

## Road/Railways: The impact of COVID-19 pandemic on the European automobile industry

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### 【概要 : Summary】

The COVID-19 pandemic poses a serious threat to people's health and the lockdown measures and travel restrictions in many countries, including European countries, are important to confine the COVID-19 disease's further spread. In the EU, most of the EU Member States have temporarily closed external and internal borders. The partial or complete lockdowns to confining the COVID-19 spread have caused socio-economic disruptions. This has also forced the automobile manufacturers and their suppliers to close their production sites in many countries.

The COVID-19 pandemic started in Mainland China, which has a major role as global economy and manufacturing hub. This had a negative impact on the global economy from the beginning. In fact, the globalisation of production cycles of many goods is worsening the impacts of the COVID-19, as not only production sites are closed but also supply chains are interrupted. In Europe, the automotive industry, including the automobile manufacturing industry and its suppliers, has been hit by the COVID-19 pandemic. Automobile manufacturing sites have been forced to close in China first, then across the European continent, and most recently also in the US. Currently, the production sites in China slowly reopen and also in Europe, there are first signs to resume production as the COVID-19 cases start to decrease in some European countries. However, in other European countries with important automotive

industries, like France, Italy and Spain, the strict lockdown measures continue or they had to be extended. However, the automobile industry is not only affected for the production of vehicles but also for their sale. It is increasingly becoming clear, that due to the pandemic, the automotive sector faces its worst crisis ever. This article gives a first overview of the situation in the European automobile manufacturing industry and its intentions to restart production.



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### 【記事 : Article】

#### 1. European automotive companies and their globalised automobile production

According to the European Commission, the automotive sector with its automobile manufacturers and their suppliers is crucial for the economic prosperity. The automotive sector provides direct and indirect jobs to 13.8 million Europeans, representing 6.1% of total EU employment. With its investments of EUR 57.4 billion in R&D annually, the automotive sector is Europe's largest private contributor to

innovation, accounting for 28% of total EU spending. In the past decades, the automobile manufacturing industry has developed into a globally integrated industry with a global network of suppliers, production sites, and vendors. Therefore, the automobile industry comprises of a complex network of global, regional, national and local value chains with regional and global production and suppliers. Consequently, the current COVID-19 pandemic has a detrimental impact on this regionally and globally set up industry in its entirety. China is the world biggest producer of automobiles with 27,809,196 motor vehicles production (units) in 2018. The Chinese motor vehicles production is followed by the US with 11,314,705 units, Japan with 9,728,528 units, India with 5,174,645 units and Germany with 5,120,409 motor vehicle units produced in 2018. However, China is also one of the largest automobile markets worldwide also in terms of sales.

In the EU, vehicle manufacturers operate some 229 vehicle assembly and production plants across Europe, directly employing 2.6 million people. More broadly, the sector provides direct and indirect jobs for 13.8 million Europeans. Furthermore, large European automobile manufacturers like Volkswagen have production plants worldwide. In 2018, EU automotive manufacturers produced 16.5 million passenger cars, representing 21% of global car output, and more than 2.6 million commercial vehicles.

Regarding the global distribution of European automotive industry companies, the Volkswagen Group, as well as Daimler-Benz, Renault and other European automotive companies have factories in European countries, as well as in countries in the Americas, Asia, like in China and India and in Africa. Since 2010, the entire Volvo Cars Company is a subsidiary of the Chinese company Geely and manufactures most of the XC60 vehicles in China for export to various countries as well as the local market. On a financial level, the automobile industry is a key contributor to the European economy. With the automotive industry generating a trade surplus of EUR 84.4 billion for the EU, the need to support the

sector in the COVID-19 pandemic is vital.

## 2. The COVID-19 pandemic's impact on the automotive industry

In the COVID-19 pandemic's quick spreading from China to Europe and then to the US, almost all countries had to introduce measures to possibly confine the further spread of the virus. In the EU, in particular the major European economies like Germany, France, Italy and Spain reacted with partial or complete lockdown measures. This also affected the automotive industry, after the sector was already under enormous pressure to take necessary restructuring measures towards shifting the production from internal combustion engine vehicles towards low to zero emission vehicles like electric cars. Especially in Germany, the recognition of the necessity to take the decision to make this shift towards a production of vehicles with a low to zero CO2 emission propulsion system like electric passenger cars was delayed. However, also other countries with strong automotive industries are still in the midst of this change. They are therefore hit by a double financial burden, deriving from the production change towards low to zero emission vehicles on the one hand and the impact of the pandemic due to a standstill of production of vehicles on the other hand. In short to mid term, the COVID-19 pandemic puts intense additional pressure on an already-stressed automotive industry.

The COVID-19 pandemic has lead to a situation in which the automotive industry's supply chain is partially interrupted due to the lockdown measures. There are no planes and trucks available and no manpower to operate them, and since the COVID-19 spread comes in a wave that hits different parts in the supply chain in different locations and countries at different times, the entire supply chain of the automotive industry is jammed.

According to AutoTechInsight IHS Markit Senior Principal Analyst Phil Amsrud, most car manufacturers and their suppliers had to suspend

operations or are functioning at reduced capacity. The production process for automotive semiconductors in particular in the more labour intensive assembly and testing process could potentially become a bottleneck once the production of vehicles returns to grow again. The partial interruption of the logistic chain is also due to the fact that the additional processes and the assembly and testing are conducted in different places, and parts are flown elsewhere in mainland China, Malaysia, the Philippines, Vietnam, and other countries in the Pacific Rim to be packaged and tested. In addition to special cargo carriers, the passenger planes for commercial flights are also heavily used for carrying cargo and are missing now for the cargo transport, since most passenger flights have been cancelled. Therefore, once the production of vehicles can start again after the end of a partial or complete lockdown, the links in the supply chain will have to be re-established and this might not be possible in all cases, as the pandemic is developing in several countries at different times. Even if production does only halt for the announced periods of time, the assembly ramp-up phase that follows the pandemic will cause further impacts.

### **3. European passenger car market and industry in crisis due to COVID-19 pandemic**

The Western Europe passenger car market decreased by 52.9% year-on-year (y/y) in March 2020, as a result of the COVID-19 outbreak, to 772,890 units, according to the latest IHS Markit forecast. This caused a decrease in the first quarter 2020 to 2,761,655 units or 27.1% y/y. The French passenger car market decreased considerably during March 2020 following the restrictions imposed by the French government to confine the COVID-19 spread. Registrations have dropped from 225,818 units to just 62,668 units, a decrease of 72.2% y/y. The German passenger car registrations decreased by 37.7% y/y during March 2020 to 215,119 units. This left the registration figure for the first quarter

down by 20.3% y/y to 701,362 units. Unsurprisingly due to the longer lockdown period and the most severe COVID-19 outbreak in Europe, Italy's passenger car registrations imploded by 85.4% y/y during March 2020 and fell to just 28,326 units against 194,302 units in March 2019. The Spanish government declared a State of Emergency on 14 March because of the COVID-19 virus, effectively bringing the passenger car market to a halt. Although the decline was slightly less extreme than in Italy, registrations have dropped by 69.3% y/y to 37,644 units. In the UK, passenger car registrations have dropped by 44.4% y/y, down from 458,054 units to 254,684 units. Of this total, private registrations made up 132,281 units, a decline of 40.4% y/y, while fleet registrations retreated by 47.4% y/y to 117,557 units. However, the biggest contraction has been among business customers, down by 61.1% y/y to only 4,846 units. In January and February 2020, car sales decreased by 7.4%.

By mid March 2020, the Renault Group, Volkswagen Group, Fiat Chrysler Automobiles and PSA Group had suspended most of their production in order to protect their employees from the COVID-19 outbreak and in compliance with the lockdown measures taken by the European governments. However, Volkswagen kept some components operations running in Germany during the partial lockdown, with a total of 1,700 employees across five sites, to safeguard parts supplies to factories in China where the industrial recovery started to progress. In several EU Member States, governments have set up wage assistance programs where the governments cover a part of the labour costs. These measures are also applied to the automotive industry's employees. While a moderation in new COVID-19 infections prompted Austria and Denmark to start easing the lockdown restrictions, France extended its lockdown to 11 May 2020. The UK is also likely to prolong restrictions, too. The wider containment measures can be expected to continue until at least 3 May 2020.

#### **4. ACEA calls on European Commission to consider recovering measures for the automotive industry**

The impact of the COVID-19 crisis and related lockdown measures on the European automobile industry is severe, as both, the production and sales of automobiles have come to a sudden halt in most of Europe but also many other regions in the world. The European Automobile Manufacturers Association (ACEA)'s members of major Europe-based car, van, truck and bus manufacturers have announced temporary closures of their production sites and plants. The closing of production sites was due to the governmental enforcement measures to limit movement of people, or due to supply parts' shortages. With production sites mostly closed and consumer demand for vehicles having collapsed, the ACEA sees grave consequences for the automotive sector due to the COVID-19 pandemic. According to the ACEA director general Eric-Mark Huitema, the COVID-19 pandemic is becoming the worst crisis ever to impact the automotive sector. The ACEA President, Michael Manley, as well as the presidents of CLEPA, ETRMA and CECRA (the European associations representing suppliers, tyre manufacturers, dealers and repairers) wrote a joint letter to the President of the European Commission, Ursula von der Leyen, calling on the Commission to take concrete measures to avoid irreversible and fundamental damage to the sector with a permanent loss of jobs, capacity, innovation and research capability. Europe's automotive industry faces an uphill battle in the wake of the pandemic as more than 1.1 million car workers are affected and over 1.2 million fewer vehicles have been produced. While in China, demand slowly increases after weeks of lockdown in the COVID-19 crisis, in Europe, the automobile manufacturers are still observing the continuation of the lockdown in many countries. ACEA's director general Huitema acknowledged that the governments in Europe have put in place several policy measures to support businesses and their employees. However, Huitema also called for a dialogue with the

president of the European Commission to take concrete measures to avoid irreversible and fundamental damage to the automotive sector with a permanent loss of jobs, capacity, innovation and research capability. Therefore, Europe should prepare to stimulate the recovery of the automotive sector, which can be seen as a key contributor to the accelerated recovery of the European economy. In an effort to look beyond the immediate crisis, ACEA already started to explore how a synchronised restart of the automotive industry and its supply chains could be facilitated in a smooth way. At the moment Huitema called it important to keep the production and supply of spare parts going as well as vehicle-service networks. He also called for strong and coordinated actions at national and European levels.

#### **5. European automobile manufacturing industry pushes for reopening production plants**

Due to the COVID-19 pandemic and the lockdown measures in China, Europe and the US, the demand for automobiles has collapsed. However, currently, the European automobile manufacturers are accelerating efforts to restart their production. The companies are considering the utilisation of security protocols for their employees, including temperature screening, day by day well being questionnaires, the wearing of masks and gloves among others, in order to achieve a standard that allows large-scale factories to restart their production and to function safely. Meanwhile, in China, Volkswagen reopened all of its 2,000 dealerships for business, in addition to 32 out of 33 factories. China is Volkswagen's largest single market, delivering EUR 4.4 billion in operating profit in 2019 and accounting for two-fifths of vehicle deliveries. Volkswagen Group China's CEO Stephan Wöllenstein stated that there are growing signs of recovery, with a good chance that the Chinese car market could reach last year's level in early summer. Daimler board member Britta Seeger also stated, that in China and South Korea, Daimler's dealerships are

fully open and that demand is significantly increasing there. In addition to its Chinese plants, Daimler wants to resume production at its German plants in Untertuerkheim, Hamburg und Berlin on 20 April 2020, followed by a restart at its plants in Sindelfingen und Bremen. Major European automobile manufacturers have mentioned they hope to start their production again in mid-to-late April 2020.

Fiat Chrysler (FCA) aims to restart operations at three Italian sites as soon as the Italian government lifts coronavirus restrictions on manufacturing, while manufacturer Ferrari is piloting its “back on track” scheme as it looks to resume production. Renault has already opened its plant in Portugal and plans to resume part of its production in Romania on 21 April 2020. Toyota, Hyundai and Volvo are also among those that have opened or are preparing to restart production at sites that were closed in March 2020. Hyundai’s automobile production site in Nosovice, Czech Republic, is resuming output with two shifts instead of the usual three shifts. Volvo Cars plans to reopen its flagship plant in Torslanda, Sweden, which was one of the last European sites to close, on 20 April 2020. Volkswagen’s Audi brand began limited production on 14 April 2020 at its engine plant in Győr, Hungary, but is yet to reopen its main production facility in the country. In Germany, the partial lockdown will be eased gradually in the next weeks and this will help the automobile manufacturers to be able to return to production.

However, not all automobile manufacturers are pushing for an early restart of their production sites. Jaguar Land Rover, which initially planned to reopen its sites in the UK and Slovakia on 22 April 2020, has decided to extend the closure indefinitely.

## 6. Outlook

Due to the COVID-19 pandemic, almost 1.5 million vehicles have not been produced during the lockdown in Europe in March and April 2020. Currently, the European automotive industry takes first steps to

restart its production. However, since the COVID-19 spread has just started to decrease in some European countries, there is no clear timeline as to when the COVID-19 crisis may finally come to an end. While Austria and Denmark have started to ease restrictions, France just extended its strict lockdown until 11 May 2020. In the light of this latest development, even some industry executives have warned against a hasty restart of the production and called for a coordinated European approach. It will take the European automobile manufacturers some time to recover from the impact of COVID-19 pandemic and the related lockdown measures, as logistic chains and production have been interrupted and sales across Europe and other regions have decreased significantly.

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