

Strategic Dialogue on the Future of the European Automotive Industry

Will It Lead to Policies Towards a More Coherent Transformation Strategy?

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The “Strategic Dialogue on the Future of the European Automotive Industry” aims to feed into an “EU Automotive Industrial Action Plan” to be presented by the European Commission on 5 March 2025. This cepAdhoc highlights essential aspects of this endeavour regarding decarbonisation of road transport and the international competitiveness of the sector – proposing a widened perspective on issues to be addressed urgently.

- ▶ The EU emissions trading system for road transport and buildings (EU-ETS 2) will effectively limit CO₂ emissions from 2027 onwards, ensuring that the climate targets in road transport are met. Hence, the EU can and should grant manufacturers **more flexibility and technology openness** to adapt to unforeseeable changes.
- ▶ In the **EU internal market** more flexibility in CO₂ emission standards could be given by a “phase-in”, conditional standards linked to the adequate provision of charging infrastructure, “borrowing” and “banking” of excess CO₂ reductions for cars and vans, adjustments of targets by a “carbon correction factor” for increased alternative fuel supply, relaxing the CO₂ reduction targets for 2035 or postponing them to 2040.
- ▶ To enable e-mobility to play its key role in the green transition, appropriate **enabling conditions** are crucial, such as a well-developed charging infrastructure, effective CO₂ pricing and favourable electricity prices.
- ▶ A long-term perspective for – globally demanded – **efficient hybrid vehicles powered by alternative fuels** is necessary to keep the relevant expertise, research & development, production and suppliers in the EU.

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1 Introduction

The European automotive industry is facing significant challenges as it transitions towards electromobility and zero-emission vehicles. Sales of electric vehicles (EVs) are faltering in the EU and struggling in China, while Chinese vehicles are entering the European market. This has led to profit declines for European manufacturers, resulting in cuts to production facilities and jobs. The industry is also under pressure to meet strict CO₂ reduction targets set by the EU while maintaining global competitiveness.

In view of the current difficulties facing the European automotive industry, the European Commission launched a “Strategic Dialogue on the Future of the European Automotive Industry” on 30 January 2025, in which “key European industry leaders, social partners, and stakeholders” participate.¹ The results of the Strategic Dialogue, which ends on 3 March 2025, are intended to feed into an EU Automotive Industrial Action Plan to be presented by the Commission already on 5 March 2025.

This cepAdhoc highlights essential aspects of the Strategic Dialogue especially regarding the decarbonisation of road transport and the international competitiveness of the sector and proposes a widened perspective on issues to be addressed through the forthcoming EU Automotive Industrial Action Plan in order to provide the conditions for a successful transition by a thriving European automotive industry.

2 Current State of the European Automotive Industry

The European automotive industry is undergoing a profound transition towards electromobility and zero-emission vehicles, which is reflected in the increasing number of new models on the market. However, their sales are stalling in the EU and are not even getting off the ground in China, while Chinese vehicles are entering the European market. Profits of European companies are collapsing and, as a result, production facilities and jobs at manufacturers and suppliers are being cut. There is also the threat of fines for non-compliance with CO₂ fleet limits according to EU legislation in case not enough new e-vehicles are registered.

Although originally the technology leader in alternative drive concepts, the European automotive industry is accused of having “overslept” the global trend towards electromobility². However, the dominance of Chinese competitors in e-vehicles is no coincidence: China has not only massively promoted the construction of electric vehicles for years, but also the development of the entire battery value chain and public charging infrastructure, while this has not happened in Europe for a long time. At the same time, China is pursuing a technology-open approach and will allow the registration of hybrids and efficient combustion engines that run on alternative fuels until at least 2060.

In contrast, the EU strategy for climate-friendly road transport focuses primarily on new cars with electric drive systems. To this end, increasingly strict CO₂ limits have been set for newly registered vehicles in order to drive forward the transition to zero-emission vehicles and provide incentives for a greater

¹ European Commission, Press Release of 30 January 2025, [President von der Leyen launches Strategic Dialogue on the Future of the Automotive Industry and announces Action Plan](#).

² Institut der deutschen Wirtschaft, IW-Nachricht of 23 March 2021, [Autogipfel: Vier Mythen über die Autobranche](#); CarbonBrief of 28 August 2024, [Q&A: The global ‘trade war’ over China’s booming EV industry](#); ZDFheute of 6 October 2024, [Autoindustrie: Weg aus der Krise gesucht](#).

range of battery-electric cars and zero-emission trucks and buses. From 2035 onwards, new cars and vans with conventional combustion engines will be effectively banned.

However, this approach harbours several risks for the achievement of climate targets and the competitiveness of the European automotive industry:³

- **Risk No. 1** of this supply-oriented strategy is the **lack of demand for EVs in Europe**. They are not yet broadly perceived as being more advantageous than conventional combustion engines – be it due to the purchase and charging costs, range or charging convenience. This is why the sales figures for electric cars in Germany have plummeted following the removal of purchase subsidies.

Why isn't e-mobility really taking off yet?

E-vehicles are still primarily used by “early adopters” of the new technology who, for example, have the opportunity to recharge their vehicle at home (sometimes even by using their own photovoltaic system), use the e-car as a secondary vehicle or have favourable charging options at their workplace.

In contrast, an e-vehicle to be bought without state subsidies is not yet an attractive alternative for the mass market. This is often due to the total cost of ownership, but also to the insufficient range of the batteries and the inconvenient and time-consuming charging on the road.

- **Risk No. 2** of the EU strategy focused on EVs is its **dependence on raw materials for battery production**. Geopolitical uncertainties and high import costs could severely impair the competitiveness of the European automotive industry, especially in comparison to vehicle imports from countries like China.
- **Risk No. 3** of the EU strategy focused on EVs is the **loss of global sales markets of the European automotive industry**. The public debate often overlooks that, in contrast to the EU, state regulators in China and the USA, e.g., allow the long-term registration of hybrids and consequently many domestic car manufacturers in these countries are pursuing a multi-technology strategy. Many emerging countries with access to cheap biofuels – such as bioethanol in Brazil or India – or with sunny and windy regions where e-fuels can be produced cheaply will continue to demand efficient combustion engines for a long time to come, as will developing countries with inadequate electricity grids.

There is therefore a risk that the *de facto* ban on combustion engines for cars and vans as from 2035 and the lack of prospects for trucks and buses powered by biofuels or e-fuels in the EU will cause European manufacturers to lose their competitive edge and parts of the automotive industry in Europe to shut down while other countries fill the gap. The associated loss of jobs and added value would in turn further undermine social acceptance of EU climate policy.

³ See Menner, M. et. al (2025), Towards Decarbonised Road Transport Driven by a Globally Competitive EU Automotive Industry, [cepStudy](#) of 21 January 2025.

3 The Strategic Dialog

According to the European Commission, the Strategic Dialogue underscores its commitment to safeguard the future of a sector vital to European prosperity, while at the same time advancing its climate goals and broader societal objectives.

Ursula von der Leyen: *“The European automotive industry is at a pivotal moment, and we acknowledge the challenges it faces. That is why we are acting swiftly to address them. The fundamental question we need to answer together is what we still miss to unleash the innovative power of our companies and ensure a robust and sustainable automotive sector”*.⁴ *„The outcome of this dialogue will be a comprehensive Action Plan, which we will present on March 5th. This Action Plan will chart a clear course to ensure our industry can thrive in Europe and compete successfully on a global stage.”*

The European Commission acknowledges the “urgent need to take measures that will both protect the European automotive industry and ensure its continued prosperity within the European Union”. Hence, President **von der Leyen** has tasked Transport Commissioner **Apostolos Tzitzikostas** to present an EU Automotive Industrial Action Plan on 5 March 2025. This Action Plan is supposed to address a broad range of issues relevant for the sector, such as ensuring access to talent and resources, fostering technological innovation and the development of next-generation vehicles, and “establishing a pragmatic and predictable regulatory framework”.

3.1 Format

The consultative process of the Strategic Dialogue “shall inspire the Action Plan” and consists of the following steps:

- The high-level discussion of 30 January 2025 – in which 22 key players from the automotive sector participated – with its “focus on the main areas that require urgent attention, including the need for an international ‘level playing field’, facilitate the clean transition and regulatory streamlining, as well as identifying areas where more concrete measures are needed”.
- A public consultation, which was open for participation from January 30th until February 13th, to gather wider input on challenges and potential solutions from all interested parties.
- Thematic working groups consisting of senior experts from the sector and the Commission, tasked with working out more detailed proposals:
 - Commissioner **Wokpe Hoekstra** focused on the **Clean Transition** of the automotive sector.
 - Commissioner **Stéphane Séjourné** addressed the **Industrial Value Chain** for the industry.
 - Commissioner **Henna Virkkunen** guided discussions on **Technological and Digital Innovation**.
 - Commissioner **Roxana Mînzatu** led discussions on **Skills and Social** considerations within the sector.

These working groups reported back to the senior steering group for guidance and decision-making on proposals.

⁴ European Commission, Press Release of 30 January 2025, [President von der Leyen launches Strategic Dialogue on the Future of the Automotive Industry and announces Action Plan](#).

3.2 Scheduled Content

According to the Commission's "Concept Note" on the Strategic Dialogue, the first meeting on January 30th was scheduled to "align on and structure the main themes on which urgent action is needed to give the automotive industry a solid future in Europe and identify potential solutions". With respect to **Clean Transition and Decarbonisation** the Concept Note states:

"One of the most critical near- and mid-term challenges for the industry is the transition to clean mobility. This transition is an opportunity for the sector to develop new markets, to innovate and to help lowering the dependence on fossil fuels. Domestically, the EU has set ambitious climate goals, but consumers are confronted with still higher upfront costs of vehicles and lower roll-out speed of charging infrastructure. Several industry participants have requested a review of the current regulatory framework, which could result in penalties for some OEMs.

At the same time, others argue that key international markets (which are critical for European players) are rapidly shifting to electric vehicles, and that it is therefore imperative that European OEMs maintain unrelenting focus on regaining cost and performance leadership in electric vehicles (for which a strong domestic market is a key enabler), in order to protect and extend market shares internationally and domestically.

The work within this theme could be structured into 1) regulatory framework 2) availability of charging infrastructure and 3) demand stimulation. The latter could explore measures such as improved CO₂-labelling to ensure clear consumer information, enhancing and harmonizing purchase incentives and fiscal measures across Member States, or public procurement / lead markets. Finally, within this overarching theme, questions of social equity and orderly industry transition could also be explored, such as industry collaboration on a lower-cost "small EV" to provide affordable electric mobility to lower-income groups, or coordination on supplier consolidation / ICE component production ramp-down, informed by Commission competition and anti-trust experts."

3.3 Media Reports

Following the working group session of February 12th with Climate Commissioner Wopke Hoekstra on "Clean Transition and Decarbonisation", it was reported that the industry representatives for the manufacturers, Sigrid de Vries (ACEA), and for the suppliers, Benjamin Krieger (CLEPA), emphasised the difficult economic situation and that "the fines [for non-compliance with CO₂ fleet targets in 2025] would have to be averted, the review of the CO₂ fleet regulation would have to be brought forward and the electrification targets would not be met."⁵

However, the representatives of consumer protection organisations, NGOs, trade unions and the charging infrastructure reportedly argued in favour of not adjusting anything in the EU legislation since the regulatory targets could be achieved. Instead, they called for incentive programmes for the purchase of e-cars, mandatory requirements for CO₂-free company car fleets and further efforts to expand the charging infrastructure. Apparently, Commissioner Hoekstra has not revealed what the Commission is planning.

⁵ Europe.Table Professional Briefing of 13 February 2025, [Auto dialog: Climate Commissioner Hoekstra listens to opinions on Clean Transition](#).

3.4 Critique

The thematical split of the working groups of the Strategic Dialogue overlooks that the themes (1) “Clean Transition and Decarbonisation” and (2) “Competitiveness and resilience” are inseparably interlinked and should therefore be dealt with jointly. The future of the European automotive industry will be decided on the question whether it can compete in clean technologies not only in the EU internal market, but also on international markets. In this respect, it must be emphasised that the EU legislative framework for the decarbonisation of road transport affects the European automotive industry in those two geographical dimensions. Thus, also its effects on the competitiveness of the European automotive industry in international markets must be included in the analysis of the most critical challenges and the developments of respective strategies.

The “Concept Note” suffers from two misconceptions:

- First, it associates “clean technologies” in road transport only with electrified cars and vans. This, however, ignores that efficient vehicles with internal combustion engines (ICEs) running on alternative fuels can contribute to the decarbonisation of road transport in the EU and worldwide.
- Second, when analysing the global competitiveness of the EU industry, the focus on electrification trends in key international markets ignores that the respective regulators follow a “multi-technology” strategy where new hybrids running on alternative fuels are allowed for beyond 2035 – in case of China until 2060. Meanwhile, Asian manufacturers are successfully bringing forth to the market different forms of serial-parallel hybrids and range-extender EVs and are about to gain technological leadership in this market segment.

These ignored aspects, however, are important for a sound analysis of medium and long-term perspectives for the competitiveness of the EU automotive industry in both geographical dimensions.

EU internal market

The big problem of the decarbonisation of road transport in the EU is that the adoption of EVs and low carbon vehicles is not self-propelling yet. Supply of these vehicles is driven by regulation, but demand lacks since the new technologies are not widely perceived as superior and total costs of ownership (TCO) of EVs are in many cases still higher than the ICE vehicles. Thus, regulatory pressure without adequate enabling conditions for a demand driven transition jeopardizes the competitiveness of the European automotive industry.

In its decarbonisation strategy, the EU should keep the following context in mind:

The forthcoming European emissions trading system for road transport and buildings (EU-ETS 2) will effectively limit CO₂ emissions from 2027 onwards and thus ensure that the climate targets in road transport are met. Hence, flexibilities in CO₂ emission standards will not lower the EU’s ambition in decarbonizing road transport. Given this, it is innocuous to give more time to the transformation according to industry-specific conditions.

Since the transformation on the supply side cannot work without a shift in demand, incentives should be implemented in terms of recharging and refueling infrastructure and flexible CO₂ prices in a politically and socially safeguarded EU-ETS 2. With the CO₂ prices of the EU-ETS2 in place, also a higher blending of fossil fuels with alternative fuels will contribute to the decarbonisation goals.

International markets:

Efficient ICE vehicles in form of different types of hybrids will be in significant demand in the long-run, e.g., in rural areas of China and the US and also in developing countries that have favourable conditions to produce biofuels – like bioethanol in Brazil and India – or to provide cost-efficient solar or wind energy to produce e-fuels, or that lack an adequate power grid.⁶

However, the current EU regulatory framework forces the EU automotive industry to give up its competitive advantage in ICE technology because of the 100% reduction target of tailpipe emissions in 2035. Without a lasting domestic market for this technology, research & development, production and suppliers of ICE technology will be taken up by competitors from outside the EU.⁷

Moreover, in the short term, there is no incentive to improve this technology in form of efficient hybrids in Europe to defend the technological lead against Asian competitors – jeopardising the decarbonisation of EU road transport as long as demand for BEVs is still weak.

4 What Should Be Done

With the safeguard of the EU-ETS 2 in place, EU legislation can and should grant manufacturers sufficient flexibility and technological openness to be able to react to unforeseeable changes and new developments.⁸

EU policy must also ensure that all the necessary conditions for the transformation are created. These include reliable CO₂ prices through the EU-ETS 2 without a price cap, sufficient charging infrastructure and a higher proportion of alternative fuels.

Finally, supply and price risks with regard to critical raw materials must be tackled and innovation in the EU must be fostered.

⁶ For a detailed analysis of developments in international markets see Menner, M. et. al (2025), Towards Decarbonised Road Transport Driven by a Globally Competitive EU Automotive Industry, [cepStudy](#) of 21 January 2025.

⁷ Ibid.

⁸ For this section see Menner, M. et. al (2024), Towards Decarbonised Road Transport Driven by a Globally Competitive EU Automotive Industry, [cepStudy](#) from 21 January 2025.

4.1 Revision of CO₂ Emission Standards

A revision of CO₂ emission standards must meet the following requirements in two dimensions:

- 1) Provide **more flexibility in the EU internal market** – where demand for battery-electric vehicles (BEV) is stagnating – such that European manufacturers can adapt to changing market conditions.

The goal should be a market-driven, self-propelling transition to BEVs, and in case of heavy-duty vehicles (HDVs) also fuel-cell electric vehicles (FCEVs) or hydrogen-combustion vehicles (H₂ICEs). With a sufficiently high carbon price, electric vehicles will eventually outperform ICEs in terms of total cost of ownership, and the adoption of BEVs will enter the phase of the mass market. The diminishing cap on allowances in the EU-ETS 2 will guarantee that decarbonisation goals in road transport will be achieved. With the safeguard of the EU-ETS 2 in place, the EU can and should allow for **more flexibility within CO₂ emission standards**.

Options for more flexibility and technology openness:

There are many different options to grant more flexibility to manufacturers like the gradual introduction of stricter CO₂ fleet limits (phase-in) or linking them to the sufficient provision of charging infrastructure. For cars and vans “borrowing” and “banking” of excess CO₂ reductions could be made available. It may also make sense to adjust the CO₂ emission targets, e.g., by granting a “carbon correction factor” for increased alternative fuel supply, relaxing the CO₂ reduction targets for 2035 or postponing the 2035 targets to 2040.

- 2) Keep the advantage of a **strong home-market** not only for e-mobility but also **for efficient hybrids running on alternative fuels**.

There will be a lasting demand for efficient hybrids in international markets. Hence, in order to keep the competitive advantage, R&D, production and suppliers of ICE technology in the EU, a long-term perspective for EU producers to be able to sell hybrids in their loyal home market is crucial. For this purpose, a **long-term option for the registration of hybrids in the EU** – comparable to the exemptions of hybrids from the ICE ban in China or in the US states following California – is necessary.

E-fuels and advanced biofuels: Shouldn't these precious energy sources be left to aviation and shipping, which cannot be decarbonised electrically?

This argument fails to recognise that the global ramp-up of e-fuels and advanced biofuels production is progressing very slowly. Demand for alternative fuels in aviation and shipping, sectors that are prone to fierce international competition, is low because of their cost disadvantage. This implies that there is simply not enough demand for large quantities of e-fuels to make an industrial ramp-up of production profitable.

However, the ramp-up could be boosted by high demand from drivers willing to pay for e-fuels by blending them with fossil petrol or diesel. But once the market-driven transition to electromobility in road transport is largely complete, much production capacity will be freed up for aviation and shipping, which will then benefit from e-fuels that have become more cost-effective thanks to mass production.

4.2 Provision of the Necessary Enabling Conditions

4.2.1 A Politically and Socially Safeguarded Emissions Trading System (EU-ETS 2)

Apart from safeguarding the overall achievement of the EU climate targets in buildings sector and road transport, the EU-ETS 2 exerts via its carbon price also a more direct effect on the decisions of buyers and users of vehicles. By making fossil fuels more expensive, it ensures that the total cost of ownership of electric vehicles will be cheaper in the future than that of combustion engines. Hence, starting from this, the adoption of the battery electric technology will be self-propelling and market driven – and neither purchase subsidies, nor strict CO₂ emission standards will be needed for the green transition. To this end, it is crucial, that the **EU-ETS 2 is not subject to a price cap** and – this is crucial – that the **EU-ETS 2 is socially and politically safeguarded**. CO₂ prices in the EU-ETS 2 must be able to fluctuate freely enough to send out price signals that are compatible with the cap on CO₂ emissions set for the two sectors covered. However, such high carbon prices would place a heavy financial burden on low and middle-income households in particular if they are not offset. Compensation measures must therefore be introduced. A redistribution of revenues via a per capita climate dividend, for example, could compensate for the burden on citizens well into the middle class.

4.2.2 Recharging and Refuelling Infrastructure

For a successful transition to a carbon-neutral road transport, a sufficient recharging and refuelling infrastructure is indispensable. EU legislation should therefore ensure that the roll-out of **infrastructure for charging and refuelling** of all relevant alternative fuels anticipates and serves the needs.

4.2.3 Access to Critical Raw Materials

Supply and price risks on global markets for critical raw materials should be managed by a smart diversification strategy, stable resource partnerships and a thriving domestic recycling economy.

4.2.4 Innovation for Next-generation Vehicles

The **EU's innovation capacity for mobility technologies** should be maintained through targeted R&D support and removal of barriers to their commercialisation. This support should be technology open.

5 Conclusion

For the transformation of the European automotive industry to succeed, the EU strategy must quickly adopt a more **balanced approach that combines climate targets with the competitiveness of the industry**.

E-mobility will play a key role in this. However, in order to make their contribution to the decarbonisation of road transport, European manufacturers must remain competitive. To do this, they and their potential customers need appropriate framework conditions, such as a well-developed charging infrastructure, effective CO₂ pricing and favourable electricity prices. Only then will e-vehicles become a self-propelled success in a market-driven transformation.

Furthermore, a long-term perspective for **efficient ICE and hybrid vehicles powered by alternative fuels** is necessary to keep the relevant expertise, research & development, production and suppliers in the EU. Hence, the EU should avoid forcing the EU automotive industry to unilaterally focus on the development of electric vehicles through the ban on combustion engines and inflexible, rapidly tightening fleet limits – while at the same time continue selling inefficient combustion models that are no longer being further developed. In retrospect, European manufacturers would then once again be confronted with the accusation that they had missed out on an important global development – this time, however, the trend towards efficient and more cost-effective hybrids and range extender vehicles that can be fuelled with alternative fuels. Politicians would then have to honestly admit that they have set the wrong course for the European car industry by regulating too one-sidedly.

In sum, the European automotive industry can only continue to play a leading role in the global mobility transition through greater flexibility, long-term openness to technology and the creation of stable and favourable framework conditions.

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