive market.

German car manufacturers have not (yet) been left behind because they produce premium vehicles that continue to be purchased in Germany and the EU, but also by affluent customers worldwide.

Nevertheless, the German automotive industry is disproportionately dependent on combustion engines and is therefore at high risk from US and Chinese companies that offer exclusively electric mobility, such as Tesla, BYD, Nio, and Geely. Chinese companies

- control the entire value chain, e.g., for batteries—from raw material extraction to battery production. This gives them cost advantages of several thousand euros.
- They can also exploit economies of scale, as their home market in China, where over 11 million electric vehicles will be sold in 2024, is almost as large as the entire European market (12.8 million vehicles, albeit predominantly vehicles with combustion engines).
- are strongly promoted and supported in the development not only of electromobility, but also of connected and autonomous driving by the government and through cooperation with technology companies such as Huawei and Baidu.

But even in China, not all that glitters is gold. In China, there are

- currently still around 90 brands that need to consolidate before they can make a powerful impact.
- Problems caused by the real estate crisis and high youth unemployment, especially among young academics, and

- still too little knowledge of the European and, above all, the German automotive market. Chinese manufacturers have so far offered higher-priced products in the segments where German manufacturers are strong and have neglected financing and leasing (because cars are paid for directly in China), as well as other purchase criteria that are important to German customers, such as the residual values of used cars. They have problems with their agency model.

But Chinese manufacturers can learn. They will consolidate, get their problems in their home country under control, and learn to understand customers in Europe and Germany. This makes them a threat that the German automotive industry must take seriously.

It must therefore not hide behind tariffs or supposed technological openness but must greatly accelerate the transformation!

Literature

European Commission (2024): The future of European competitiveness Part A | A competitiveness strategy for Europe. Brüssel.