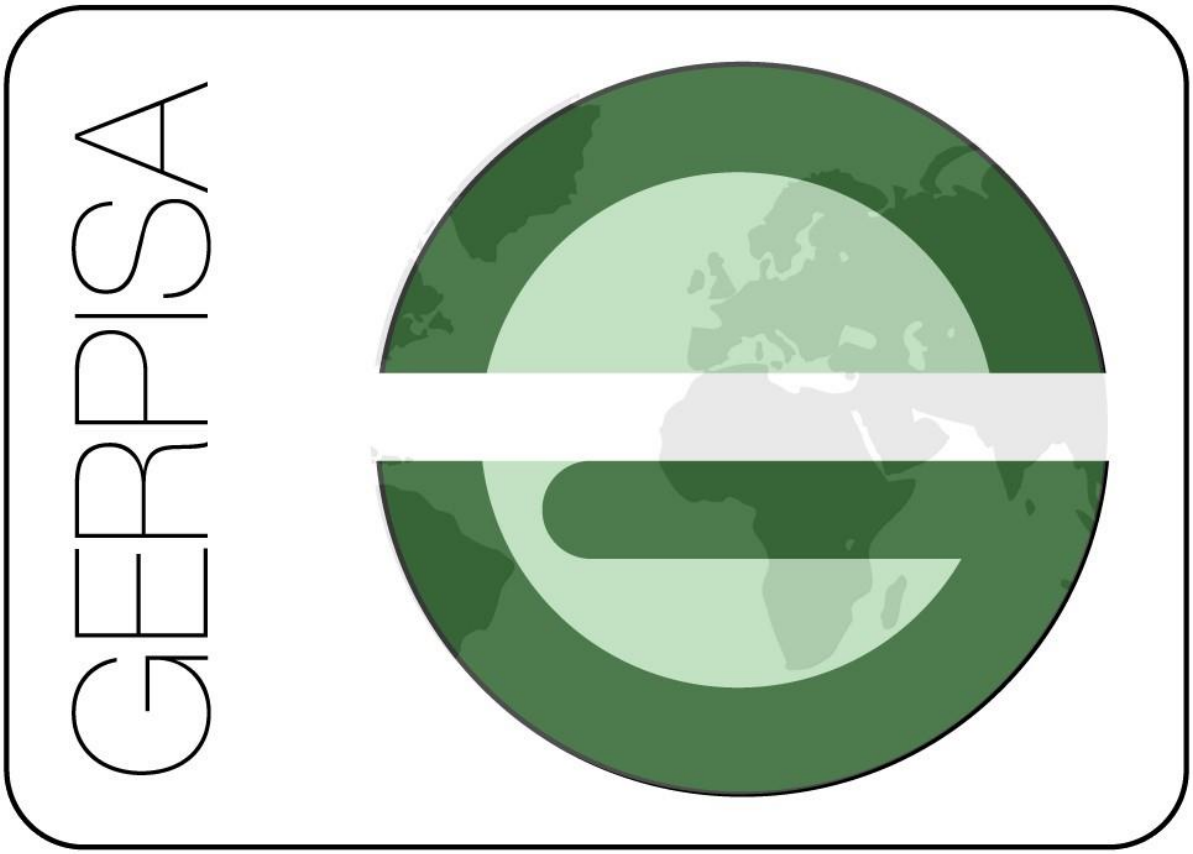

MEETING THE CHINESE CHALLENGE IN THE AUTOMOTIVE SECTOR : IS THE INDUSTRIAL ACCELERATOR ACT UP TO THE TASK ?

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- **FFC - Fédération Française de Carrosserie Industrie et Services**
- **GPA - Groupement Plasturgie Automobile**

the trade associations representing the French automotive suppliers' industries.

Executive Summary

Background and context

The "Strategic Dialogue on the Future of the European Automotive Industry" launched in January 2025 by the European Commission was meant to reach a more consensual and ambitious view on how to address the "Chinese challenge", in particular via the introduction of local content policies to protect the European supply chain from aggressive Chinese economic dumping and avoid unfair competition from new Chinese assembly car factories in Europe[1]. After more than one year of tensed negotiations, the final result is neither consensual, nor satisfactory.

The purpose of this report is to bring some clarity in what has been so far a quite confused and confusing debate. The starting point of this research is that an "European consensus" on how to deal with the "Chinese challenge" should not be based on political compromises between diverging doctrines, interests and views but on a clear, fact based and data driven understanding of the nature, timing and consequences of the "Chinese challenge" and of the most effective way of addressing it.

Is the IAA in its current form up to the task of meeting the "Chinese challenge" or is it just a "reasonable" and "acceptable" proposal given the lack of consensus inside the EU?

This report is meant to contributing to this debate by putting forward a more ambitious proposal than the current version of the IAA, and by explaining a) why we think that such a proposal is required to meet the "Chinese challenge" and b) how it can be quickly and effectively implemented by the EU and by the companies concerned.

The perfect storm

The first section develops a synthetic analysis of the ongoing crisis of the European automotive sector and of its implications for carmakers, automotive suppliers and automotive countries and regions. It provides a measure of the current low level of resilience of the automotive industry and supply chain and explains why the crisis is structural and makes the European automotive industry, and in particular its supply chain, extremely vulnerable to the "Chinese challenge".

The "Chinese challenge"

The second section characterises in detail the "Chinese challenge" in the automotive sector.

It explains:

- Why the challenge is unprecedent and resonates as a new "great divergence";
- How Europe has become, by far, the main global target of Chinese trade expansion;
- How this Chinese trade expansion is fuelled by overcapacity and price wars that are now exported to Europe and will keep fuelling further expansion;
- Why in this context European automotive exports and direct production in China are vanishing and will not come back;

[1] Pardi et al., 'Made in Europe. Local Content Policy for the European Automotive Industry'.

- What are the concrete consequences of this Chinese "steamroller" for EU based carmakers and suppliers in terms of market share, contracts, investments and job losses now and in the next five years;
- Why the current massive Chinese FDI in automotive production (without strict local content requirements) will not substitute for imports but will be added to imports of cars, and even more of auto-parts.

For an effective "Made in EU" policy

The third section presents our proposal for a "Made in EU" label for cars, vans and auto-parts.

- It provides a detailed calculation of the current level of local content in the European automotive industry for both cars and auto-parts using Eurostat and OECD custom and trade data.
- Based on these results, it proposes a local content requirement of 80% for cars and vans, and of 70% (on average) for auto-parts.
- It explains why batteries should be treated differently (via local content targets) and separately.
- It explains how these local content requirements can be implemented by both regulators and firms using the custom related concept of "preferential rule of origin".
- It proposes to limit the "Made in EU" label to cars, vans and auto-parts manufactured in the EU.

Why the IAA is not up to the task

The fourth section discusses more in detail the current version of the IAA and its shortcomings on the basis of the analysis of the "Chinese challenge" developed in section two and following up on our proposal of amending the IAA toward a more ambitious and effective version. It highlights in particular the need for the EU to choose between contradictory approaches currently embedded in the IAA: a) the "Made in EU" approach, which can meet the "Chinese challenge" but requires a much more ambitious version of the IAA and a clear break from the WTO order; b) the "Made with China" approach, which currently gives to European carmakers a substantial margin to keep reducing their production costs via Chinese products and sourcing, but at the cost of both disrupting the European automotive supply chain and increasing the European dependence on Chinese companies, products and technologies; or c) the "Made with Europe" approach, which tries to preserve the WTO order but at the cost of taking most of the substance out of the "Made in EU" approach.

The European Commission's current proposal strives to strike an impossible compromise between these conflicting approaches, and the result is neither compatible with WTO rules nor effective in meeting the 'Chinese challenge' and addressing the new 'world economic order' imposed by the United States. On the one hand, it leaves the door open to a 'Made with China' approach championed by car manufacturers whilst introducing a watered-down version of the 'Made in EU' approach demanded by suppliers; on the other, it incorporates the principle of European preference into EU policies and regulations, but strips it of its substance by exempting the majority of EU car production from local

content requirements and by including around 80 other countries within the policy's scope (the 'Made with Europe' approach).

The report puts forward seven recommendations to amend the IAA towards a more ambitious but, above all, effective plan to tackle the 'Chinese challenge'.

Key recommendations for amending the IAA

→The IAA should include hybrid (HEVs) and internal combustion engine (ICE) vehicles; otherwise, it will not protect the European supply chain for battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs).

→The IAA should raise the 'Made in EU' requirement to 80% for all vehicle types in order to be effective as a 'safety net'.

→The IAA should introduce 'Made in EU' requirements for all automotive parts; otherwise, tier-two suppliers will not be protected by European preference (in our proposal, we suggest an average level of 70% for automotive parts – this average level will then be adjusted according to the actual level observed in each group of automotive parts concerned, in line with the safety net principle).

→Made in EU' requirements for critical components should be separated from 'Made in EU' requirements for vehicles and other automotive parts to avoid any confusion between the 'safety net' (intended to protect industries the EU already possesses) and 'local content targets' (aimed at building up industries the EU does not yet possess).

→The 'Made in EU' criteria for the M1E category should include both (and not either one or the other) local content requirements (at 80%) and battery requirements.

→The IAA should be based on the 'Made in EU' approach (cars, light commercial vehicles and automotive parts must be manufactured in the EU), as this is the only way to meet the 'Chinese challenge' and achieve its main objective: strengthening the European industrial base by 2035;

→The monitoring of Chinese FDI should cover the entire automotive sector; it should have a lower threshold (€50 million) in order to also include small and medium-sized enterprises in the supply chain; it should require at least five of the six proposed conditions to approve the investment; and it should align the local content requirement with that proposed for the 'Made in EU' label (80% – which also corresponded to the local content requirement imposed by the EU on Japanese investors in car manufacturing in the 1990s).

A "Made in EU" roadmap (2026-2030)

The fifth section presents a roadmap to implement rapidly and effectively the "Made in EU" approach in European policies and regulations in the next three years starting from an amended and much more ambitious version of the IAA:

- In the CO2 new standards for cars and vans (Q2-Q3 2026);
- In the EU car labelling directive (Q1 2026);
- In the European's procurement plan (Q2 2026);
- In the greening corporate fleets' regulation (Q1-Q2 2026);

- In the small affordable car initiative (Q1-Q2 2026);
- In the Clean Deal state aid framework (Q2 2026);
- In the FDI screening and subsidies regulations (Q2 2026).

Conclusion

The comprehensive study and road map for implementing local content requirements in the automotive sector presented in this report aims at institutionalising a strong "European preference" for "Made in EU" cars, vans and auto-parts by the end of 2026.

If implemented, we estimate that it will limit the trade loss due to the growth of Chinese imports to about €16-32 billion by 2030, by comparison with a trade loss of about €80-144 billion otherwise[2].

It will also give a strong signal to EU carmakers and suppliers and restore their confidence in investing/purchasing in Europe. Combined with the "Small Affordable Cars" initiative, it can play a crucial role in overcoming the perfect storm currently faced by the European automotive sector and bring back production volumes and profit margins to sustainable levels.

In just three years, Europe has become by far the main destination of Chinese automotive exports and FDIs. The huge and still growing overcapacities built by China in the automotive sector are now outpouring at increasing speed into the Single Market. European companies simply do not stand a chance against a price competition 40-30% below their best prices for equivalent quality products. The European supply chain will be the first to disappear; EU carmakers will eventually follow the same path.

Stopping immediately the Chinese expansion has become in 2026 the condition "*sine qua non"* of short-term survival for the European automotive sector and the first step in meeting the "Chinese challenge". The EC proposal for the IAA is not up to the task and must be amended to include ICE and HEV, to include auto-parts along cars and vans, to raise the bar to 80% for cars and vans, to exclude third countries outside the EU from the European preference.

[2] These estimations are made on the basis of a trade loss of €4 billion for each point of trade lost in total EU imports and equivalent to a 5-8% trade loss (with the implementation of the MiEU safety net in 2026) vs a 20-36% trade loss without such a safety net or with the current version of IAA.

Introduction: is the Industrial Accelerator Act up to the task?

The "Chinese challenge" is not an entirely new phenomenon. Europe faced in the past similar "challenges": the "American challenge" in the 1960s and the "Japanese challenge" in the 1980s. The questions raised by these past challenges were fundamentally the same: how to protect the domestic markets against fast growing imports and/or direct foreign production? How to catch up with the competitive advantage acquired by other countries in key strategic industries? How to navigate the structural crises generated by these competitive gaps and their trade consequences?

The answers found by Europe to successfully meet these challenges in the past were different bold combinations of trade, currency and industrial policies [3].

In the case of the booming Japanese car exports of the 1970 an eighteen years market quota was negotiated between 1981 and 1999, freezing the Japanese market share below 12%; a strict local content policy was forced upon Japanese FDIs in car manufacturing (80% minimum European content after two years of production); the value of the yen vis-à-vis Western currencies was almost doubled between 1985 and 1988 following the 1985 Plaza Accord agreement; and joint-ventures and cooperations were promoted to diffuse Japanese methods and "lean production" in the European automotive industry. This exceptional defensive approach proved very effective: even after the end of the quota in 1999, the market share of Japanese carmakers did not increase; most of Japanese sales in the Single Market are now made locally with high level of local content; and European carmakers successfully caught up with their Japanese competitors in term of cost and quality[4].

The "Chinese challenge" appears nevertheless significantly bigger and faster than the "Japanese challenge" and much more threatening precisely because Europe has been struggling so far in coming up with the same type of bold proactive and protective approach. We will focus here on the automotive sector, but similar conclusions can be reached for several other core European manufacturing sectors[5].

On the one hand, the expansion of Chinese exports and FDIs is exceptional in terms of speed, size and disruptive potential even by comparison with the "Japanese miracle" of the 1980s.

- It took 35 years to Japan to reach a peak trade surplus in automotive products of $150 billion in 2008 (Figure 9 below) and 15 years to start manufacturing cars in Europe after the beginning of exports to the Common Market in the early 1970s;

[3] Warlouzet, *The Rise of European Competition Policy, 1950-1991*; Jullien et al., 'The EU's Government of Automobiles: From "Harmonization" to Deep Incompleteness'; Ramirez Pérez, 'Automobile Standardisation in Europe. Between Technological Choices and Neo-Protectionism'; Ramirez Perez, 'Anti-Trust Ou Anti-US?'; Pardi et al., 'Made in Europe. Local Content Policy for the European Automotive Industry'; Pardi, 'Heavier, Faster and Less Affordable Cars'.

[4] Pardi, 'La Révolution Qui n'a Pas Eu Lieu : Les Constructeurs Japonais En Europe (1970-2010)'; Pardi, 'Lean Production in the Automotive Industry. Origin, Diffusion, Paradoxes, and Contradictions of a New Managerial Paradigm'.

[5] Thomas Grjebine et al., *L'industrie européenne face au rouleau compresseur chinois*; Kratz et al., *China and the Future of Global Supply Chains*.

- China surpassed the Japanese trade surplus in automotive products in just four years (from a trade deficit of $20 billion in 2020) and by the end of the decade, Chinese carmakers will have twice more car factories operating in Europe than Japanese carmakers.
- The Japanese automotive industry was already close to 100% capacity utilisation ratio by the early 1980s limiting the scope for further expansion;
- The Chinese automotive industry currently has a spare capacity of 28 million vehicles (more than twice the size of the EU new car market) or about 50% capacity utilisation ratio, and the same applies to the whole supply chain including battery manufacturing where spare capacity has been estimated at more than 500% in 2024[6].

On the other hand, Europe appears much more vulnerable to the "Chinese challenge" than it was fifty years ago to the "Japanese challenge":

- At the time, the USA was the most open market and the main target of Japanese trade expansion. Europe was protected by much higher tariffs, and European countries were able to negotiate individually Voluntary Exports Limitations (VLEs or quotas) with Japan in the 1970s to block exports, before a consensus was reached in 1981 to establish a European VEL[7];
- Today, Europe is the most open automotive market globally and the main target of Chinese trade expansion. Single European countries have no authority over trade and dispose of limited tools to protect their national markets[8] while the European Union has not been able so far to come up with a coherent response to the "Chinese challenge"[9].

To date the unique concrete European reaction has been the "exceptional" additional tariffs on the imports of Chinese battery electric vehicles and range extenders implemented by the EU in 2024. But even these modest tariffs (between 8% and 35% depending on the automaker when the international average is well above 50% and up to more than 100%[10]) have been met with strong resistance inside the EU. Germany and four other member states (Slovenia, Slovakia, Hungary and Malta) voted against their implementation at the EU Council level, twelve countries abstained and only France, Italy and eight other countries voted in favour. The VDA, which represents the interests of German automakers and automotive suppliers, officially denounced the tariffs. Daimler and BMW even joined the lawsuit brought by Geely, BYD and Saic to the European Court of Justice against the EU and what they have labelled "punitive duties".

The "Strategic Dialogue on the Future of the European Automotive Industry" launched in January 2025 by the European Commission was meant to reach a more consensual and ambitious view on how to address the "Chinese challenge", in particular via the introduction of local content policies to protect the European supply chain from aggressive Chinese economic dumping and avoid unfair competition from new Chinese

[6] Volta Foundation, *2024 Battery Report*.
[7] Pardi et al., 'European Regulations for an Affordable Sustainable (Battery) Electric Vehicle'.
[8] The French "Eco-score" can be seen here as an interesting exception. See also: Pardi et al., 'European Regulations for an Affordable Sustainable (Battery) Electric Vehicle', 59–66.
[9] Kratz et al., *Why Isn't Europe Diversifying from China?*
[10] Sebastian et al., *Ain't No Duty High Enough*.

assembly car factories in Europe[11]. After more than one year of tensed negotiations, the final result is neither consensual, nor satisfactory.

If the principle of "European preference" for new cars "Made in EU" has been finally introduced in the Industrial Accelerator Act (IAA) proposed by the European Commission on 4 March 2026, it only applies to electric and plug-in vehicles (currently less than 30% of new car sales), it does not include automotive parts, it is set at a low level (70% versus a current average level of 85%) and integrates as "Made in EU" also auto-parts imported from third countries with which the EU has free trade agreements.

The detractors of the IAA, led by Germany, will see it as a dangerous departure from the multilateral free trade principles that have guided the EU trade and competition policies since at least the creation of the Single Market. The promoters of the IAA, led by France, regret a policy largely stripped of its substance and too much limited in scope. Due to these conflictual views, the IAA has already undergone more than 40 different drafts and its announcement has been postponed several times for lack of consensus. The EC proposal must now go through another round of discussions and negotiations at the European Parliament before being made into law by the EU Council and we can expect more twists and turns.

The purpose of this report is to bring some clarity in this confused and confusing debate. The starting point of this research is that an "European consensus" on how to deal with the "Chinese challenge" should not be based on political compromises between diverging doctrines, interests and views but on a clear, fact based and data driven understanding of the nature, timing and consequences of the "Chinese challenge" and of the most effective way of addressing it.

Concerning the IAA this means questioning the rationale behind what has been proposed by the EC:

- Why excluding ICE and HEV from the European preference? Is it because these types of vehicles do not need to be protected from fast growing Chinese imports of cars and auto-parts? Or is it because it would not be "reasonable" to include ICE and HEV in European policies aiming at decarbonising industries?
- Why 70% local content for electric vehicles (in 2027 and 75% in 2030)? Is it because this is the most effective level to guarantee a "safety net" for the European supply chain while avoiding inflationary pressures? Or is it just because it is a "reasonable" average between what carmakers (60-70%), on the one hand, and suppliers (75-80%), on the other hand, have demanded?
- Why are there no local content requirements for auto-parts? Is it because there is no need to protect second tier suppliers from Chinese imports and competition? Or is it because second tier suppliers are not powerful enough to obtain such a protection from the EC?
- Why including third countries in the "Made in the EU" perimeter? Is it because Europe already dispose of effective controlling mechanisms to avoid circumventing strategies from Chinese carmakers and suppliers via these third countries or is it because it would be "unreasonable" to do otherwise when the EU has recently negotiated key free trade agreements with Mercosur and India?

[11] Pardi et al., 'Made in Europe. Local Content Policy for the European Automotive Industry'.

The IAA proposal made by the EC does not contain any reply to these questions, and more surprisingly, even the 307 pages of the impact study do not reply to most of them.

Is the IAA in its current form up to the task of meeting the "Chinese challenge" or is it just a "reasonable" and "acceptable" proposal given the lack of consensus inside the EU?

This report is meant to contributing to this debate by putting forward a more ambitious proposal than the current version of the IAA, and by explaining a) why we think that such a proposal is required to meet the "Chinese challenge" and b) how it can be quickly and effectively implemented by the EU and by the companies concerned.

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The first section develops a synthetic analysis of the ongoing crisis of the European automotive sector and of its implications for carmakers, automotive suppliers and automotive countries and regions. It provides a measure of the current low level of resilience of the automotive industry and supply chain and explains why the crisis is structural and makes the European automotive industry, and in particular its supply chain, extremely vulnerable to the "Chinese challenge".

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The fifth section presents a roadmap to implement rapidly and effectively the "Made in EU" label in European policies and regulations in the next three years starting from the amended version of the IAA:

- In the CO2 new standards for cars and vans (Q2-Q3 2026);
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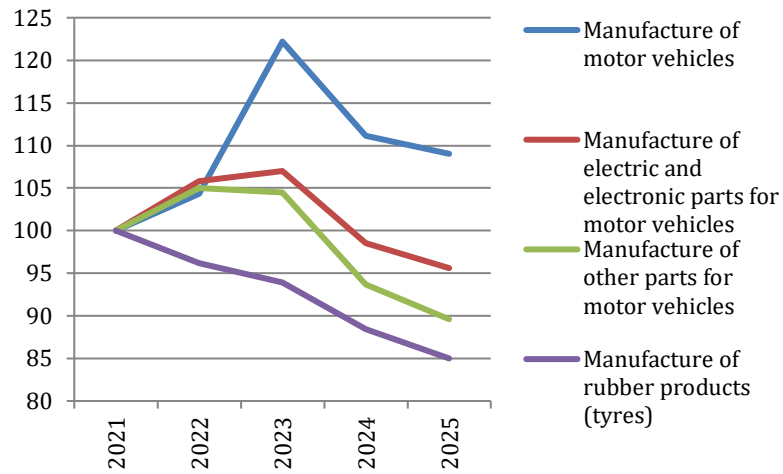
- In the European's procurement plan (Q2 2026);
- In the greening corporate fleets' regulation (Q1-Q2 2026);
- In the small affordable car initiative (Q1-Q2 2026);
- In the Clean Deal state aid framework (Q2 2026);
- In the FDI screening and subsidies regulations (Q2 2026).

1. The perfect storm: the future of the European automotive industry is under threat

Since 2024 the European automotive industry has fallen into a state of structural crisis that has deepened in 2025. Automotive suppliers have been hit earlier and harder than carmakers (figure 1) and are now facing a perfect storm. On the one hand, they have been affected (much more than carmakers) by the cumulative impact of the Covid 19 crisis of 2020-2021, of the chip shortage crisis of 2021-2022 and of the energy prices inflation crisis of 2022-2023. On the other hand, they are now confronted with fast increasing imports from China, whose exponential growth represents an existential threat for their short-term survival.

Figure 1. Production index of the automotive industry (EU 27) – Carmakers and suppliers

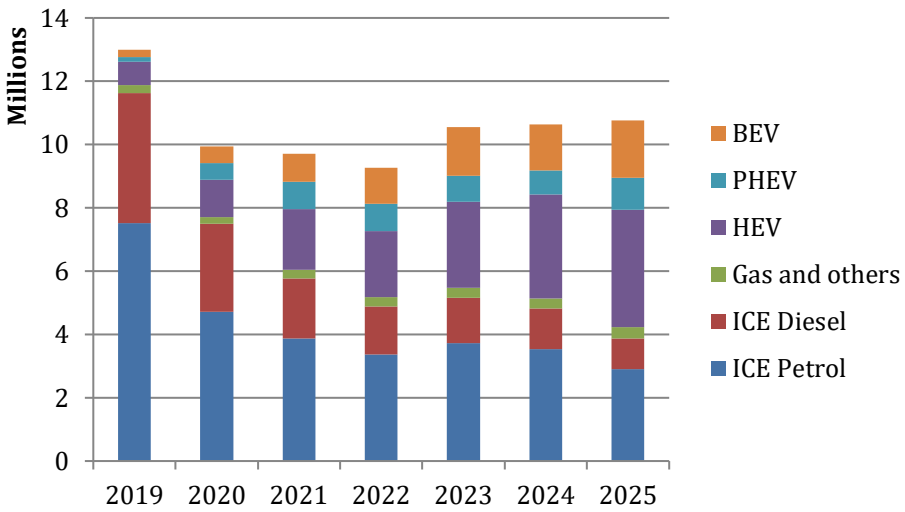


Source: Eurostat, Sold production, exports and imports.

1.1 Why automotive suppliers have been hit earlier and harder than carmakers?

Contrary to all the other major markets for new cars, the European market has not recovered its pre-Covid level of sales. Sales collapsed in 2020 due to the Covid crisis, and did not recover in 2021 and 2022 due to the chip shortage crisis. In 2023 market conditions were back to normal, but sales did not fully recover and remained in 2024 and 2025 18% below their pre-Covid average level.

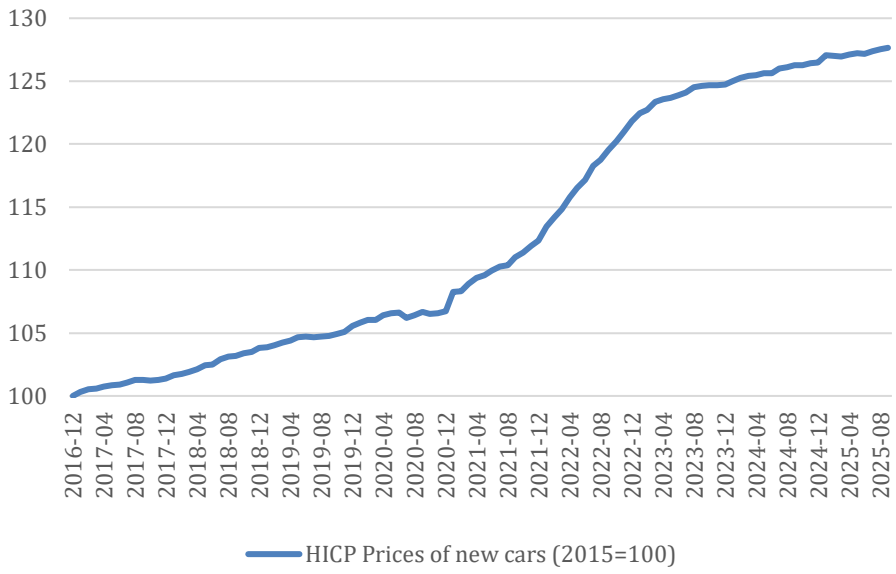
Figure 2. Sales of new cars by energy type (EU 27) 2019-2025



Source: Eurostat, Sold production, exports and imports.

The main reason why the European market for new cars has not recovered its pre-covid level is that the prices of new cars have increased in Europe much more and for a longer period than in any other market (figure 3).

Figure 3. Monhtly inflation in prices of new cars (base 100 – 12/2016)



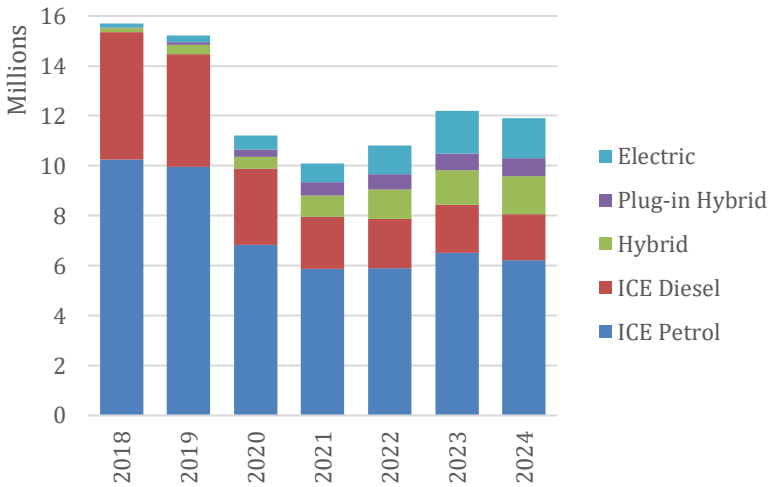
Source: Eurostat, HICP – monthly data

This extraordinary inflation started well before the Russian invasion of Ukraine and the beginning of the energy prices inflation in 2022. Between January 2021 and February 2022, the average monthly inflation in prices of new cars (EU27) was already four times higher than the average of the previous five years (2016-2020). Following the collapse of sales due to the Covid crisis, demand rebounded in 2021, but due to the chip shortage crisis started at the end of 2020, supply could not follow. Carmakers took advantage of this situation of higher demand than supply to increase their margins and shift their sales upmarket. The concept of "pricing power" was then widely but mistakenly used to justify these much higher than usual margins, which were in fact due to this exceptional and temporary configuration.

In 2022 and 2023, the chip supply crisis continued and was compounded by the energy price crisis triggered by the Russian invasion of Ukraine in February 2022. Energy price inflation was particularly severe in Europe due to its high dependence on Russian gas and oil. Between February 2022 and April 2024, the average monthly inflation in prices of new cars jumped to five times higher than during the period 2016-2020.

A study by the IMT[12] based on the French market shows that only one fourth of the average € 6800 price increase (+24%) in retail prices of new cars between 2020 and 2024 was due to the impact of energy, commodity prices and labour costs inflation, while three quarters were due to the combined effect of upmarket shift (both in ICE and electrified vehicles) and "pricing power".

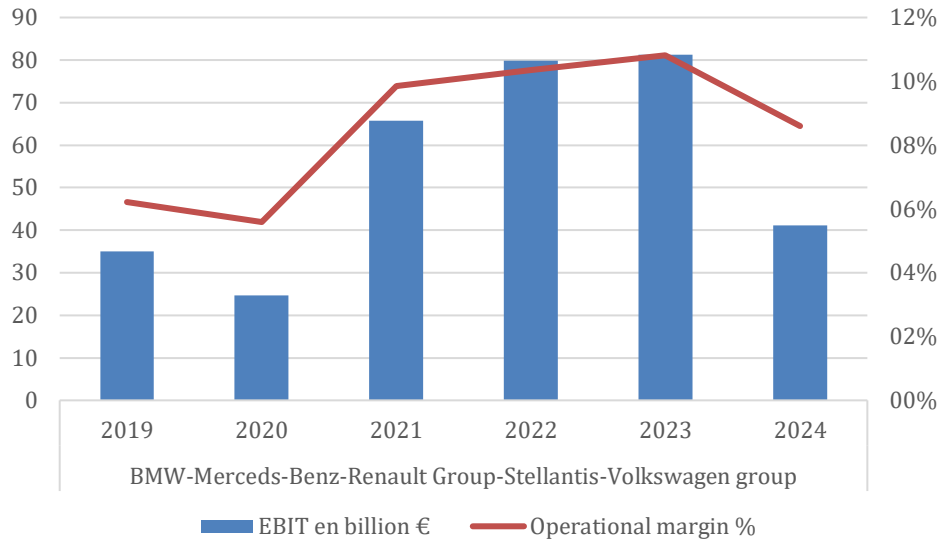
Figure 4. Car production volumes by energy type (EU 27)



Source: Eurostat, ds-056120 Sold Production.

[12] Hermine and Dupont-Roc, 'What Has Really Driven the Rise of Vehicle Prices between 2020 and 2024'.

Figure 5. Annual EBIT and operational margin of European car groups (2019-2024)



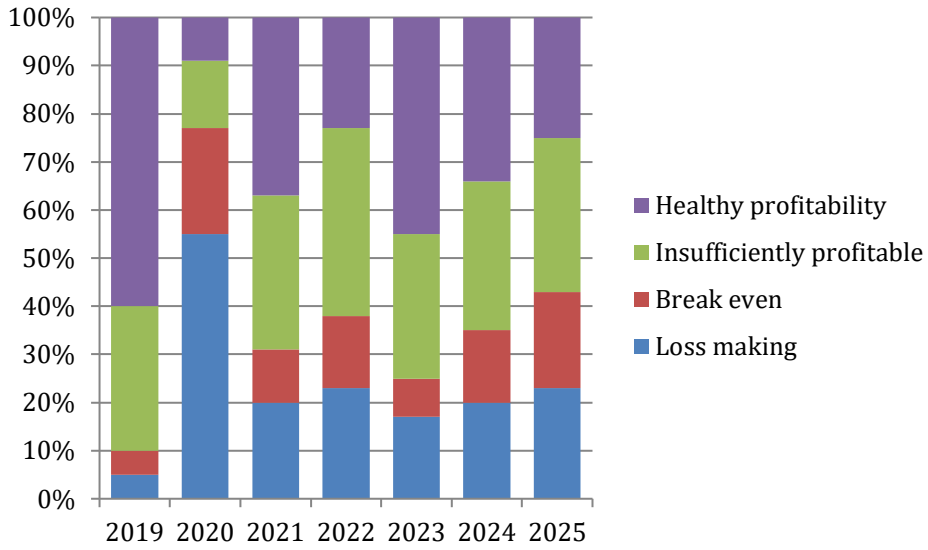
Source: Annual accounts of Carmakers.

This exceptional increase in new cars prices, driven mainly by higher margins passed by the carmakers to consumers between 2021 and 2023, explains why the European production of new cars has not recovered its pre-Covid level and was still in 2024 22% below this level (figure 4). It also explains why during this period, despite this reduced volume of production, European carmakers have been exceptionally profitable. On average, their operational margin doubled in the 2021-2023 period floating above 10% by comparison with 5-6% during the 2016-2019 period (Figure 5).

By contrast, European automotive suppliers had to cope with all the consequences of these cumulative crises further exacerbated by the pricing strategy of carmakers, resulting in lower volumes of production and higher production costs, without any compensation.

The bi-annual CLEPA-McKinsey survey of European automotive suppliers (Figure 6) shows that their average profitability collapsed in 2020, and remained significantly below the 2019 level in 2021 and 2022 when 77% of the companies surveyed declared an operational margin below 5%. If in 2019 only 5% of the companies surveyed were unprofitable, in 2022 this share was almost five times higher (23%). After a modest improvement in 2023, following the initial rebound of the production volumes with the end of the chip shortage crisis, the financial situation of European automotive suppliers significantly worsened again in a context of stagnant/declining production volumes in 2024 and 2025.

Figure 6. Automotive supply industry profitability survey (2019-2025)



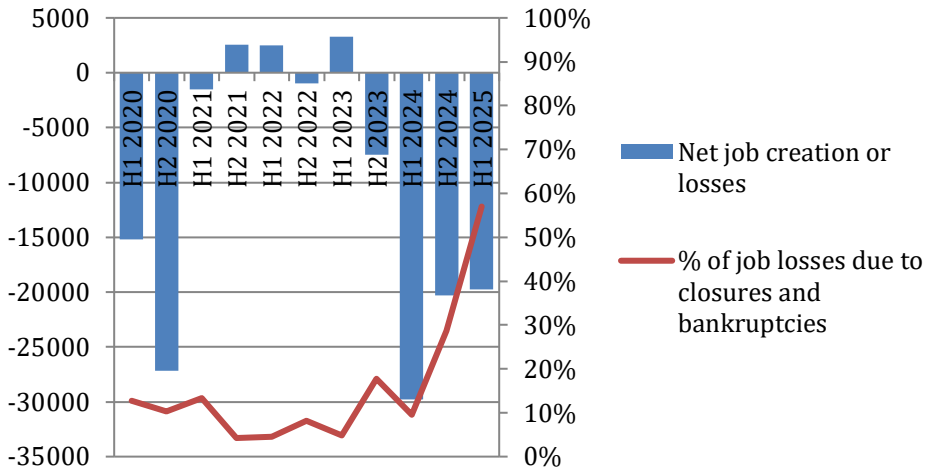
Source: CLEPA-McKinsey Pulse Check (2019-2025).

Fast declining profitability from already low levels was driven, first, by the impact of the energy prices crisis, with 71% of the companies surveyed stating no or little compensation from carmakers for rising energy and freight costs (03/2025), and then by increasing direct price competition from China, which by 2025 concerned a large majority of the companies surveyed (69%) with only 17% of them stating that they were still able to compete with Chinese competitors on price[13].

With 62% of the companies surveyed declaring suffering from overcapacity and unsustainable fixed cost, it is not surprising that the amount of job losses announced in 2024 (54,089) by European automotive suppliers (figure 7) was even higher than in 2020 (42,400), when production collapsed due to the Covid 19 crisis. Also contrary to the period 2020-2023, an increasing amount of these announcements was due to closures and bankruptcies, which represented in 2025 57% of the job losses announced vs 12% in 2020 when they were mainly due to internal restructuring (figure 7).

[13] Source: https://www.clepa.eu/pulse-check/loss-of-eu-competitiveness-geopolitical-uncertainty-and-imports-from-china-continue-to-suppress-supplier-sentiment/

Figure 7. Net job creation or losses announcements in the European automotive supplier industry (2020-2025)



Source: Eurofund database.

Of the 113,930 net job losses announced (net of job creations) between 2020 and 2025, 61% were made in the last 18 months (01/2024 – 06/2025) and 62% were made in Germany, which was the main country concerned by this massive restructuring. The German automotive suppliers were hit not only by fast increasing imports from China (as anybody else in the industry), but also by fast declining exports to China, which was less a factor in the decline of production volumes in other European countries.

Table 1. Job losses announcements in the European automotive suppliers by country (2020-2025)

	2020-2025 Job losses announcements	Country share
Total	127192	100%
Germany	83032	65%
Poland	6472	5%
France	5652	4%
Spain	3740	3%
Czech Republic	3291	3%
Slovakia	2525	2%
Romania	2218	2%
Italy	1159	1%

Source: Eurofund.

To grasp the full scope of the employment crisis, it is important to keep in mind that the Eurofund database tracks only the announcements of job losses and creation made in the press. It does not account for job losses due to the restructuring of small companies, the non-replacement of retiring workers and the reduction of temporary employment.

If we take France as an example, the actual number of permanent jobs lost in the automotive supplier sector during the period 2020-2024 was almost three times higher than the job losses announced in the Eurofund database (Table 2). If we include the reduction in the number of temporary workers employed in the French automotive sector during this period (23%), with two thirds of them being employed in the supplier sector, the total amount of permanent and temporary jobs lost in France was four times higher than those recorded in the Eurofund database. At the European level, this would result in no less than 400,000 direct jobs lost between 2020 and 2024.

Table 2 Job losses in automotive suppliers in France – Eurofund job losses announcements, ACOSS permanent jobs losses, INSEE reductions in temporary workers (2020-2024)

	2020-2024	In %
Eurofund job losses announcements	-5652	
Permanent job losses	-13351	-11%
Reduction in temporary workers employed in the automotive industry (70% employed by suppliers)	-10441	-23%

Sources: Eurofond, ACOSS/URSAFF, INSEE.

The challenge of electrification becomes an uphill battle

The interplay between the cumulative impact of these three "back-to-back" crises and the on-going rapid transition towards electrification started in 2020 and accelerated by the 2022 "fit for 55" amendment to the EU CO_2 regulation, adds an additional layer of difficulties for automotive suppliers.

Electrification represents a major challenge for the European automotive sector: an electric vehicle contains less parts and components than an ICE vehicle and several of the components specific to EVs (batteries and power electronics) are currently mainly imported from Asia. In order to cope with the phasing out of ICE technology and the shift towards EVs, automotive suppliers must invest in new product and process technologies and in the reskilling of their workforce. The continuous erosion of their profitability since 2022 makes these investments increasingly difficult. Even for the shrinking minority of companies that have preserved a "healthy profitability", there are major uncertainties concerning future demand and contracts. In the absence of policies that address the consequences of these cumulative crises, and guarantee protection against increasing Chinese price competition, automotive suppliers delay or suppress these investments or they divert them towards other markets.

According to Oxford Economics the ratio CAPEX-to-sale of the European automotive supply industry has steadily declined from 13% in 2021 to 10% in 2023 and currently stagnates at 10,4% (source: CLEPA/Oxford Economics). Furthermore, in the last CLEPA-McKinsey Pulse Check survey (27/11/2025) only 10% of the companies surveyed were

planning to expand and invest in Europe, against 49% in North America, 42% in Asia and 35% in China[14].

From crisis to crisis: the Chinese wave is next

The European automotive supplier industry clearly bore the full brunt of the cumulative crises that have shaken the sector since the Covid pandemia. The number of jobs lost, factory closures and bankruptcies recorded in the last two years (2024-2025) is unprecedented even by comparison with the impact of the 2008 financial crisis or of the 2020 Covid crisis. Margins have been eroded below sustainable levels at the time when significant investments are needed to cope with the shift towards EVs and digitalisation. The whole sector is already sailing through a perfect storm and fighting for survival. The problem is that the biggest wave is yet to come at the very moment when the outbreak of the Third Gulf War by the United States and Israel is set to trigger a new energy crisis following that of 2022.

[14] Source: https://www.clepa.eu/wp-content/uploads/2025/11/CLEPA-Pulse-Check_Nov-2025-PR-.pdf

2. The great China divergence: from Eldorado to steamroller

> « Once China joined the WTO, the boundaries of trade and security began to diverge. We had always traded beyond the alliance, but never before with a country of such scale, and with ambitions to become a separate pole itself. Some states pursued absolute advantage through mercantilist strategies, forcing deindustrialisation onto others, while the gains that remained were unequally shared. At the same time, deep integration created dependencies that could be abused when not all partners were allies. Interdependence, once seen as a source of mutual restraint, became a source of leverage and control. We face a China that controls critical nodes in global supply chains and is willing to exploit that leverage: flooding markets, withholding critical inputs, forcing others to bear the cost of its own imbalances. » (Mario Draghi, The Foundation of New Europe, February 2026).

The concept of "great divergence" has been first used to describe the extraordinary economic growth and development of the Western world in the XIXth and XXth centuries relative to all the other world economies, and in particular to China, whose economic development was on par with the Western world until the XVIIIth century before falling behind[15]. We are now witnessing a second "great divergence" where China, and not the Western world, is developing and growing at astonishing speed, and where the Western world, and not China, is falling behind.

The faster economic growth of China relative to Western economies is not a recent phenomenon. Since the early 2000s and the entry of China in the WTO, the Chinese share of world manufacturing production steadily increased, from 5% in 1995 to 10% in 2005, 22% in 2010 and 35% in 2015. During the same period the share of world manufacturing production of the EU declined from 26% (1995) to 15% (2015) and the share of the USA from 21% to 13%.

However, during this period most of the growth of Chinese manufacturing production was driven by Western multinational companies, which also retained the control of the technologies and captured most of the value added and profits generated by the booming exports of "made in China" products.

L'exemple des iPhones ou quand la Chine était « seulement » l'usine du monde

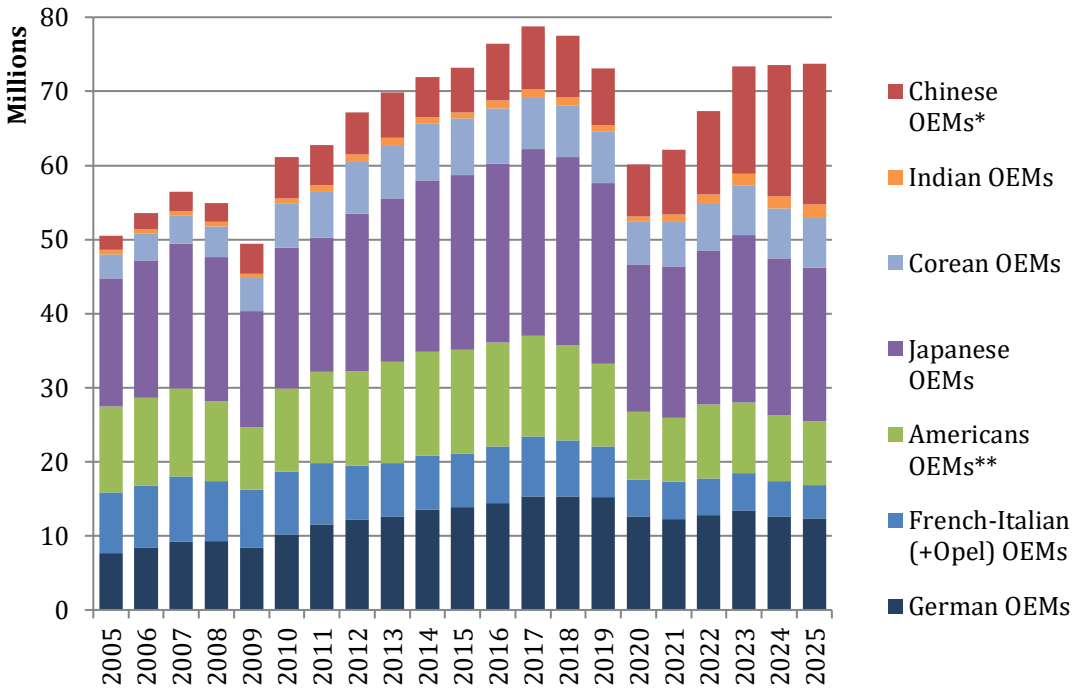
Consumer electronics and smartphones illustrate well this dynamic. For instance, in 2017, China exported $16 billion of "iPhones 7" to the US, but only $0,5 billion of this value (equal to 3% of the factory cost) went to China[16]. Based on an average retail price of $649, Apple was able to extract a gross profit of $19 billion from the sale in the US of these "made in China" iPhones. Apple was one of the most prominent examples amongst many others of the so-called "fabless" companies exploiting China as an ultra-low-cost export hub for manufacturing computers, consuming electronics, toys, games, sport tools, apparel, textile, furniture, household appliances and so on.

[15] Pomeranz, *The Great Divergence*.

[16] Dedrick et al., 'We Estimate China Only Makes $8.46 from an iPhone—and That's Why Trump's Trade War Is Futile'.

The case of the automotive sector is different. China became during this period the biggest and most profitable market of new cars for Western automotive companies. This has been also the case for several other strategic sectors such as machine tools, industrial robots, mechanical, electric and electronic parts, other transport equipment, etc.

Figure 8. Global car production by national group of carmakers (2005-2025)



Source: Inovev; *The joint ventures with Western companies are not included.

Between 2005 and 2017, the global production of cars increased by 28 million units (or 53%) and almost all this growth occurred in China (22 million units). Global Western carmakers captured most of it. By 2017, Western carmakers controlled 60% of Chinese car production in volume (14 million) and significantly more in value. German carmakers in particular produced 4,9 million cars (32% of their global production) and made about 45% of their total profits in China. By contrast, Chinese carmakers were still specialized in low-cost entry-range cars with relatively low production volumes, fragmented market shares and low margins[17]. In 2017, the New Energy Vehicle (BEVs and PHEVs) sector was still almost non-existent in terms of production volumes (648,000, 2.3% market share), and China was a net importer of automotive products for $30 billion.

Retrospectively, it was difficult at the time to realize that this was the tipping point before the end of the Chinese "Eldorado" for Western carmakers and the rapid global expansion of Chinese carmakers at home and abroad. Two years later, in 2019, before the Covid crisis, the NEV sector nurtured by the Chinese Communist Party's comprehensive industrial policies and strategic regulations had grown to 1.5 million and a 6% market share almost completely controlled by Chinese private owned carmakers. When in 2023, global production volumes of new cars recovered their pre-Covid level, the NEV sector had grown to 8 million and 38% market share and Chinese carmakers had doubled their

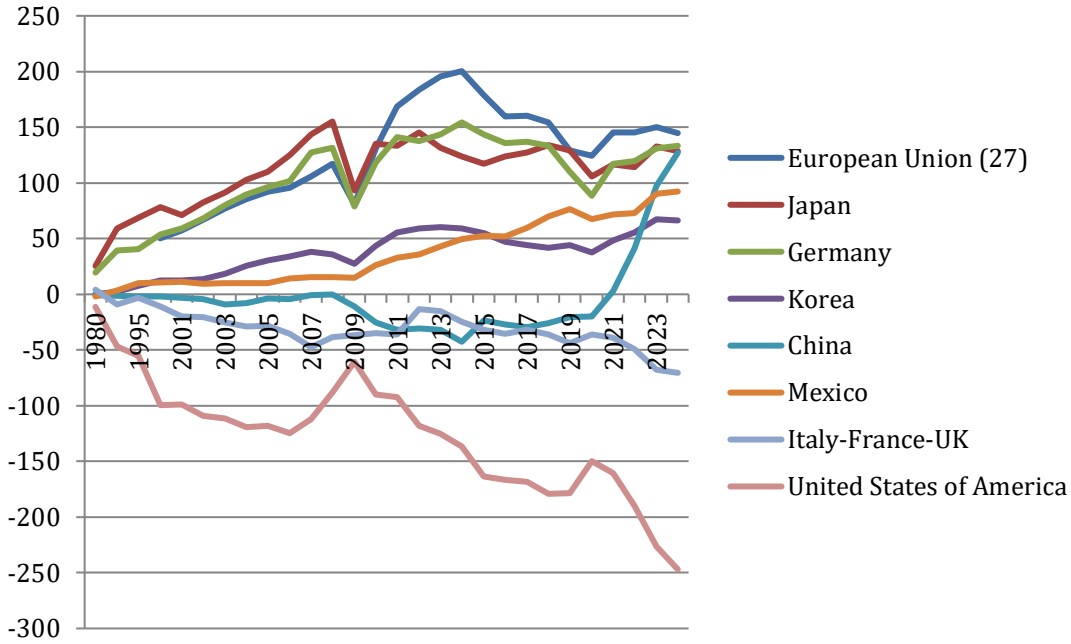
[17] Smitka, 'China's Auto Industry'; Wang and Kimble, 'Leapfrogging to Electric Vehicles'; Wang et al., *Geely Drives Out*; Balcet et al., 'Geely'.

volume of production (from 7 to 14 million) also starting expanding abroad via rapid increasingly exports and FDI. By 2025, the NEV sector has already surpassed the ICE sector in China (12 million vehicles per year and 54% market share) and the Chinese owned automotive industry has become the main global exporter of automotive products. Its share of global car production has grown from 10% in 2017 to 26% in 2025 while during the same period the share of European carmakers declined from 30% to 23%.

2.1. Europe has become the main global destination of Chinese automotive exports

By its scope and speed, the growth of Chinese exports globally has been exceptional. The trade balance of China in automotive products has grown from a deficit of 20 billion dollars in 2020 to a surplus of 127 billion dollars in 2024 (187 billion dollars including batteries). Even when compared with the fast growth of Japanese exports in the 1980s and Korean exports in the 2000s, the speed at which China has become the global leader in the export of automotive products is unprecedented (Figure 9).

Figure 9. Trade balance in automotive products (excluding batteries) of the European Union and main automotive countries (1980-2024)



Source: WTO

This exceptional growth in Chinese exports, which is not specific to the automotive sector but concerns almost all manufacturing products even if a different degree[18], has triggered an exceptional wave of protectionist policies (Table 3). Almost all the major markets for new cars have increased their tariffs on the imports of new cars and auto-parts from China above 30% and up to 100% for the US, Canada and India (on BEVs and amongst others).

[18] Camille Boullenois and Agatha Kratz, *If Not Tariffs, Then What?*

Table 3. Tariffs towards Chinese ICE and BEV

	ICE-PHEV	BEV
India	**70 %**	**100 %**
USA	**27,50 %**	**100 % + IRA**
Canada	**6,10 %**	**100 % → 6,10% (+quota)**
Mexico	**50%**	
Turkey	**50 %**	
Russia	**15 % + recycling fees (taxes)**	
EU	**10 %**	**+8-35 % (2024)**
Brazil	**35% %**	
Argentina	**35 %**	
UK	**10 %**	

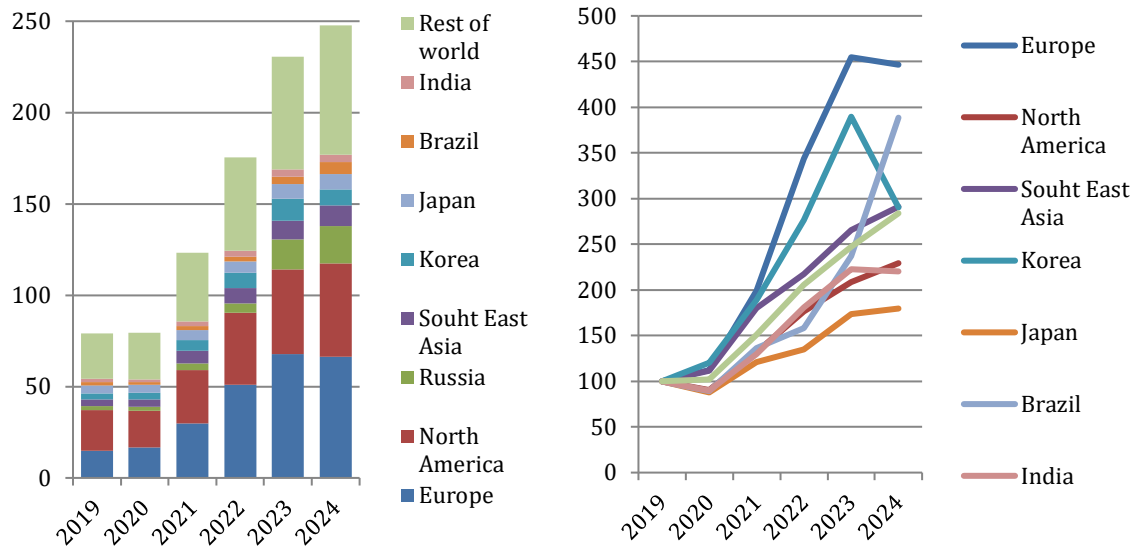
Source: WTO.

Also, between 2019 and 2024, the average number of local content policies implemented annually in the automotive sector to protect national supply chains has almost tripled by comparison with the period 2009-2018, and on average 16% of these policies targeted the automotive sector[19]. In this generalised convergence towards de-risking and de-coupling policies towards China to sustain national strategic industries and preserve industrial and technological sovereignty, the EU has remained the main exception.

The EU represented less than 1% of the local content policies implemented globally between 2009 and 2024[20]. The additional-tariffs introduced in 2024 on the imports from China of BEVs and range-extenders (8-35% depending on Chinese groups) have certainly marked a shift in the European doctrine towards Chinese automotive exports, but remain nonetheless modest by international comparison[21]. The tariffs on auto parts (3,5%-5%) and batteries (1,8%), by contrast, have not been revised and are amongst the lowest globally. The EU clearly stands out as the biggest and most open regional market to Chinese exports of automotive products.

[19] Pardi et al., 'Made in Europe. Local Content Policy for the European Automotive Industry'.
[20] Pardi et al., 'Made in Europe. Local Content Policy for the European Automotive Industry'.
[21] Sebastian et al., *Ain't No Duty High Enough*.

Figure 10. Chinese automotive exports in value (billion €) and in base 100=2019 by main destinations



Source: OECD

If in 2019, Europe represented "only" 19% of the total Chinese exports of automotive products (including lithium-ion batteries), five years later this share has grown to 27%. Despite its crisis, relative to other global markets for new cars, the European market has absorbed 31% ($52 billion) of the exceptional growth of Chinese automotive exports between 2019 and 2024 ($169 billion). This is more than the combined share of North American (US, Canada and Mexico – 17%), Korean (3%) and Japanese (2%) markets together (22%). Overall, Chinese exports of automotive products to Europe have increased by 347% during this period, against 191% in ASEAN countries and Korea, 129% in North America and 80% in Japan (table 3).

Table 4 Chinese automotive exports by main destinations (2019-2024) – total, new cars and auto parts in value (billion €)

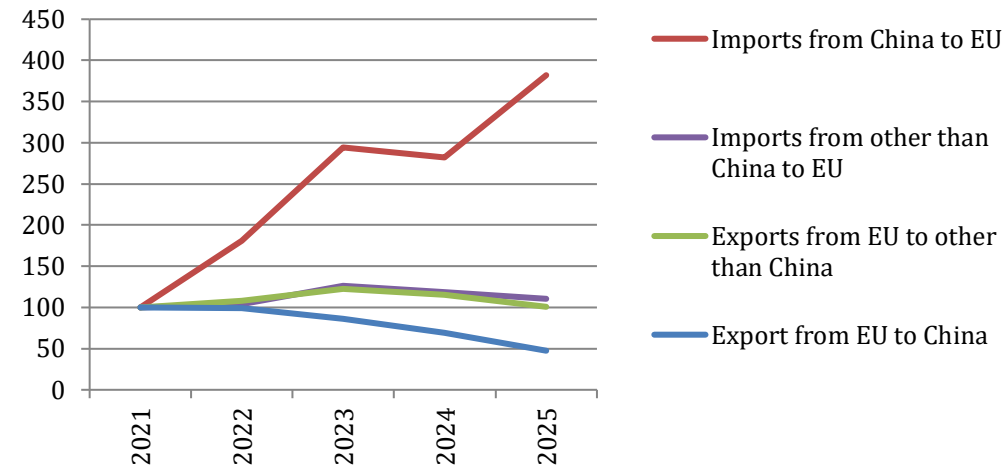
		2019	2020	2021	2022	2023	2024	Share in total Chinese exports (2024)	Share in total growth of Chinese exports (2019-2024)	Growth of Chinese imports (2019-2024)
Europe	All + batteries	14,879	16,660	29,650	51,167	67,658	66,492	27%	31%	347%
	new cars	974	1,875	6,883	14,367	22,569	22,520	25%	26%	2213%
	auto parts	9,713	9,224	12,503	13,994	15,205	17,288	20%	23%	78%
North America	All + batteries	22,284	20,135	29,318	39,337	46,515	51,090	21%	17%	129%
	new cars	2,541	1,960	3,239	5,282	8,854	10,301	11%	9%	305%
	auto parts	17,029	14,993	19,949	22,165	20,937	21,900	26%	15%	29%
Russia	All + batteries	2,071	2,005	3,721	4,862	16,372	20,384	8%	11%	884%
	new cars	376	409	1,193	1,683	11,659	15,210	17%	18%	3945%
	auto parts	1,508	1,399	2,262	2,829	4,249	4,683	5%	10%	210%
South East Asia	All + batteries	3,891	4,344	7,000	8,468	10,340	11,325	5%	4%	191%
	new cars	139	128	332	742	2,795	2,527	3%	3%	1724%
	auto parts	2,321	2,163	3,266	3,893	3,600	4,118	5%	6%	77%
Korea	All + batteries	3,035	3,647	5,729	8,385	11,826	8,814	4%	3%	190%
	new cars	82	63	149	330	845	1,529	2%	2%	1773%
	auto parts	1,735	1,960	2,433	2,634	2,989	3,239	4%	5%	87%
Japan	All + batteries	4,603	4,041	5,563	6,200	7,999	8,267	3%	2%	80%
	new cars	35	24	209	356	620	869	1%	1%	2376%
	auto parts	3,743	3,050	4,006	4,169	4,905	5,026	6%	4%	34%
Brazil	All + batteries	1,691	1,510	2,311	2,675	4,011	6,573	3%	3%	289%
	new cars	206	197	332	366	1,570	3,520	4%	4%	1608%
	auto parts	1,202	999	1,597	1,835	1,959	2,491	3%	4%	107%
India	All + batteries	1,856	1,665	2,413	3,354	4,133	4,090	2%	1%	120%
	new cars	51	30	41	61	110	114	0%	0%	123%
	auto parts	926	848	1,151	1,229	1,374	1,451	2%	2%	57%
Rest of the world	All + batteries	24,907	25,465	37,630	51,141	61,657	70,704	29%	27%	184%
	new cars	3,989	4,710	10,957	19,374	27,117	33,893	37%	36%	750%
	auto parts	14,801	14,508	18,506	21,919	24,035	25,259	30%	32%	71%

Source: Balanced international merchandise trade statistics (BIMTS) - HS2017-4D (OECD).

2.2. Cars: the additional tariffs are not high enough

The introduction of exceptional additional tariffs (8%-35%) in 2024 on the imports of Chinese BEVs and range-extenders was expected to reduce the number of Chinese cars imported in Europe. Clearly this has not been the case. In 2025, Chinese imports of new cars in Europe (EU27) have remained stable in value (around €13 billions) but their total amount in kg has increased by 55% while the market share of Chinese brands has doubled to 6% (8% if we include Volvo owned by Geely) and was already above 10% in several key European markets (Italy, Spain and the UK).

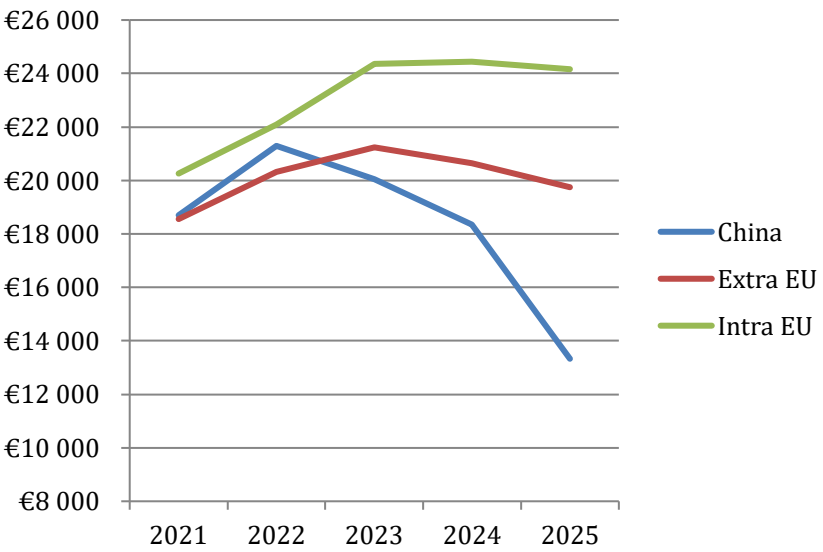
Figure 11. Motor cars imports and exports of the EU (kg, base 100 - 2021)



Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8

Overall, the quantity of imports of new cars from China has almost quadrupled between 2021 and 2025 (+382%) while exports of new cars from the EU to China has halved both in quantity (-53%) and value (-52%).

Figure 12. Average value of 1,500 kg of car imports to the EU



Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8

This continued penetration of Chinese imports of new cars in the Single Market has been driven by extremely aggressive pricing: on average the value of a 1,5-ton car imported from China to Europe has dropped by 27% (-€5 021) between 2024 and 2025. The already substantial gap in value that existed with an equivalent car imported between European countries has increased to about €11 000 from €6 000 in 2024 (figure 11).

Chinese cars have certainly become more competitive in terms of technology, quality and price. Nevertheless, it is also clear that China is increasingly exporting overcapacity and price war via economic dumping.

China price wars and overcapacity are now directly exported to the EU

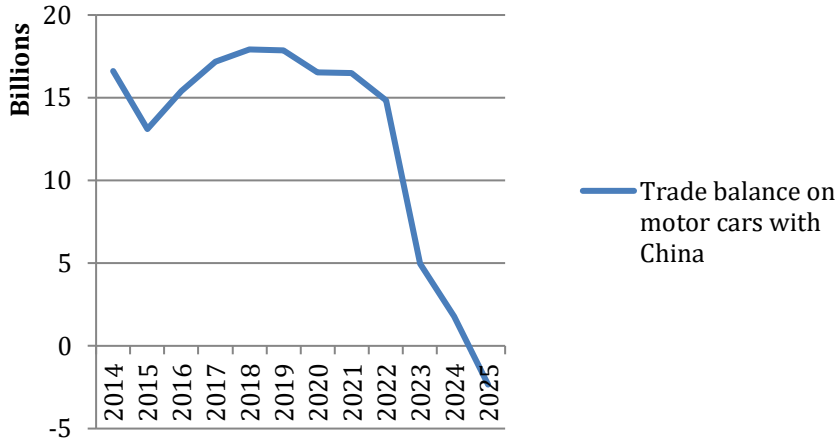
Between 2020 and 2025, the passenger vehicle gross margin in China has dropped from over 7,5% to 4,5%[22], the average Chinese cars' selling price has tumbled from $30,640 to $24,320[23] while overcapacity has grown from 40% to almost 60%. In 2025, China had a record idle capacity of about 28 million vehicles and yet new capacity is still added as all the main regional governments and their respective automotive "champions" keep burning cash to fight for market shares while new players keep entering the market.

NIO, a company created in 2014, is a good example of the former: once a private company, NIO has been bailed out twice by the Anhui provincial government; it keeps losing money, but it is still expanding capacity by introducing new brands (Firefly and Onvo in 2025) and moving into lower-price segments. All the State Owned Companies such as FAW, GAC, BAIC, Changan, Dongfeng, SAIC and their joint ventures with Western Carmakers, also belong to this group: they carry huge overcapacities in ICE production (whose share of the Chinese market has fallen from 95% in 2020 to 45% in 2025) while they invest massively to create new capacity for the New Energy Vehicles market, where, despite these efforts, their combined market share stagnates since 2021 below 20%.

New Telecom car companies, such HIMA (Huawei) and the car division of Xiaomi are good examples of the latter: they have started production in 2022 (HIMA) and 2024 (Xiaomi) and yet they have already taken, respectively, 9% and 5% of the NEV market, which is 5 times more than the combined market share of all German brands. BYD, the main winner so far of the on-going price war, also belongs to this group: originally a manufacturer of batteries for smartphones, and later for cars, BYD entered the NEV market only in 2020, with a market share below 1%, and in 2025 has grown up to 15% market share and has become the main global producer and exporter of EVs ahead of Tesla.

[22] Smitka, 'Restructuring China's Auto Industry'.
[23] Hamlin, 'China's Carmakers Are Heading for a Crash'.

Figure 13. Trade balance of the EU on cars - with China (€)

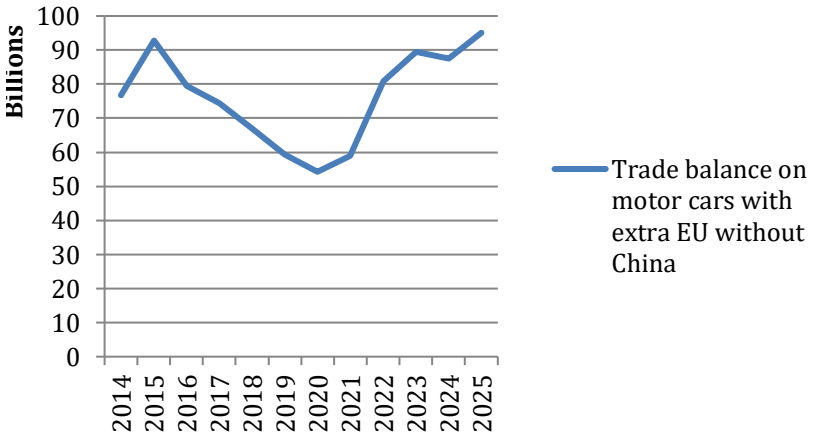


Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8. * 2025 data has been extrapolated on the basis of h1 trends

The consequences for European Carmakers of this unsustainable spiral of fierce price war and growing overcapacity are clear. In China their market shares are crumbling - from 27% in 2020 to 13% in 2025 for German brands. What used to be their main profits (about half of the VW group's EBIT was made in China between 2015 and 2018, for Mercedes and BMW was between 30% and 40%) are now thinning or even turning into losses while exports from Europe to China are vanishing.

As a result, the substantial surplus that the EU still had in the trade of new cars with China only four years ago (€15 billions in 2022), has tumbled to a deficit of €2,5 billions in 2025 (Figure 13). It is interesting to note that with all other countries than China, the European automotive industry has remained competitive despite the energy prices inflation crisis, with a record trade surplus of €95 billions achieved in 2025 (figure 13).

Figure 14. Trade balance of the EU on cars - with other extra EU countries than China (€)



Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 / * 2025 data has been extrapolated on the basis of h1 trends

Yet, European carmakers, even with the protection of the exceptional tariffs introduced in 2024, cannot compete against Chinese brands' aggressive price competition driven by

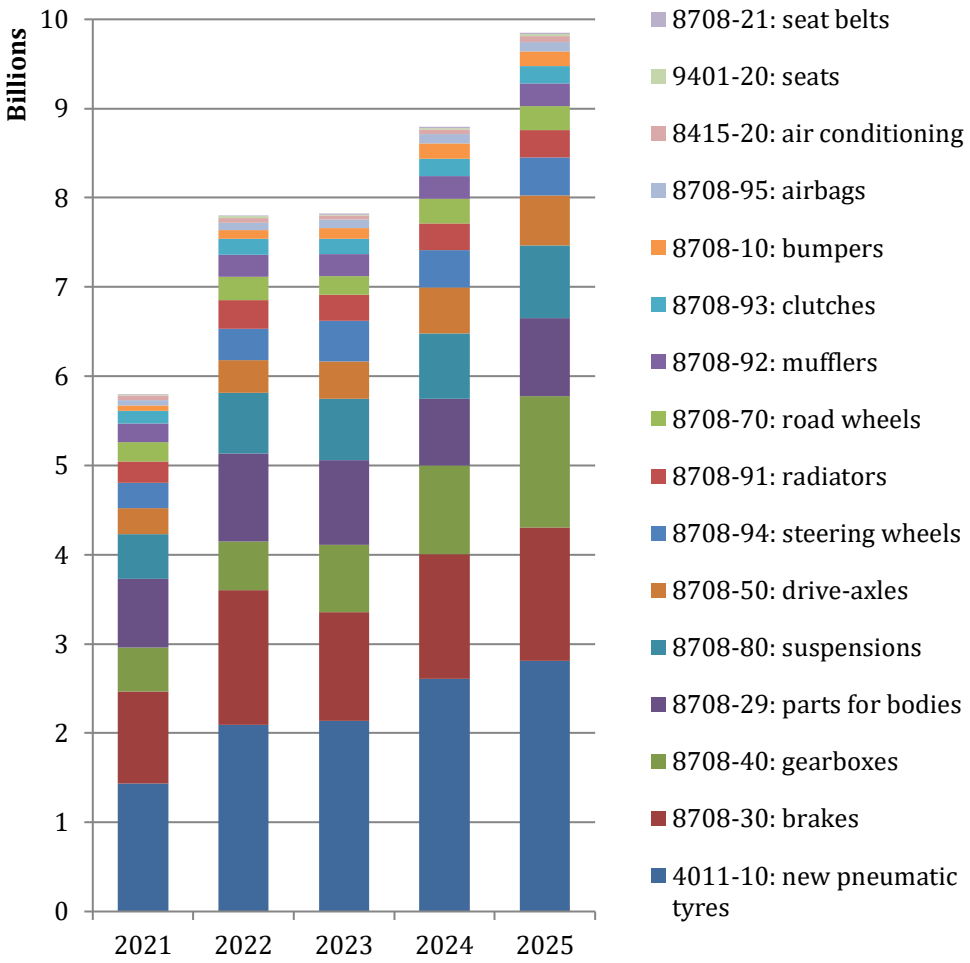
the export of overcapacity and price war. As they lose market share in China, they lose market share in Europe at the same pace. In a European market that was still in 2025 17% below its pre-Covid level, the rapid expansion of Chinese brands generates increasing pressure on volumes and margins of both carmakers and suppliers.

For automotive suppliers, however, the major threat now comes from within. As European carmakers fall under increasing Chinese competition, they also fall under the temptation of shifting their sourcing and their product development towards China as a quick way to reduce costs and compete against Chinese products with Chinese products. The huge and still growing overcapacity created in China provides a lot of opportunities to do so. This is why the exceptional tariffs on the imports of Chinese cars have no protective effect for the European supply chain. European automotive suppliers are directly confronted with the same type of highly aggressive price competition that carmakers face in the new cars market, but without any protection.

2.3. Auto-parts: the Chinese wave is growing

Even before the Covid 19 crisis, China had become a major global export hub for automotive parts production. By 2019, China was already the first global exporter of tires, brakes, and the third global exporter of body panel parts and engine parts[24]. Since 2019, exports of automotive parts from China have further increased by 61% or $32 billions (table 3). Europe, again, has become the main destination of these fast-growing exports, absorbing 23% of this growth, well ahead of the US (15%), Korea (5%) and Japan (4%).

Figure 15. Auto-parts imports from China to the EU (€)



Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 / * 2025 data has been extrapolated on the basis of h1 trends

[24] Kratz et al., *China and the Future of Global Supply Chains*.

Table 5. Auto-parts production, imports from China and exports to China (2021-2025)

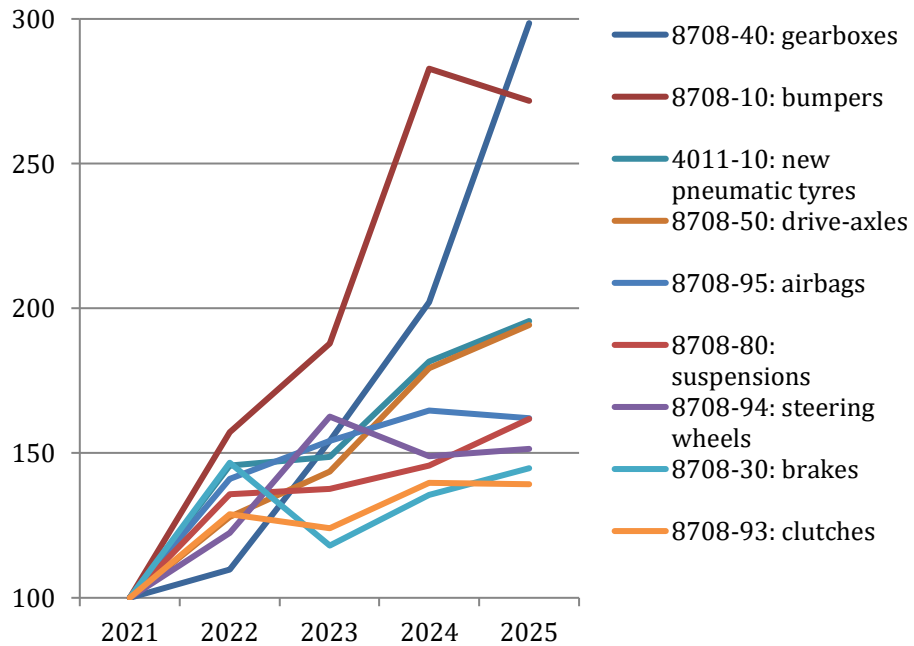
2021-2025	Production EU27	Imports from China	Exports to China
Automotive parts (8708)	**-10,4%**	**+64,4%**	**-31%**
Tires (4011)	**-15,0%**	**+95,6%**	**-43%**

Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8. * 2025 data has been extrapolated on the basis of h1 trends

The sharp decline in the production of automotive parts (-10,4%) and tires (-15%) between 2021 and 2025 despite the partial recovery of European car production during this period has been mainly driven by this fast increase of Chinese imports, mirrored by the parallel fall of the European exports towards China (table 5).

The manufacturing of all parts and components in Europe has been affected by this fast growth of imports for both 1st and 2nd tier suppliers. But some sub-sectors have been hit harder than others. The imports of gearboxes from China have tripled, those of bumpers have increased by 171% and the imports of tires and drive axles have almost doubled since 2021 (figure 15).

Figure 16. Auto-parts imports from China to the EU (€, base 100 - 2021)



Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 / * 2025 data has been extrapolated on the basis of h1 trends

The analysis of the Eurofund database shows a strong correlation between the record amount of job losses announced by automotive suppliers since 2024 and the growth of Chinese imports: 61% of the 76,000 job loss announcements recorded between January 2024 and June 2025 were in the subsectors mostly affected by the growth of Chinese imports (>50%).

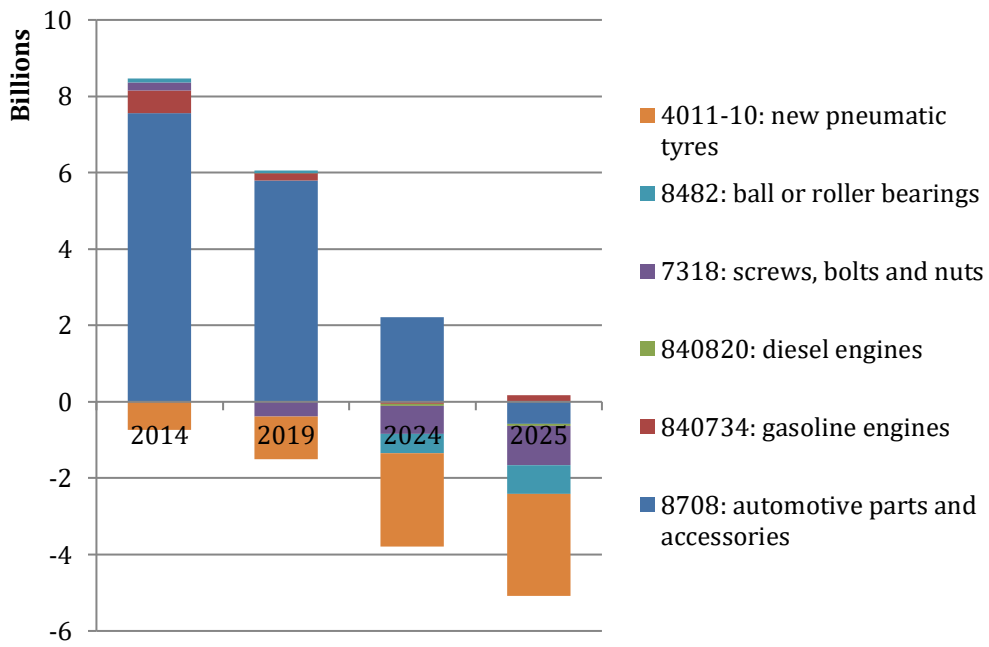
Table 6. EU trade balance with China on auto-parts (2014-2015)

Billions €	2014	2019	2024	2025
Trade balance auto-parts**	**€7,7**	**€4,6**	**-€1,5**	**-€4,9***
With lithium-ion batteries	**€7,3**	**€2,2**	**-€21**	**-€28***

Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 / * 2025 data has been extrapolated on the basis of h1 trends / ** Custom codes 401110, 8482, 7318, 840820, 840734, 8708

The evolution of the trade balance of auto-parts of the EU with China between 2014 and 2025 shows a clear acceleration in its worsening: from a yearly loss of €0,6 billion between 2014 and 2019, to a yearly loss of €1,2 billion between 2019 and 2024 and of €3,4 between 2024 and 2025. The surplus of €4,6 billion recorded in 2019 has turn into a deficit of €4,9 billion by 2025. If we include lithium-ion batteries in the trade of auto-parts the yearly loss between 2019 and 2024 jumps to €4,6 billion, and to €7 billion in 2025.

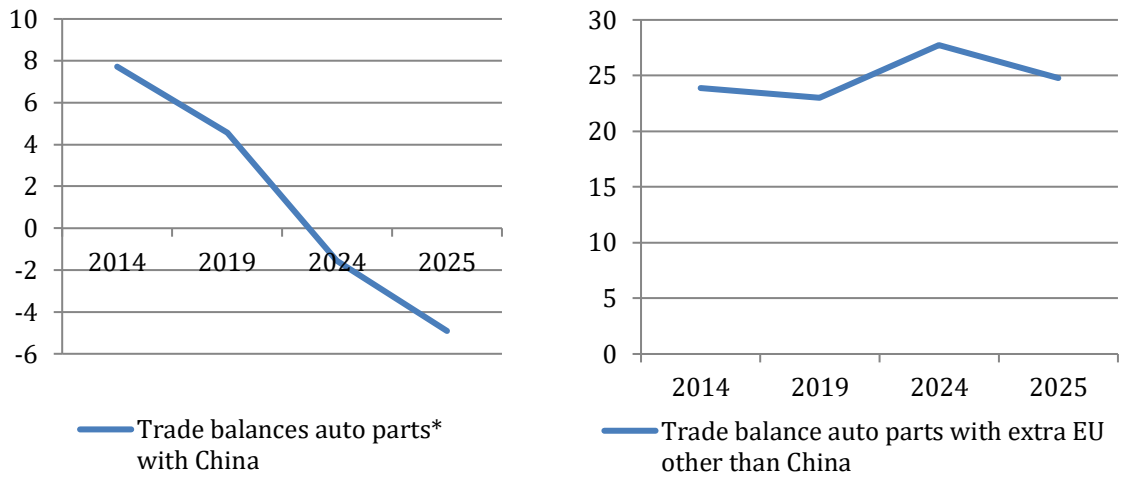
Figure 17. EU trade balance with China on auto-parts by main custom codes (€)



Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 - 2025 data extrapolated from H1 trends * Includes 8708, 7312, 8482, 401110, 840734, 840820

The fast worsening of the trade balance with China concerns all auto-parts, all the tiers in the supply chain and all EU countries. By 2025, apart from a very small surplus in the trade of gasoline engines (€0,2 billion), the trade of all auto-parts was in deficit. Amongst EU countries only Germany kept a shrinking trade surplus with China on auto-parts (€3,9 billion in 2025, from €8 billion in 2019), but with a record loss of €2,4 billion of trade in 2025.

Figure 18. Trade balance of the EU on auto-parts with China (€ billion - left) and with the rest of the world (€ billion - right)**



Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 / *2025 data extrapolated from H1 trends ** Includes 8708, 7312, 8482, 401110, 840734, 840820

The comparison with the trade balance of the EU on auto-parts with the rest of the world confirms that the European automotive industry remains highly competitive with any other industry, but the Chinese one. Clearly, as stated by Mario Draghi in his speech to the European Parliament (17/09/2024), the problem is that "China's State-sponsored competition represents a threat to otherwise productive industries"[25].

Evidences from the EU anti-dumping measures against China in the fasteners industry

The fasteners industry is one of the few automotive supplier industries to have seek and obtained from the European Union anti-dumping measures against China. Anti-dumping measures follow a complex and long procedure (8-12 months) based on precise evidences brought forward by each industry and a detailed enquiry carried out by the EU. Anti-dumping measures are product and process specific and concern limited number of custom codes in each procedure. In the case of fasteners, 10 custom codes on 31 were concerned by anti-dumping measures with an anti-dumping duty of 85% from 2009 to 2013 (reg. 91/2009), and of 86,5% from 2022 to 2026 (reg. 191/2022)[26].

In the 10 custom codes protected by the anti-dumping duties, the European fastener industry increased both production (+16,5% in volume) and market share (+3,7%) between 2008 and 2025, while Chinese exports to the EU declined by 51,2% in volume and by 16,7% in market share. In the 21 custom codes without anti-dumping duties, production fell by 23,3% in volume and by 15,9% in market share, while Chinese imports to the EU grew by 83,5% in volume and by 16,3% in market share (source: Eurostat).

[25] Draghi, *The Future of European Competitiveness*.
[26] The fasteners industry also obtained anti-dumping measures for the period 2014-2018, but were cancelled by the EU in 2016 due to a vice of procedure exploited by their Chinese counterparts.

2.4. A zero-sum game: why the European supply chain is fighting for survival

Chinese auto-parts imports to Europe have almost doubled since 2019. However, their share on the total European imports of auto-parts is still in 2025 relatively small: it grew from 4% to 7%, while intra-EU imports declined from 80% to 78%. The reason why this "small" shift has been already so disruptive is directly connected with the cumulative impact of the three back-to-back crises analysed before. With so many automotive suppliers operating at break-even or below (figure 6 above), the loss of revenues generated by this shift towards Chinese sourcing (about €6 billion on a total trade of about €250 billion in 2025), combined with the parallel decline of EU exports towards China, already translated into massive redundancies and factory closures. It is a zero-sum game where the majority of EU based suppliers are fighting for their survival.

However, it is also important to understand that the penetration of Chinese imports has been so far slowed-down by two major obstacles:

1) The supply of auto-parts is organised through just-in-time logistics close to the assembly factories of carmakers; replacing regional sourcing with long-distance sourcing is difficult, costly and normally only concerns the lightest and more standardised parts that can be stocked in warehouses from where they can be delivered in JIT; as we will see later more in detail high regional local content in the automotive sector is the norm, transcontinental imports are the exception;

2) Due to this strong regional integration, carmakers and suppliers tend to develop long term relations and are tied by contracts that cover the full life (5-7 years) or half-life (3-5 years for face-lifts) of a model; it is therefore uncommon to shift contract (re-sourcing) when models are already in production;

Now, these obstacles are in the process of being removed.

On the one hand, Chinese auto-suppliers, their carmakers, and the Chinese regional governments that support them, have been building up in the last couple of years a fast growing fleet of new vessels to increase the volume of exports and reduce the logistic cost per unit exported while also setting up a network of overseas warehouses in Europe to stock parts and guarantee JIT delivery to carmakers. European ports have been also scaling up their capacity of managing this fast growing inflow of supply, with significant new investments made by Chinese state-owned companies, such as COSCO Shipping (the world's largest shipping company and the fifth largest terminal operator) and China Merchants Port Holdings (the sixth largest terminal operator), and by private Chinese companies such as Hutchison Ports (the second largest terminal operator); these three companies currently own stakes in 33 maritime container terminals in Europe (versus 4 in the US) with a majority control in 12 of them [27].

On the other hand, EU based carmakers have been mapping, for several months already, alternative Chinese suppliers for all parts and components currently sourced in Europe for existing models. The mapping has been carried out directly in China via existing or

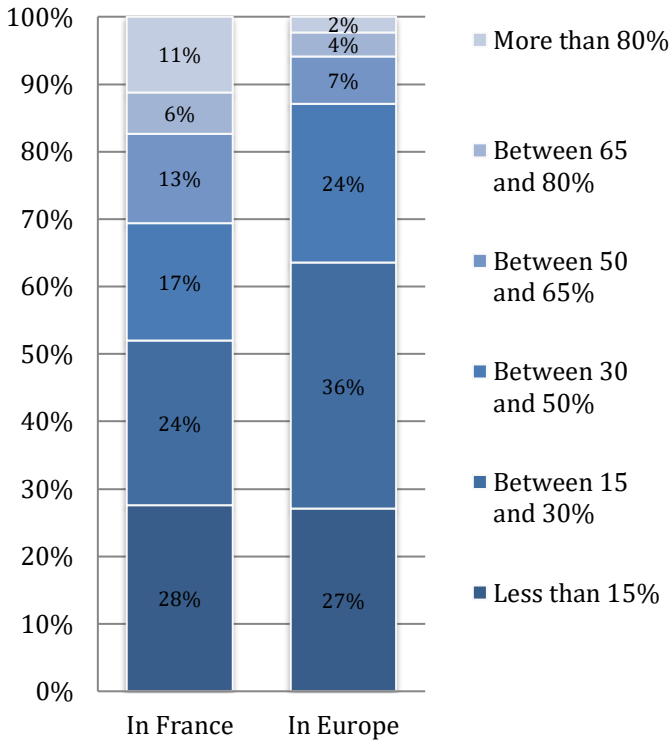
[27] Karin Smit Jacobs, 'Chinese Strategic Interests in European Ports'. See also: https://www.osw.waw.pl/en/publikacje/osw-commentary/2025-03-17/turning-tide-us-pushes-back-against-chinese-influence-european; https://www.politico.eu/article/chinese-companies-bought-up-european-ports-and-now-brussels-is-starting-to-worry/;

newly created dedicated engineering and purchasing entities [28]. The reported price gap is about 30% for China, which is coherent with what has been also found by the Roland Berger CLEPA study [29]. The shift in sourcing from Europe towards China with the introduction of new models and face-lifts during the next five years is estimated at about 20-25% of total purchasing, which would reduce the average European local content for car production from about 85% (2024)[30] to about 65% (2030).

This estimated loss is based on a sample of interviews made with engineers and purchasers of carmakers. It is higher than the forecast made by the Roland Berger CLEPA study (11%-15%) and coherent with the replies of suppliers based in France to the Gerpisa-Clifa survey of March 2025.

In total, 108 companies participated to the survey, and three quarters of them stated that at least more than 15% of their current production is threatened by the shift in sourcing to ultra-low-cost countries over the next 5 years, with an average of 30-50% for their production in France, and of 15-30% for their production in Europe (figure 19).

Figure 19. Questionnaire Gerpisa-CLIFA - " What percentage of your production in France and Europe is threatened by pressures from Carmakers to shift sourcing to ultra-low cost countries over the next 5 years?



Source: Gerpisa-Clifa questionnaire, March 2025 108 companies surveyed (Pardi et al. 2025).

[28] The two biggest investments in R&D made by Renault and VW since the Covid 19 crisis were in China: ACDC for Renault, with a clear focus on product development and procurement; VCTC for VW, which has become its biggest R&D hub.
[29] Roland Berger, *Automotive Component – Driving EU Competitiveness and Value Creation*.
[30] See section 3 below.

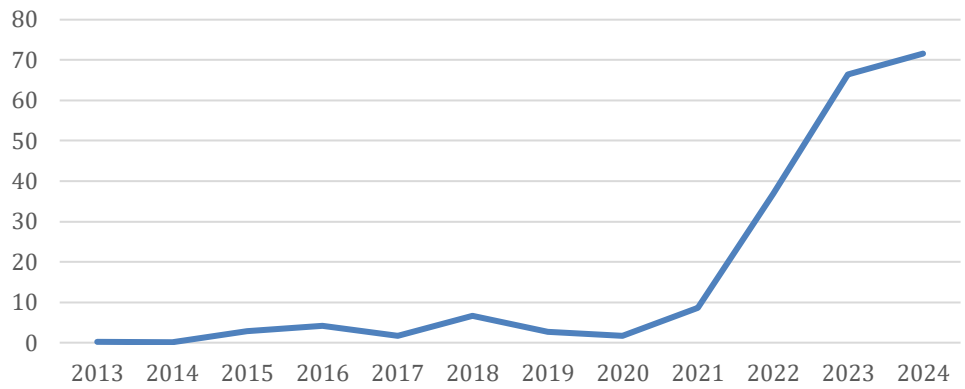
If such a scenario were confirmed, the consequences for the European automotive supply chain would be catastrophic. The Roland Berger CLEPA scenario already anticipated a loss of between 300,000-350,000 jobs by 2030; in our scenario it is at least the double that would be lost (700,000) with the concrete risk of a generalised collapse of several industries driven by the inevitable multiplication of bankruptcies and closures throughout the whole supply chain.

2.5. Chinese FDIs in green tech manufacturing as an additional threat

In parallel to this on-going massive shift of sourcing towards China, the European automotive industry needs also to prepare against another threat: the growing wave of Chinese direct investments spreading inside and around Europe.

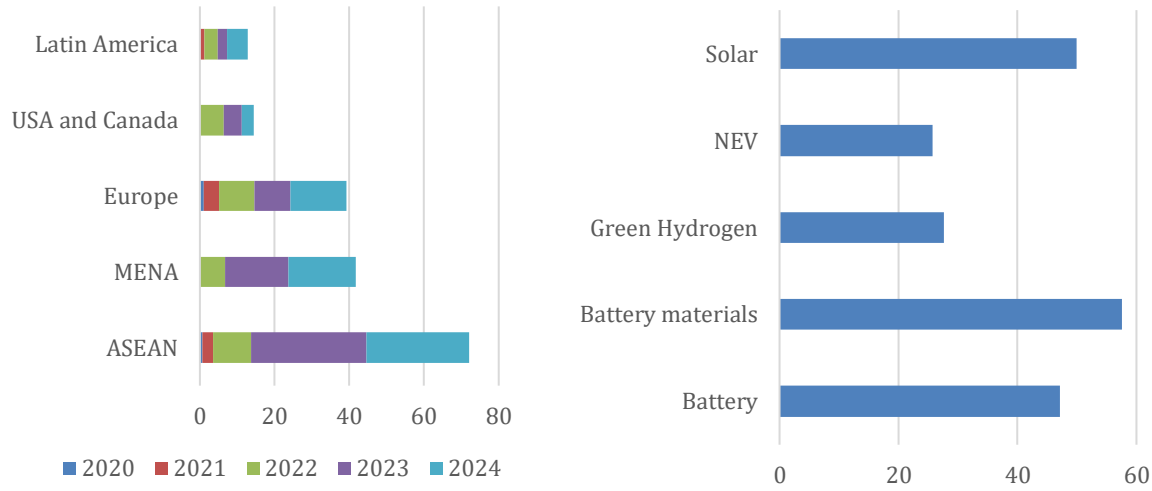
Chinese FDI in clean tech manufacturing have increased exponentially since 2020: from a yearly average of $2.5 billion between 2013 and 2020 to over $70 billion in 2024 (Figure 19). Between 2020 and 2024, the total Chinese FDI in green tech manufacturing amounted to $219 billion: one third of which went to battery and NEV manufacturing. ASEAN countries have been the first destination of this FDI ($72 billion). Europe was ranked third ($39 billion), behind Middle East and North Africa, but if we include Morocco ($19 billion) and Turkey ($5 billion) as "gateway" countries to the Single Market, Europe was a close second with almost four times more Chinese FDI received than the USA and Canada (Figure 20).

Figure 20. Chinese FDI in green tech manufacturing 2013-2024 ($ billion)



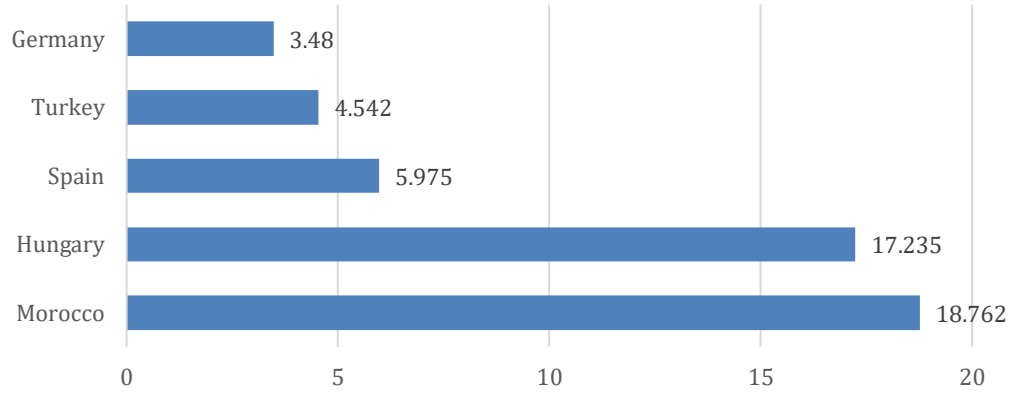
Source : Xue and Larsen (2025).

Figure 21. Chinese FDI in green tech manufacturing by destination and sector 2020-2024 ($ billion)



Source : Xue and Larsen (2025). MENA (Middle East North Africa).

Figure 22. Chinese FDI in Europe 2020-2024 (top 5 countries, $billion)



Source : Xue and Larsen (2025)

This huge wave of Chinese investments toward Europe first concerned battery production (Table 7) but has now shifted towards car production (Table 8).

Overall, € 13 billion have been invested by Chinese battery makers between 2021 and 2023 in Europe. A further €4,1 billion investment has been added in 2025 via the joint-venture between CATL and Stellantis for the creation of a 50 GWH gigafactory in Zaragoza (Spain). In 2024, 37% of European capacity for the production of batteries lithium-ion already belonged to Chinese companies vs 5% to European companies, 40% to Korean companies, and the remaining 14% to Tesla. This massive and increasing Chinese investment in battery production in Europe between 2021 and 2025 have not substituted for imports from China, but rather the contrary: imports of batteries from China have quadrupled during this period from €6,5 billion (29% of all EU imports vs 56% for intra EU imports) to €23,8 billion (50% of all EU imports vs 45% for intra EU imports). Overall, Chinese battery makers controlled in 2025 about 70% of the European market (by comparison with about 45% in 2021): 50% via exports from China, 20% via production in Europe.

Table 7. Chinese FDIs in battery production

Year	Group	Localisation	Investment (million)
2022	CATL	Hungary	7 458
2023	Sunwoda Electronic	Hungary	1 568
2023	Eve Energy	Hungary	1 274
2021	Envision AESC	France	1 263
2022	Gotion	Germany	1 230
2025	CATL (JV with Stellantis)	Spain	4 100

Source: Rhodium Group China Cross-Border Monitor

Table 8. Chinese FDIs in car production (announced and in negotiation)

Group	Localisation	Type	Investment (million)	Announced capacity			
				2025	2026	2027	2028
BYD	**Turkey (Manisa)**	Greenfield	1 000		SoP	150,000	250,000
BYD	**Hungary (Szeged)**	Greenfield	1 370	SoP	75,000	150,000	250,000
BYD	Spain?	Greenfield				?	
Chery	**Spain**	Brownfield (with Ebro)	400	SoP	25,000	100,000	200,000
Chery (Lepas)	Germany?	Brownfield (VW Dresden or Osnabrück)				?	
Chery	UK?					?	
Geely (Polestar)	**Slovakia (Kosice)**	Greenfield (with Volvo)	1 200		SoP	125,000	250,000
Xpeng	**Austria (Graz)**	Brownfield (Magna)		SoP	200,000 (with GAC & Mercedes)		
Xpeng	Germany?	Brownfield (VW Dresden or Osnabrück)				?	
GAC	**Austria (Graz)**	Brownfield (Magna)		SoP	200,000 (with GAC & Mercedes)		
MG (SAIC)	Spain?					?	
MG (SAIC)	Second plant?					?	
Leapmotor	**Spain (Saragoza)**	Brownfield (Stellantis)	200	SoP	40,000	100,000	200,000
Total announced capacity					340,000	625,000	1,350,000

Source: Gerpisa.

In car production so far, €4,2 billion of investment have been already announced, with 6 new factories that are expected to start production in 2026 for a total initial capacity of 350,000 vehicles. At least two extra more factories will start production in 2027 with a total capacity growing to 625,000. Besides these 8 investments already announced in car production, whose total capacity is expected to grow in 2028 to 1,350,000 vehicles, five more factories are in the process of being negotiated. If all these investments were confirmed, about 1,8 - 2 million new car capacities would be added to the European automobile industry that is already suffering of severe overcapacity and only produced in 2025 12 million cars.

The maximum European local content we can expect from these new Chinese factories in the current regulatory framework is of about 30% at the start of production, and 50% two years later, based on the announcements made so far by Cherry and BYD. This is in line with what has been already observed in Mexico, Brazil and in several ASEAN countries[31]

[31] Schröder, 'Chinese Entry to ASEAN: Exporting Overcapacity and Price War?'

where Chinese FDIs in car production have been characterised by "light assets" investments with low level of local content, on average below 30%.

The ASEAN precedent: 27 factories in five years

The case of ASEAN countries is instructive as they represented the second export market for Chinese BEVs, after Europe, and the first destination so far of Chinese FDI in car production. Between 2021 and 2025, 9 Chinese companies have established a total of 27 new factories in these 5 countries. Mostly of these factories assemble CKD or SKD[32] with very low local content. Between 2021 and 2025, ASEAN markets have stagnated at 3 million new cars sold per year, but capacity has increased by 25% to 7,6 million triggering fierce price competition and massive restructuring amongst incumbent Japanese carmakers (Schröder 2026).

Contrary to what has happened in the 1990s and 2000s with Japanese and Korean car manufacturing investments to Europe, the fast-increasing Chinese FDI to produce cars in Europe is not, by any mean, a guarantee that Chinese production in Europe will substitute for fast increasing imports and that the European supply chain will benefit from these investments. The most plausible scenario is rather the opposite. Chinese new car factories in Europe will further accelerate the current market penetration of Chinese brands in the Single Market while providing in parallel new inroads and opportunities for Chinese automotive suppliers to scale up their exports towards Europe. Such a scenario also corresponds to the "overseas expansion plans" for the automotive industry implemented by the main Chinese regional governments since at least 2017, and clearly identified by the DG Trade inquiries on Chinese economic dumping and trade distortion[33].

In the same way, as European carmakers have been tempted into increasingly using Chinese R&D, platforms, products, parts and components as a way to resist against the Chinese aggression on their market shares, several European members states have been now tempted into attracting Chinese FDI as a way to compensate for their declining/collapsing automotive production. In both cases, these short-term rational temptations may undermine any chance of recovery for the European automotive industry.

[32] With completely Knocked Down kits, all components of the car are shipped in an unassembled state to the destination country and the factory assemble the components together. In the case of Semi-Knocked Down kits a partially assembled car that is shipped in modules and assembled by the local factory.

[33] European Commission, *On Significant Distortions in the Economy of the People's Republic of China for the Purposes of Trade Defence Investigations*; European Commission, *Commission Implementing Regulation (EU) 2024/1866 of 3 July 2024 Imposing a Provisional Countervailing Duty on Imports of New Battery Electric Vehicles Designed for the Transport of Persons Originating in the People's Republic of China*.

2.6. "It's five minutes to midnight"

The global footprint of European owned automotive suppliers has been dramatically shrinking: between 2021 and 2024 European automotive suppliers have acquired assets in the US and China for only $1,6 billion while US and Chinese automotive companies have acquired $16 billion of assets in Europe (ten times more) and a further $40 billion of European automotive assets were on sale in 2025 according to the 2025 AlixPartners Global Automotive Outlook[34]. This is far from surprising. The profitability of European companies has been under pressure during this period and without a safety net to protect them against the big wave of growing Chinese imports and FDIs, it is difficult to imagine how and why they would keep investing.

According to the last (12/2025) CLEPA-McKinsey Pulse Check, 43% of European automotive suppliers declared not making profits or making losses in 2025. As we have seen above, this record high number of unprofitable suppliers has translated into a record high amount of job losses announcements, closures and bankruptcies recorded in the Eurofund database in 2024 and 2025. These job losses and bankruptcies mainly concerned the sub-sectors mostly impacted by the fast growth of imports from China since 2021. A further 32% of companies declared in 2025 not having sufficient profits to invest: these are the companies that are restructuring to reduce costs but also those that have been increasingly acquired by foreign capital during this period. Finally, only 25% of the companies surveyed declared still having a "healthy profitability" (down from 60% in 2019), but these companies are not investing anymore in Europe and they rather invest in China or in the US.

It is difficult to blame them, as it is difficult to blame carmakers that follow a similar strategy in Europe to meet the Chinese challenge: suppliers are moving their investments where the returns on investments have more chances to materialise; carmakers are shifting their strategic approach to meet the Chinese challenge from "making" new products and technologies in Europe, to "buying" from China these technologies, products and components, because it is cheaper and more efficient for them. In both cases, these are rational reactions to the lack of a coordinated response from the European Union to meet the Chinese challenge.

From seeking efficiency to protecting sovereignty: how to realign corporate strategies with European interests?

The Single Market has become by far the main destination of fast increasing Chinese automotive exports and FDIs, at a scale that is historically unprecedented and which represents a major threat for the future of the European automotive industry and yet, the Single Market remains today the most open market to these inflows of both Chinese imports and capital.

The European Union clearly stands out as the main exception in a global geopolitical landscape increasingly shaped by the diffusion of de-risking and de-coupling policies

[34] Mark Wakefield and Andrew Bergbaum, *2025 AlixPartners Global Automotive Outlook*.

towards China [35] and yet, despite a growing consensual view that this is a crucial handicap[36], not much has been done so far to correct this.

In assessing one year later the impact of his report on "The future of European Competitiveness" on the European Union's policies and regulations, Mario Draghi echoed a feeling of collective frustration:

> "Europe's citizens and companies value the diagnosis, the clear priorities and the action plans. But they also express growing frustration. They are disappointed by how slowly the EU moves. They see us failing to match the speed of change elsewhere. They are ready to act—but fear governments have not grasped the gravity of the moment." (Mario Draghi [37])

> "Whereas markets used to be relied on — whether right or wrong — to steer the economy, large-scale industrial policies have become the new norm. Where once the state saw its powers reduced, today all available means are mobilized in its name. Europe is ill-equipped in a world where geo-economics, security, and the stability of supply chains govern trade relations more than efficiency." (Mario Draghi [38])

The current evolution of the automotive sector illustrates too well this paradox. The short-term rational choices that carmakers are currently making to navigate the perfect storm and give themselves the best chances of survival by seeking more efficient arrangements away from Europe are undermining the very possibility of preserving a productive and competitive automotive industry in Europe. If the European Union does not equip itself in the coming weeks and months with the same large-scale industrial and trade policies that all other major automotive countries, starting from China and the US, have already implemented since at least the Covid crisis, it will be too late.

Once the Carmakers' plans of massively shifting away from Europe the sourcing of auto-parts and components become contracts, once the dozens announced Chinese assembly factories start producing cars in Europe with mostly parts and components imported from China, once the market share of Chinese brands in Europe will have doubled again in 2026 and 2027, as it has done each year since 2021, then the consequences of the perfect storm will be irreversible: the European automotive industry will have shrunk drastically, and what will remain of it will be structurally dependent on Chinese products and technologies.

Set up a "safety net" to cover and protect the European automotive industry and supply chain against the disruptive expansion of Chinese exports and FDIs is the first *sine qua non* condition to prevent such a scenario. A "safety net" is required to provide the stability and the level playing field automotive suppliers need to keep investing and fighting on equal terms for market shares and contracts in Europe. It is also required to let carmakers investing and buying in Europe without fearing that other carmakers will outplay them

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[35] Kratz et al., *Why Isn't Europe Diversifying from China?*

[36] Draghi, *The Future of European Competitiveness*; Sebastian and François Chimits, '"Made in China" Electric Vehicles Could Turn Sino-EU Trade on Its Head | Merics'; Ragonnaud, 'The Crisis Facing the EU's Automotive Industry'.

[37] Draghi, *High Level Conference – One Year after the Draghi Report: What Has Been Achieved, What Has Changed*.

[38] Draghi, *How Do We Change Our Continent's Trajectory?*

with cheaper Chinese products, components and technologies or that Chinese competitors will flood the Single Market with cheaper products from outside and from within Europe.

What we propose in the next section to achieve this first *sine qua non* condition is a "Made in Europe" label based on a local content policy for the production of cars and parts in the European Union that will condition European aids and regulations in order to both freeze the current wave of relocations towards China and regulate the conditions under which Chinese carmakers will be able to produce cars and parts in Europe.

3. For an effective « Made in EU » policy for the automotive sector

If a consensus now exists, at the European level and amongst the main associations and stakeholders of the automotive sector on the need of setting up a European preference based on local content policies to protect both carmakers and suppliers against the disruptive expansion of Chinese exports in Europe, views still diverge on several crucial points that need to be clarified before such a policy can be successfully implemented - the risk otherwise would be of having a burdensome but not-effective policy.

- How do we define European local content for automotive production?
- What is the current level of European local content for car production and at which level should the "safety net" be placed to guarantee protection without creating inflation and/or extra costs (by comparison with the status quo) for carmakers?
- Should the "safety net" only cover plug-in vehicles (as in the IAA) our should be extended to HEVs and ICE vehicles? In other terms, should sovereignty be subordinated to decarbonization, or should be promoted independently from decarbonization?
- Should the "safety net" also cover the production of the auto-parts bought by carmakers in Europe (to achieve the level of local content required to obtain the "Made in Europe" label) so that the "Made in Europe" label also protects second tier suppliers (which is not currently the case in the IAA)?
- If yes, what is the current level of European local content for auto-parts production and at which level should the "safety net" be placed to guarantee protection without creating inflation and/or extra costs (by comparison with the status quo) for first tier suppliers?
- Should batteries be included in the local content policy for cars and auto-parts and if yes how?
- How to implement the "Made in Europe" label in the most effective way for both regulators and companies (carmakers and first-tier suppliers) in order to avoid excessive administrative burden for both control and compliance?
- Should the "Made in Europe" label apply only to cars and auto-parts made in Europe, or should also integrate third countries that currently have free trade agreements with the EU?
- Once the "Made in Europe" label is implemented, how do we integrate it in European and member states policies and regulations to institutionalise a "European preference" for "made in Europe" cars and auto-parts?

The IAA proposal made by the EC the 4 March 2026 embodies a series of compromises between diverging positions, views and interests rather than clear and documented answers to these questions. The view we defend in this report is that consensus should be built fist on clear and documented answers to these questions, before negotiating the

conditions under which an effective “Made in EU” policy for the automotive sector should be implemented.

In the following pages we will reply in detail to these questions and we will also discuss the main alternative views and proposals that have been put forward in the public debate that surrounded the EU strategic dialogue on the automotive sector by highlighting the points of convergence and divergence.

Besides providing an operational roadmap for implementing quickly and effectively a local content policy for the European automotive sector, the purpose of this study is to place the debate on “local content” and on the future amendments to the proposed IAA on a solid empirically based scientific ground.

3.1. How do we define European local content for automotive production?

The notion of "local content" already exists in European regulations for trade. It is used to define "Rules of Origin". There are two types of RoO:

- "non-preferential" RoO that define the conditions under which any good obtained or transformed in Europe is recognised as being of European origin;
- "preferential" RoO are similar conditions but they "generally demand that goods undergo more working or processing than is required to obtain non-preferential origin" (EU taxation custom) and only apply in the context of free trade agreements in order to benefit "from a reduced customs duty or even free of duty" when goods are exported from Europe[39].

For "non preferential" RoO the "last substantial processing or working" also called "last substantial transformation" is enough to determine the European origin of a good: "the criterion is met if the product has undergone the last significant economically justified processing or treatment in a production facility adapted for this purpose, which has resulted in the production of a new product or has constituted a significant stage of the production process"[40].

For "preferential" Ro0, the last substantial transformation is not enough: the good needs to have changed of custom code in Europe; a certain amount of the value of the good must be produced in Europe (a certain level of local content); and, depending on the goods and the free trade agreements, certain specific operations must also be performed in Europe.

Since the introduction in the public debate of the concept of "local content" for the European automotive industry by Christophe Perillat, CEO of Valeo, in 2024, the "non preferential RoO" has been the main reference in order to define this concept. Perillat mentioned in particular the United States Mexico Canada Agreement (USMCA) entered into force in 2020 as an example of the type of local content policy that the EU should implement.

In USMCA, passenger vehicles, light trucks and core auto parts (15 parts including engines and batteries) must achieve a 75% North American local (regional) content in order to benefit from free of duty, a 65%-70% level for other vehicles and auto-parts, 70% of steel and aluminium purchases by value must also originate in North America, and for passenger vehicles at least 40% (or 45% for light and heavy trucks) of content, by value, must originate from suppliers paying their workers at least $16 per hour.

USMCA: a positive impact on investment, production and sales in the North-American market

A recent report by the United States International Trade Commission (2025)[41] has found that since its implementation in 2020, the overall economic impact of USMCA has been neutral on US car manufacturers and quite positive for US auto-parts and steel manufacturers. On average the price increase attributed to the introduction of USMCA has

[39] European Commission, *Guidances on Non-Preferential Rules of Origins*.
[40] Gwardinska and Chowaniec, 'Application of the European Union (EU) Non-Preferential Rules of Origin for Goods as a Measure to Extend the Scope of Trade Restrictions'.
[41] Amy A. Karpel et al., *USMCA Automotive Rules of Origin: Economic Impact and Operation, 2025 Report*.

been estimated to $207 per vehicle, by comparison with a total average increase of $726 per vehicle traded during the same period (USTTC 2025, p. 113). Amongst the positive impact for US auto-parts suppliers, the report noted a sharp increase in their investments in the US (from €6,4 billion in 2019 to an average of $37 billion between 2022 and 2024). It also estimated that USMCA had increased their revenues by €3,5 billion, and their employment by 5387 workers (and by 2463 workers in steel production) (USTTC 2025, p. 20).

Currently, about one car out of four made in Europe is exported via free trade agreements and must comply with "preferential RoO" which apply both to vehicles and auto-parts. Since Carmakers do not know in advance how many and which cars will be exported via free trade agreements, their contracts with suppliers already demand detailed information on the value of not originating (in the EU) materials and the systematic delivery of preferential RoO certificates. Here is an example of a standard contractual obligation for EU suppliers of a major European OEM:

> "Seller shall provide certificates of preferential origin, non-preferential origin and all other customs related documents necessary to comply with the place of Delivery country's rules of origin requirements, and any special trade programs, including applicable free trade agreements, and any other customs-related documentation reasonably requested by Buyer. Seller will submit preferential origin certificates only in the format provided by Buyer which content shall comply with UE regulations."

The definition of local content contained in "non preferential RoO" is based on the value of "non originating" materials and components expressed in ex-works prices (i.e. when the good leaves the factory). Local content can be therefore calculated as the difference between the ex-works price of the good exported and the value of "non originating" materials and components that have been purchased to make it.

(Non Originating Material (NOM) / Ex Works price (EXW) of product) ≤ maximum NOM allowed by the preferential RoO

The purpose of preferential RoO is to determine the origin of goods, notably to avoid that third countries circumvent tariffs by exporting goods through countries that have an FTA with the country of final destination. For instance, a Chinese OEM could export a CKD car to Mexico, assemble the CKD car there, and then export it free of duty to the US whereas the same car exported from China to the US would face a 100% tariff. This is precisely what the USMCA preferential RoO prevents.

The purpose of a local content policy aimed at setting-up a "safety net" for the European automotive industry is different. The objective is to prevent, by comparison with "status quo", a significant displacement of sourcing away from Europe and to guarantee that new assembly factories or parts manufacturing created by Chinese companies in Europe achieve a level of local sourcing aligned with this "status quo".

For this purpose what matters in the definition of local content is the ratio of what is purchased in Europe (in EXW prices) to all the materials and parts purchased (in EXW prices) to make a car or an auto-part in Europe.

(Total Ex Works prices of "Made in the EU" components / total Ex Works prices of all components) ≥ minimum Local Content required

This definition of local content for car and parts production has three main advantages:

1. It is coherent with the preferential RoO definition which is already embedded in all standard contracts for auto-parts and components in Europe;
2. It allows for a relative straightforward calculation of EU local content to establish the "status quo" using EU official customs' data which record the EXW prices of all automotive goods imported inside the EU (between member states) and from outside the EU;
3. It can be easily implemented by Carmakers and suppliers and controlled by national (customs) and/or EU authorities with no excessive administrative burdens.

3.2. What is the current level of European local content for car production?

To determine the current level of local content (based on the given definition) of an average car produced in Europe we have calculated the share (in value) of extra-UE imports and of intra-EU imports covering the large majority of components, parts and materials that are bought by carmakers to make a light-vehicle.

We treat separately the batteries that we propose to exclude from the "Made in EU" label for cars and vans, because, as we will argue later, it requires a different type of policy: not a "safety net" to preserve the status-quo from disruption but "local content targets" to promote the creation of a European battery industry.

In total we have considered 29 different custom codes that cover the totality of the vehicle, including steel, chassis, exterior and body, interior, ICE powertrain, electric and electronic parts, ADAS, power electronics and electric powertrain and which represented a total trade in 2024 of about €270 billion.

This method underestimates the level of EU local content in an average EU car or van, because the intra EU share does not account for all the parts, components and materials that are produced and consumed in the same EU member state: for instance, brakes that are produced in Germany and bought by German carmakers will not be accounted for in intra EU imports of brakes.

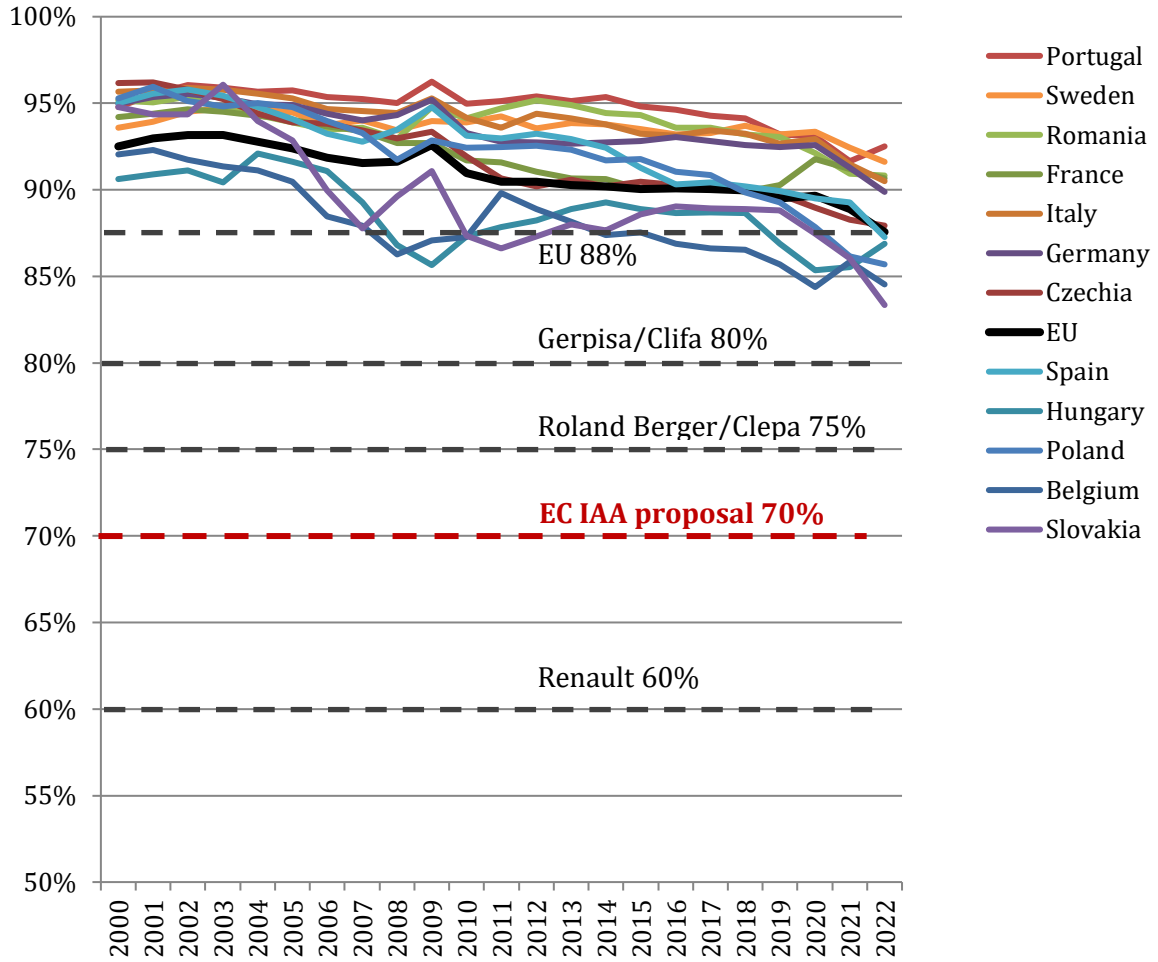
The intra EU share corresponds therefore to a **"minimum EU local content"** level for each of the 29 custom codes considered. Altogether, the average for this "minimum EU local content" level for an average car/van made in the EU is of 79% in 2024 and relative stable despite the rapid growth of Chinese imports (it was of 82% in 2014) (see figure 19 below).

In order to estimate the "actual" real level of this total EU local content, including all parts and components produced and consumed in the same EU member state, we have calculated the EU share of all intermediate inputs consumed by the EU automotive industry. In order to do so we have used the Trade in Value Added database of the OCDE for 2022 (the last year available in the 2025 edition of the TiVA).

Based on direct trade (we consider here only what the automotive industry purchases from other companies, and not what these other companies purchase from second and third tier suppliers) 88% of the total value of automotive intermediate goods and services originated in 2022 from the EU.

When we compare countries, we can see that core Western European countries (Sweden, France, Italy, Germany) have a higher share of EU inputs than semi-peripheral countries (Spain, Belgium and Central Eastern European countries). Portugal and Romania are the two main exceptions with relatively high level of EU inputs. Product specialization does not appear to be a factor: Germany (mainly C, D and E segments), France (mainly C segment and light commercial vehicles) and Romania (mainly B and C segments) have a similar level of EU local content. Overall, all countries had in 2022 a share of EU inputs in total inputs well above 80%.

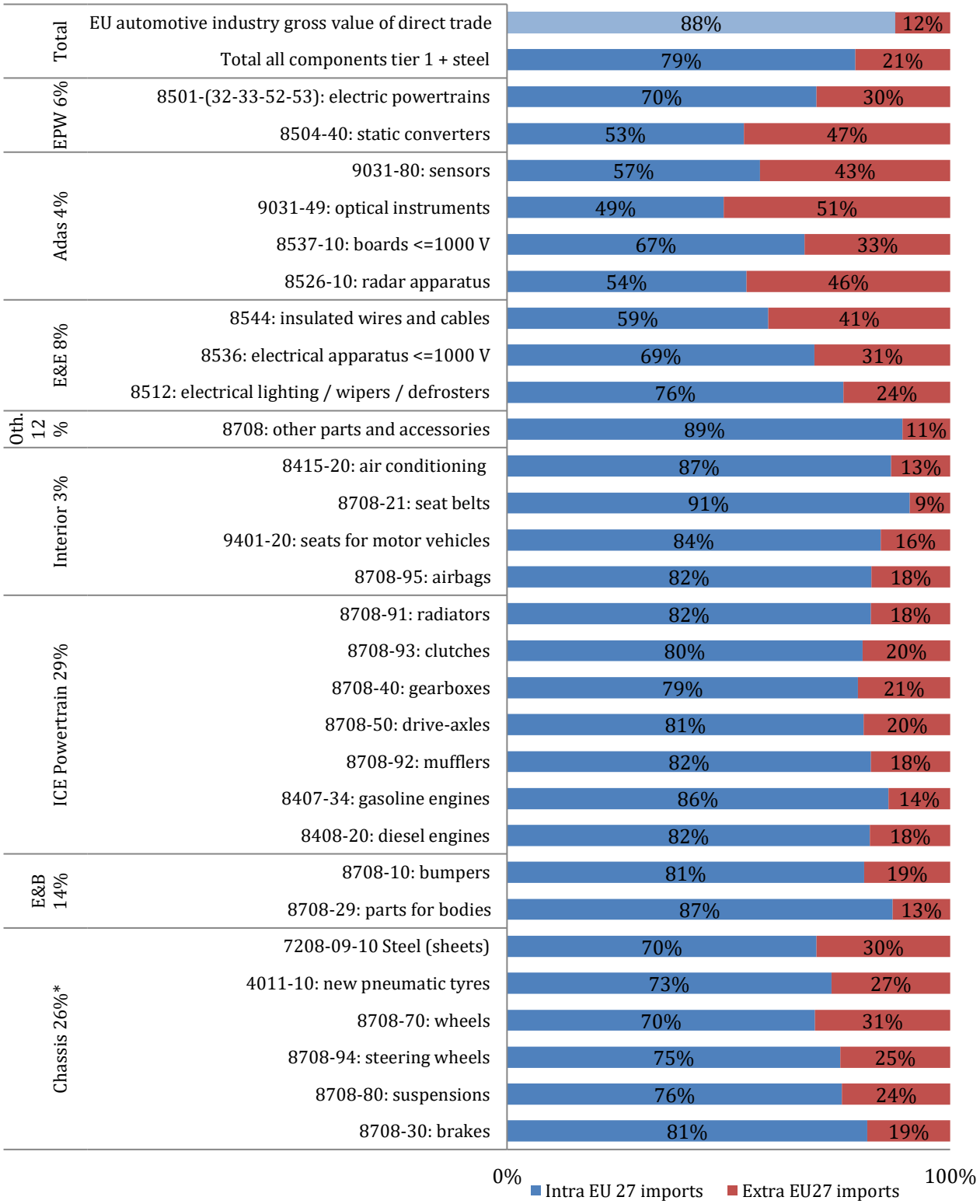
Figure 23. EU share in total direct inputs of the automotive industry (ISIC Rev. 4) to produce a unit of local gross production (direct trade, EU and main EU automotive countries - 2022)



Source : OECD ICIO 2025 edition (TiVA database). EU is calculated as input exposure of all EU27 countries separately, averaged together by weighting them by their respective gross production (updated by Michal Hruby from Hruby and Saroch (2025).

These results confirm that despite the strong liberalisation of trade of the last two decades, the European automotive industry has retained a high level of local content. This is not surprising. Bulk-gaining industries are characterised by inputs which are lower in weight and/or volume than the final product. In order to reduce transportation costs, it makes economic sense to locate final production close to consumers. The automotive industry is a prime example of a bulk-gaining industry and the overall principle of keeping final production close to consumers concern not only the vehicle but also all its main components. Furthermore, the European Union enlargement has created one of the biggest integrated market for new cars and vans, and one of the most efficient and competitive regional value chain for automotive production that despite the “perfect storm” still generated in 2025 a trade surplus of €150 billion (figure 8 above).

Figure 24. Ratio extra EU imports and intra EU imports on total EU imports of auto parts purchased by Carmakers (2024 - based on value)



Source: Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 (year 2024); EU gross value added in automotive production is calculated using OECD "Trade In Value" database – updated from Hruby and Saroch (2025). * Shares in total value of intra and extra EU imports.

Our results – 79% EU "minimum" local content based on total imports of intermediate goods (in 2024) and 88% EU local content based on the direct consumption of intermediate goods and services by the EU automotive industry (in 2022) – are similar to those obtained by the Roland Berger/CLEPA study based on the survey of a large panel of automotive suppliers: 85% EU local content (share of parts and components originating from the EU on total parts and components purchased) for an average ICE vehicle made in the EU, and 83% for an average BEV (excluding batteries). It is indeed reasonable to expect, given the trend since 2020, that the current level of EU local content based on the direct consumption of intermediate goods and services is in 2025 closer to 85% than to 88%.

Based on these results, our proposal is to set the minimum local content level for a car/van manufactured in Europe to 80%:

(Total Ex-Works prices of "Made in the EU" parts / total Ex-Works prices of all parts purchased to make the car/van) ≥ 80% Local Content required for "Made in EU" car/van label

A level of 80% leaves a significant margin to all Carmakers so that all models made in Europe can meet this level without carrying any extra-cost by comparison with the "status quo".

Such a level functions as a "safety net":

- On the one hand, it remains below the "status quo", estimated at 85% by both the Roland Berger/CLEPA report and us, giving to the Carmakers about €15-18 billion of purchasing that they can still shift outside the EU if they need to do so for efficiency reasons;
- On the other hand, it prevents the massive shift that would happen otherwise and could easily lead to a €90-100 billion trade loss in three years, which would shatter the resilience of the European supply chain.

3.3. Should the "safety net" also cover the production of auto-parts?

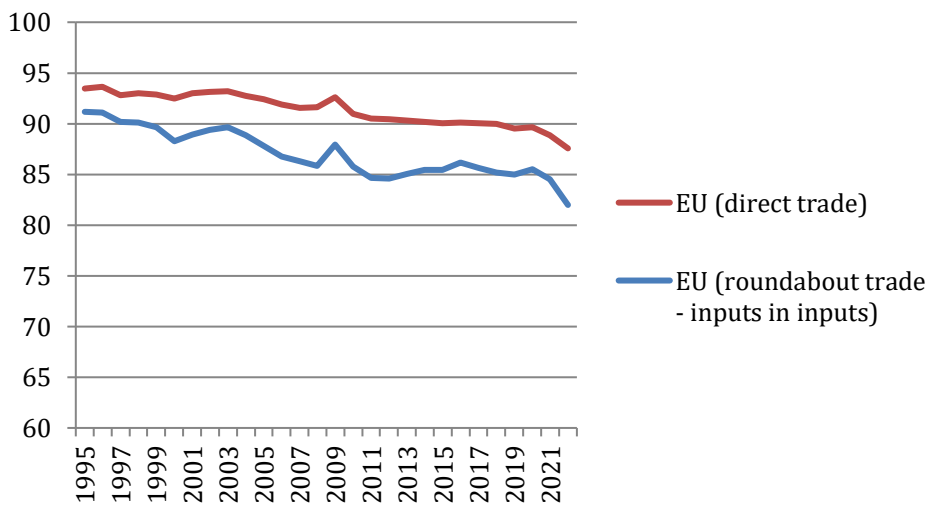
In "preferential RoO" auto-parts are also covered by local (regional) content requirements – up to 65-75% in the USMCA, around 45-50% in most of European FTAs. There is therefore no particular reason to exclude auto-parts from the "safety net" as there would be no significant additional administrative burden for first-tier suppliers to comply with a "Made in EU" label since they must already comply with "preferential RoO" according to standard carmakers' contracts. On the other hand, if the "safety net" does not cover auto-parts, this would leave the most vulnerable part of the value-chain defenceless.

Without the "Made in EU label", the first-tier suppliers will just have to comply with the "non preferential RoO" to supply "made in EU" parts to carmakers. The non-preferential RoO relies on the principle of the "last substantial transformation" in the EU of the auto-part – i.e. the production of a new product or a significant stage of its production process. There is no "safety net" here: if the first-tier supplier, under the pressure of the OEM or of its own initiative, shifts its current purchasing outside the EU, as long as the "last substantial transformation" occurs in the EU, the auto-part will be considered as Made in Europe.

The risk of massive relocation is here also greater than for first-tier suppliers. As we move down the value chain, parts become lighter and more standardised, easier to export and stock, more vulnerable to direct price competition from distant locations. In figure 25 we can see that the share of EU inputs of the European automotive industry decreases when we include second and third tier suppliers (82%) by comparison with just direct gross trade with first tier suppliers (88%).

It should be noted, however, that despite this gap, the trends are for the time being similar with an equivalent fast increase of non-EU inputs since 2020 driven in both cases by fast increasing imports from China. Given this trend and the fast growth of Chinese exports of auto-parts in 2023-2025, it is reasonable to estimate that such levels of local content have further drop to below 80% when second and third tier suppliers are included, and to about 85% when only carmakers' purchases from first-tier suppliers are considered.

Figure 25. Share of EU inputs in the automotive industry ISIC Rev. 4 industry 29 (EU) to produce a unit of local gross production

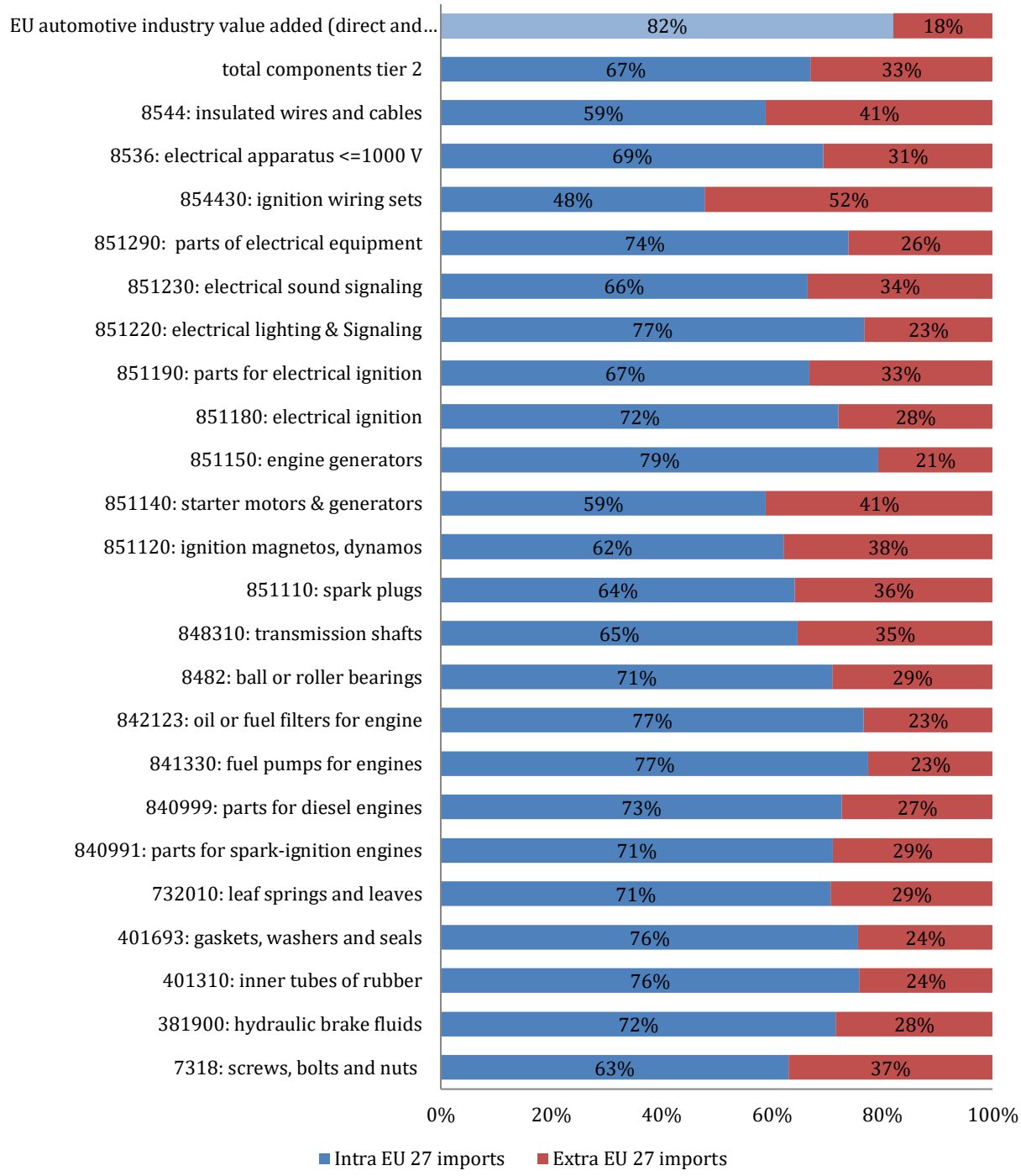


Source: OECD ICIO tables in Trade in Value Added (TiVA) database.

In Figure 19 we have considered 19 custom codes that correspond to goods mainly purchased by first tier suppliers from second-tier suppliers in order to estimate the extra-EU and intra-EU shares of their total imports. Based on this data, the average estimated level of intra-EU imports of first-tier suppliers is of 67% by comparison with 79% for the Carmakers.

As already explained above, intra-EU imports correspond to the "minimum" level of EU local content: the local content generated by EU production and consumed in the same country of production is not accounted for in intra-EU imports. On the other hand, the 82% local content based on EU value added and calculated via the OCDE ICO tables above, overestimates the actual level of local content because it also integrates the purchases of Carmakers from first tier suppliers (whose level of local content is higher than in the purchases of first tier suppliers from second tier suppliers).

Figure 26. Ratio extra EU imports and intra EU imports on total EU imports of parts purchased by first-tier automotive suppliers (2024 - based on value)



Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 (year 2024); EU gross value added in automotive production is calculated using OECD "Trade In Value" database – updated from Hruby and Saroch (2025).

We conclude that an "average" level of 70% corresponds here to the "safety net" required to protect second tier suppliers without increasing production costs for first tier suppliers. It is worth nothing that this average level is the same as in the USMCA FTA whose overall

economic impact on US automotive suppliers has been clearly positive between 2020 and 2024[42].

This average level however must be adjusted, before implementation, to the reality of the "status quo" for each main group of parts and components to avoid any inflationary impact. Our methodology can be used to achieve this adjustment by identifying for each group of parts the exhaustive lists of custom codes that characterise their inputs, their respective weights in the total purchases of inputs, and their respective share of intra-EU and extra-EU imports.

Our proposal is based on this notion of average that need to be converted in coherent "safety net" value for each group of parts and components. Concerning the criteria to define the European origin of the parts acquired by first-tier suppliers to achieve the required level of EU local content, we retain here the non-preferential RoO based on the last substantial transformation in Europe.

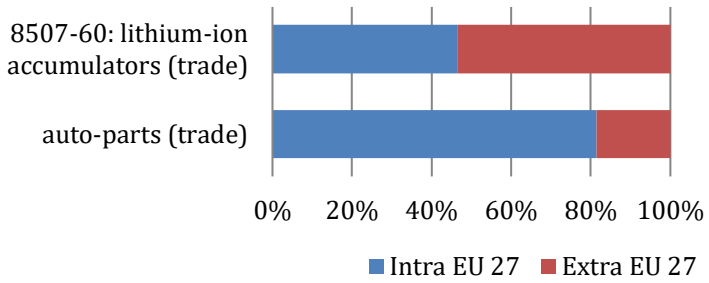
(Total Ex-Works prices of European parts / total Ex-Works prices of all components purchased to make the part) ≥ average 70% Local Content required for "Made in EU" parts

[42] Amy A. Karpel et al., *USMCA Automotive Rules of Origin: Economic Impact and Operation, 2025 Report*.

3.4. Should batteries be included in the local content policy for cars and auto-parts?

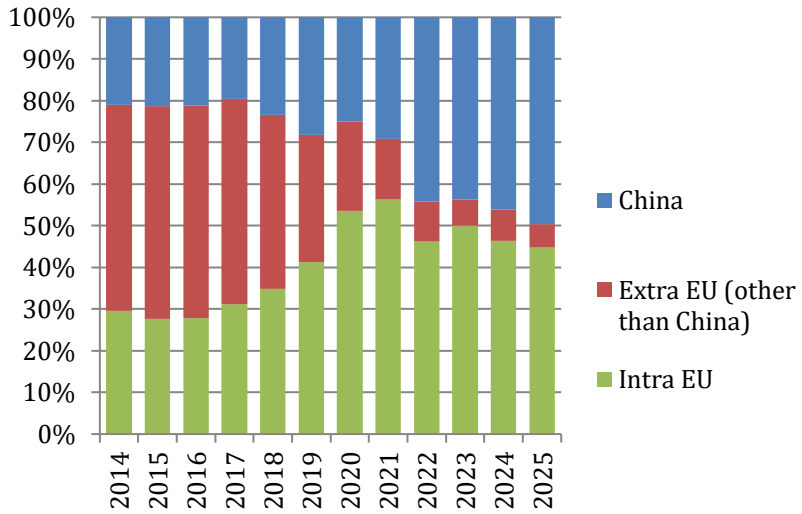
It would not be a good idea to put auto-parts and batteries under the same "Made in EU" "roof". Batteries need a different approach, not based on the concept of "safety net", which consists in preserving the *status quo* against the risk of massive relocation to China, but on local content targets, that aim at increasing both the sourcing of batteries from Europe and the level of EU local content in the batteries produced in Europe.

Figure 27. EU lithium-ion imports by comparison with auto-parts



Source: Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 (year 2024).

Figure 28. Imports of lithium-ion batteries in the EU



Source: Source: Eurostat, EU trade since 1988 by HS2-4-6 and CN8 (year 2024).

Currently, extra-EU imports represent more than half of total imports of batteries in Europe. The intra-EU share of these imports has been declining since 2021 (from 56% to 45%), driven by fast increasing imports from China, in particular of LFP batteries, which represented in 2025 half of the total imports of batteries in Europe. Currently, LFP batteries are not manufactured in Europe.

Table 9. Extra EU share in the imports of battery parts and raw/refined materials (2024)

Battery parts and materials	Extra EU share of imports	
Electrolyte	100%	Active materials
Anode	≥98%	95%-100% extra EU imports
Cathode	≥95%	
Separator	100%	
Lithium (raw/refined)	81%/100%	Raw/refined materials
Cobalt (raw)	81%	81%-100% extra EU imports
Graphite (raw)	99%	
Manganese (raw/refined)	96%/66%	

Sources: Volta Foundation, Battery Report, 2024; Bielewski et al, 2023[43].

Even for the batteries made in Europe, their European local content is very low. According to the data provided by the Volta Foundation "Battery report" (2024) and the JRC "EU Competitiveness in Advanced Li-ion Batteries report" (2023) almost all active materials (electrolyte, anode, cathode and separator) and between 81% and 100% of the raw and refined materials used to make batteries in the EU are imported, mainly from China (table 9).

What is needed to structure an independent and sovereign European battery ecosystem is an extremely ambitious, coherent and comprehensive EU industrial policy, such as the 2022 US "Inflation Reduction Act", that combines progressive targets for "EU made batteries" for cars and vans via different types of demand boost policies, progressive local content requirements for batteries with clear realistic targets (reviewed annually), production subsidies to support investments throughout the value chain (cells manufacturing, CAM/PCAM producers, recyclers), production and purchase credits to subsidize OPEX in the ramp-up phase and payment for the differences in price to sustain the catching-up vis-à-vis Asian competitors.

Our proposal consists therefore in excluding batteries from the Made in EU "safety net" for cars/vans and auto-parts. "Local content targets" for cells, CAM/CPMA producers and recyclers will be introduced separately as part of a dedicated plan for structuring an EU battery ecosystem via LC policies, financial aids measures, demand-side policies, material and end of life/eco-design regulations[44].

[43] Bielewski et al., *Clean Energy Technology Observatory*.
[44] Hermine and Hautsch, *Plan for the Emergence, Competitiveness, and Resilience of an EU Battery Ecosystem — Leveraging Combined Use of Local Content Policies and of New Public Aids Schemes*.

3.5. How to implement the "Made in Europe" label in the most effective way for both regulators and companies?

The proposal that we have outlined above is based on the "preferential Rule of Origin" methodology already embedded in the standard European contracts between Carmakers and first-tier suppliers and between first-tier suppliers and second tier-suppliers. The implementation by the manufacturers, and the control by the customs of the producing countries should not therefore generate any excessive administrative burden.

We propose to consider as "EU local content" what is purchased by the OEM (excluding batteries) and by the first-tier supplier inside the EU. Our approach is the same as in the Roland Berger/CLEPA report[45]. We exclude from the "EU local content" the value generated by the assembly process of the OEM or of the first-tier supplier; the car/van and the auto part must of course be still produced inside the EU to be eligible for the MiEU label.

We believe that this is most effective way of implementing the MiEU label.

First, only the manufacturer can estimate the value added by its own assembly process and there would be no objective and practical way for the regulator to verify this value. An alternative approach could consist in using the ex-work price of the car/van or the auto-part, but this price would reflect not only the whole value added by the OEM or the first-tier supplier, which can vary significantly depending on the product and its gross margin, but also all the R&D, manufacturing and distribution costs to make and sell the product, which fall outside the scope of the local content requirement.

Second, the purpose of setting a safety net for first tier suppliers, via the "MiEU car/van label", and for second tier suppliers, via the "MiEU auto part label", is better served if the value added by the buyer is excluded from the requirement and from the calculation of the "status quo" of EU local content.

To summarise:

1. These are the two formulas we propose to implement the MiEU labels for cars and vans, and for auto-parts:

    a. **(Total Ex-Works prices of "Made in EU" parts / total Ex-Works prices of all parts purchased to make the car/van[46]) ≥ 80% Local Content required for "Made in EU" car/van label**

    b. **(Total Ex-Works prices of European parts / total Ex-Works prices of all components purchased to make the part) ≥ <u>average 70%</u> (adjusted to the status quo of each main group of parts) Local Content required for "Made in EU" parts**

2. These formulas are based on a clear consensual methodology already embedded in standard EU automotive contracts and on the exploitation of public exhaustive custom and trade data to calculate the actual average levels of local content in cars/vans and auto-parts manufactured in Europe.

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[45] Roland Berger, *Automotive Component – Driving EU Competitiveness and Value Creation*.
[46] Excluding lithium-ion batteries.

3. These formulas guarantee that an effective "safety net" is placed over the first and second tier European suppliers to protect them from massive on-going relocation towards China.
4. They provide to both carmakers and first-tier suppliers a limited but significant margin for compliance to avoid inflationary effects on production or price while preserving a strong automotive supply chain.
5. They also guarantee a level playing field for EU based carmakers and suppliers vis-à-vis the car and auto-parts factories created by Chinese companies in Europe.

We will now turn to the IAA proposed by the EC[47] and explain, on the basis of the analysis carried-out in this section, why the IAA is not up to the task of meeting the Chinese challenge and how should be amended following our proposal.

[47] European Commission, *Proposal for a Regulation on Establishing a Framework of Measures for Accelerating Industrial Capacity and Decarbonisation in Strategic Sectors (Industrial Accelerator Act)*.

4. Is the IAA up to the task?

The EC proposal for the IAA embodies a series of compromises between divergent views, doctrines and interests. It is more oriented towards what is "possible" and "reasonable" to do, given these internal oppositions and conflicts, rather than towards what is "needed" and "effective" to meet the "Chinese challenge".

"Made in Europe" or "Made with China"?

The first major opposition inside the EC, amongst EU member states and between automotive actors, concerns whether the "Chinese challenge" should be met by introducing some degree of protection or requires first and foremost making Europe more competitive.

These views are not necessarily opposed. In Mario Draghi's report they are for instance presented as two sides of the same large scale industrial policy that EU would need to restore its competitiveness. However, from the German ordo-liberal perspective, where markets, and not state's interventions, should steer the economy, protection is fundamentally considered as a wrong solution: it reduces competition, it increases costs, it weakens rather than strengthens industries.

This has been for instance the position defended by a group of nine EU countries led by Czech Republic, including Estonia, Finland, Ireland, Latvia, Malta, Portugal, Slovakia and Sweden in a letter sent to the EC in December 2025. This has also been the position of the ACEA: in a letter sent to the EC by his president and CEO of Mercedes, Ola Källenius, few weeks before the announcement of the IAA, the emphasis was put on "keeping Europe open for business and building pragmatic partnerships that strengthen our capabilities while accelerating the development of technologies that Europe needs"[48].

The "pragmatic partnerships" are of course those with Chinese companies that we have discussed in section 3 and by "keeping Europe open for business", European carmakers are asking the EC to not interfere, or only mildly (with low thresholds of local content requirements), with their plans of shifting part of their sourcing to China and of increasingly using Chinese products, R&D and technologies to compete in Europe with Chinese carmakers because these plans would allow them to "strengthen their capabilities" and become more competitive.

The general idea is to promote a "Made with China" approach as a way to restore/preserve EU competitiveness while asking for lower energy cost, CAPEX and OPEX subsidies and "OMNIBUS" simplification of administrative procedures and regulations for the automotive sector to reduce the gap in terms of production and investment costs with China. This is also the position of Germany, despite being currently the main target of the Chinese trade expansion in manufacturing, and, inside the Commission, of the DG Clima, which is afraid that a too strict European preference would undermine the transition towards more affordable electric vehicles (despite the fact that imports from China have a much bigger carbon footprint).

[48] Source : https://www.acea.auto/files/ACEA-Open-Letter-to-EU-Leaders_2026-FINAL.pdf

On the other side, the European automotive suppliers, their regions, some key automotive countries (led by France) and several trade unions (including the German IG Metall) have contested this view and asked for local content policies and "Made in EU" preference because they consider that the Chinese competition is massive, unfair and disruptive. The main argument here is that if the future of the EU supply chain is on the line due to heavily state's subsidised overcapacity in China leading to economic dumping, then protection is due and legitimate. This has been also the conclusion of the DG Trade's inquiries on trade distortion and illegal state aids in China which have been fully endorsed by the EC and by the DG Grow led by Stéphane Séjourné.

The IAA has been drafted by the DG Grow and initially reflected this general view and ambition. However, version after version – about 40 have circulated since December 2025 – the scope, thresholds and targets of the "Made in EU" policy have been progressively watered down and weakened. In reacting to the final proposal, the French suppliers' associations, which have been the most active in lobbying for ambitious local content policies, stressed a law stripped of most of its substance[49]. IG Metall has also stressed the shortcomings of the current proposal, in particular concerning its scope in terms of sectors and countries included[50].

To abide or not abide by WTO rules?

The second major opposition concerns whether the IAA should mark a departure from strict adherence to WTO rules or should remain as much as possible coherent with these rules in order to preserve multilateral free trade.

The end of the European exception?

In a previous *Acte of Gerpisa*, we have analysed the global revival of local content policies in the period 2009-2024[51]. Between 2009 and 2024, 5,330 Local Content Policies (LCPs) have been implemented across 57 countries. About 7% originated in Europe, but only from Germany and the UK, which tied local value-added requirements to state loans and export or investment incentives for operations outside the EU. Without these, Europe accounts for less than 1% of total LCPs.

The main adopters were Brazil, the US, India, Saudi Arabia, Indonesia, Russia, and Canada. China ranked 13th, with roughly 4% of all LCPs, as it mainly supported domestic industries through direct subsidies—representing 75% of such policies worldwide during this period. Excluding Brazil's policies, which alone made up 52% of all LCPs, the annual number of new implementations rose from under 10 between 2000–2008 to around 30 between 2009–2018, and about 70 between 2019–2024. On average, 14% of these measures targeted the automotive sector.

After the 2008 financial crisis, these policy efforts continued to focus on traditional goals such as reducing imports, attracting investment, and developing domestic supply chains in strategic industries. Since the 2019 pandemic, however, priorities have shifted toward de-risking—reducing strategic economic dependencies—and re-shoring key production capacities, particularly with respect to China. These measures now centre on sectors like

[49] https://www.lejournaldesentreprises.com/breve/le-projet-de-loi-sur-lacceleration-industrielle-est-insuffisant-pour-les-fournisseurs-de-la-filiere-2138403
[50] https://www.acea.auto/files/ACEA-Open-Letter-to-EU-Leaders_2026-FINAL.pdf
[51] Pardi et al., 'Made in Europe. Local Content Policy for the European Automotive Industry'.

pharmaceuticals and clean technologies, including the electric vehicle value chain, as illustrated by the U.S. Inflation Reduction Act (IRA). The most active countries in this regard include advanced economies such as the United States, Japan, and South Korea, along with major emerging economies like China, India, and Indonesia.

In contrast, Europe stands out as an exception in this new geopolitical context marked by widespread de-risking and re-shoring initiatives. The absence of similar policies within Europe poses a risk to its competitiveness and sovereignty in strategic industries, notably the automotive sector, but also beyond. This was also the conclusion of Mario Draghi's report and several other reports, including one from the European Parliament, published during this period[52].

The comparison with the US is particularly instructive to illustrate the increasingly "exceptional" position of the EU.

Europe and US on diverging trajectories

Since 2016, under the Obama administration, the US suspended the nomination of new judges to the WTO Appelate Body (AB). US criticisms of the WTO Appellate Body fell into three areas: procedural flaws, overreach in interpreting rules, and broader political concerns. The US argued that the AB failed to meet deadlines and followed questionable practices, exceeded its authority by effectively creating new legal norms (in particular concerning anti-dumping legislation), and constrained US trade policy—especially in the context of rivalry with China, which it saw as unfairly advantaged within the WTO system due to its status of "developing country".

In 2019, under the first Trump mandate, the AB ceased to function due to the insufficient number of judges appointed while the number of unilateral trade policies, including tariffs, implemented by the US government escalated. At this time, the EU had not recognised yet "de-risking" as a political goal[53]. As a response to the US boycott of the AB, the EU formed an alliance with China to create a parallel appellate body, called the Multi-Party Interim Appeal Arrangement (MPIA). The MPIA entered into function in 2020, but since then only 33 countries on the 180 members of the WTO joined the MPIA, and only three cases have been judged so far[54]. *De facto*, this means that since 2019 the WTO is not an effective organisation anymore: any country affiliated to the WTO which is unhappy with a WTO sanction or judgement can "appeal into the void" without any further consequence.

The return into power of Democrats in 2021 did not change the US position towards both the WTO and China. Biden's administration clearly affirmed its willingness in leading "the thinking around what a new version of globalization might be" and "what a new economic

[52] Grudler, 'Against Unfair Competition, Time Has Come for a Buy European Act.'; Carbone 4, *Buy European and Sustainable Act*; Goodman, *Charged with Consequences. How Europe Navigates the Risks of Chinese Electric Vehicles*; Thomas Grjebine et al., *L'industrie européenne face au rouleau compresseur chinois*; Kratz et al., *China and the Future of Global Supply Chains*; do Prado et al., *The Road to a New European Automotive Strategy: Trade and Industrial Policy Options*; Fix and Crebo-Rediker, 'China's Double Threat to Europe'.

[53] Darina Dakmak et al., 'De-Risking European Supply Chains'.

[54] Source : https://wtoplurilaterals.info/plural_initiative/the-mpia/

world order might look like"[55]. In defining its trade policy, it highlighted that it was "worker-centered" (i.e. aimed at creating manufacturing jobs in the USA) and based on "new standards to combat the harmful industrial policies of China and other countries that undermine our ability to compete"[56]. The IRA, implemented in 2022, was one of the best exemplifications of such an approach. It contained a large range of massive local content requirements and local content incentives for the US automotive and battery sector that mirrored the "Made in China 2025" policies for the New Energy Vehicle sector, and clearly represented a significant step further in circumventing multilateral rules on national security grounds. It was also seen by many observers in Europe as the type of bold industrial policy that the EU would have needed to sustain its Green Deal and meet the Chinese challenge[57].

The second mandate of Donald Trump further escalated such an approach to international trade: from sector-specific, the Sino-American decoupling becomes systemic and reshapes trade relations with all the other economic partners on bilateral grounds, moving the US further and further away from the WTO multilateral order.

Confronted with such an evolution of the US trade and industrial policies, the EU repeating attempts of reanimating the WTO and restoring the crumbling multilateral free trade order appear more and more desperate. In its last submission on WTO reform, the EU warned that « *Without a strong political commitment by the Membership to a process of deep and comprehensive reform, the organization will slide into irrelevance, and with that the rules-based global trading system will further erode.* »[58]. The firm refusal of the US to participate in any type of WTO reform means that nothing substantial will happen on this ground[59].

From "Made in Europe" to "Made with Europe"

The EC has come to term with this new reality in the last two years[60]. The IAA can be seen as the first real test of the EU capacity "to respond to the frequent and targeted use of economic tools to advance strategic objectives" from third countries and to "reduce third country dependencies" (p.1). But both inside the EC and amongst several EU Member States there are still important resistances to accept the consequences of this new understanding of "today's geopolitical landscape". The DG Trade, in particular, together with Germany and several other Northern European countries, have fought back to keep the IAA as WTO compatible as possible.

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[55] do Prado et al., *The Road to a New European Automotive Strategy: Trade and Industrial Policy Options*, 4.

[56] Source: https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2021/june/remarks-ambassador-katherine-tai-outlining-biden-harris-administrations-worker-centered-trade-policy

[57] Alochet, *Comparison of the Chinese, European and American Regulatory Frameworks for the Transition to a Decarbonized Road Mobility*; do Prado et al., *The Road to a New European Automotive Strategy: Trade and Industrial Policy Options*.

[58] Source: https://www.eeas.europa.eu/delegations/world-trade-organization-wto/eu-submission-wto-reform_en?s=69

[59] Source: https://www.reuters.com/business/us-rejects-wto-reform-proposal-before-cameroon-meeting-2026-03-13/

[60] Draghi, *High Level Conference – One Year after the Draghi Report: What Has Been Achieved, What Has Changed*.

The result after several back and forth is a proposal that is neither WTO compatible, nor effective for meeting the "Chinese challenge" and dealing with the new "economic world order" imposed by the US. On the one hand, the IAA represents a *de facto* violation of WTO principles by introducing subsidises and regulations in favour of locally made products vs imported products. On the other hand, by focusing exclusively on the emergent green-tech side of the automotive sector and by enlarging the scope of the measure to all the countries with which the EU has FTAs or which are part of the WTO public procurement agreement (the "Made with Europe" approach), the IAA is fundamentally harmless.

Europe must decide

To resume, the proposed version of the IAA is "neither fish nor flows": it keeps the door open for a "Made with China" approach pushed by the carmakers while introducing a watered-down version of the "Made in EU" approach demanded by the suppliers; it brings the principle of European preference into EU policies and regulations, but stripped of most of its substance by excluding the majority of EU automotive production from the local content requirements and by integrating about 80 other countries in the scope of the policy (the "Made with Europe" approach).

The impact study annexed to the IAA does not provide a measure of how the IAA will meet the "Chinese challenge", but only of the estimated costs of these measures for the European automotive industry and the consumers "all other things being equal". In other terms, it does not explain what was the rationale behind these trade-offs and compromises and how they will affect the capacity of the IAA of effectively meeting the "Chinese challenge".

It is now up the European Parliament to decide whether the IAA will be "fish or flows". The purpose of this report is not only to plead for a much more ambitious and effective version of the IAA that would also say more clearly where the EU wants to go in terms of trade policy and how the EU wants to fight against the Chinese economic imperialism in this new geopolitical order; but also to provide an estimation of the impact that these trade-offs and compromises will have on the European automotive industry if the EU keeps refusing to decide.

4.1. A "China challenge" impact study of the IAA: what should be amended and why

In this section we will consider the main measures proposed or discarded in the IAA concerning the "Made in EU" policy for vehicles and how they "impact" the overall resilience of the European automotive industry facing the "Chinese challenge".

Made in EU requirements for vehicles (M and N categories)

Why excluding ICE and HEV?

Only BEV, PHEV and Fuel Cells (FC) vehicles are included. In 2025, these vehicles represented less than 20% of the total EU production of light-vehicles. While one can expect this share to increase due, first, to the effects of the 2025 CO2 target on the average sales between 2025 and 2027, and, second, to the effects of the more demanding 2030 CO2 target (also with a 3-years averaging), a very significant share of the EU automotive production will be left with no protection at all during the next seven years at least. Furthermore, the revision of the CO2 target for 2035 to a 90% CO2 reduction (on 2021 level), means that even after 2035 a non-negligeable share of EU automotive production will be made of ICE and HEV cars and vans.

The measure is incoherent with the purpose of "strengthening the resilience" of the EU "industrial base" even with its focus restricted exclusively to the "decarbonised" side of the automotive industry. Almost all the components that are used to make BEV, PHEV and FCV (tires, brakes, interiors, lights, cables, etc.) are also used to make ICE and HEV and are all manufactured by the same companies. For the resilience of these companies the current "Made in EU" requirement, which exclude ICE and HEV, is irrelevant because it only concerns 20%-30% of their sales. It is simply not possible to strengthen the resilience of the automotive supply chain for "decarbonised" vehicles without including "carbonised" ones. Indeed, the survival of the companies that manufacture parts and components for the former depends, in the medium term, on their ability to continue supplying parts and components to the latter – an ability that is now under threat from Chinese expansion.

Besides, given the revision of CO2 target for 2035, ICE and HEV are also part of the future technological solutions to decarbonise new car sales, which makes the decision of excluding them from the scope of the IAA even more debatable.

In concrete terms, the exclusion of ICE and HEVs from the Made in EU requirement leaves about €210 billion of EU trade of auto-parts (currently sourced in EU) up for (Chinese) grabs.

→ The IAA should include HEV and ICE otherwise it will not protect the European supply chain for BEV and PHEV.

Why a 70% level?

The decision to set the "Made in EU" requirement at 70% (based on the ratio between the total ex-works price of vehicle components originating in the Union and the total ex-works price of all components – excluding the battery) is justified in the impact study of

the IAA via the analysis produced by the Joint Research Council and based on Eurostat's FIGARO data for the year 2022[61].

According to this analysis, the local content (components of EU origin) for all light vehicles made in Europe was of 89% in 2022. For ICEV (including HEV) the level of local content was 87%, and for EV (BEV and PHEV) of 71%. The methodology used to obtain these results is not presented in the impact study but can be found in the JRC related article[62]. The FIGARO data does not allow to distinguish between the production of an ICEV or an EV because it covers only 64 industries and 64 products[63]: for the whole automotive industry there are just two aggregate values that correspond to the NACE rev. 2 C29 for the industry and CPA 2.1 C29 for the product. The JRC has used a new experimental methodology to disaggregate the FIGARO data using other production and trade data (Prodcom and Comtext). This new method has some important limitations, but the main problem related to the IAA is that the level found for EVs in the JRC publication (71%) does include the battery (estimated at 16% of the total inputs for an EV), contrary to what is indicated in the IAA impact study (p. 218). This is also the case of the McKinsey article, cited in the IAA impact study, that estimates at 70%-75% the "European value added" for a BEV manufactured in Europe in 2024 with the battery[64].

As we have shown above, batteries for EVs are mainly imported from outside the EU (56% in 2024), represent a significant share of the total components' value bought by carmakers to make a BEV and are not supposed to be included in the "Made in the EU" requirement proposed by the IAA.

The Roland Berger study (for CLEPA), which excludes the battery in its calculation, found that on average 83% of the components for a BEV manufactured in the EU originated from the EU[65]. This result seems coherent with a 70-75% level with the battery. It is therefore difficult to understand why the level of local content required by the IAA has been placed so low. Based on our analysis, a 70% level (without battery) gives to the carmakers the authorisation to almost double their current extra-EU sourcing for EV manufactured in the EU (from 17% to 30%).

Overall, the IAA "Made in EU" requirement covers only 25% (€78 billion) of the €297 billion of auto-parts trade currently sourced from the EU. Even if this share is supposed to increase with the growth of EV sales relative to ICEV and HEV sales between now and 2030-2035, the proposed IAA is clearly and totally ineffective to meet the "Chinese challenge" for the European automotive supply chain in terms of both scope and requirements.

→ The IAA should raise the level of "Made in EU" requirement to 80% for all type of vehicles to be effective as a "safety net".

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[61] European Commission, *Impact Assessment Report*, 178.
[62] Diaz et al., 'Transition to Electric Vehicles – Competitiveness vs Technological Challenge for the EU Automotive Industry'.
[63] Source: https://ec.europa.eu/eurostat/web/esa-supply-use-input-tables/database#figarotables
[64] Andreas Tschiesner et al., 'Europe's Economic Potential in the Shift to Electric Vehicles'.
[65] Roland Berger, *Automotive Component – Driving EU Competitiveness and Value Creation*, 11.

"Made in EU" requirements for auto-parts

In the IAA, the only requirements for auto-parts concern "the vehicle's traction battery", the "e-powertrain components"[66] and the "main electronic systems"[67].

"The traction battery must contain at least three main specific components of batteries, among which the battery cells, originating in the Union" six months after the entry into force of the regulation, and "at least five main specific components of batteries, among which the battery cells, the cathode active material, and the battery management system, originating in the Union" three years after the entry into force of the regulation.

The e-powertrain components and the main electronic systems must achieve a level of at least 50% EU sourcing three years after the entry into force of the regulation.

Why excluding all other traditional auto-parts from the "Made in EU" requirement?

The decision of not creating a "Made in EU" requirement for all the other auto-parts means that the first-tier suppliers will be (partially) protected by the European preference, but not the second-tier suppliers.

Auto-parts made by first-tier suppliers will just need to be "lastly substantially transformed" in the EU (and in all the other third-countries integrated in the scope of the IAA – see below) to be recognised as "Made in EU". As we have explained above (section 3), the last substantial transformation has very low requirements in terms of sourcing: depending on the parts some limited local content requirements can be demanded, but always below 45% and on average below 30%.

Given a current average level of EU sourcing for first-tier suppliers estimated at 80% (see section 3.3), this means that more than half of this sourcing will not be protected by the current version of the IAA.

→The IAA should introduce "Made in EU" requirements for all auto-parts otherwise second-tier suppliers will not be protected by the European preference (in our proposal we suggest an average level of 70% for auto-parts – this level will then be adjusted in line with the actual level observed in each group of relevant car parts, in accordance with the safety net principle.

Why including in the "Made in EU" requirement the "EV" auto-parts that are currently mainly imported?

Here is the paradox: on the one hand, the IAA does not protect the large majority of the European supply chain that is internationally competitive but risks of being rapidly disrupted by the Chinese economic trade expansion in the EU if an effective "safety net" is not implemented; on the other hand, the IAA introduces "Made in EU" requirements for a smaller portion of the European supply chain where Europe is currently not competitive and has structural strategic dependencies that explain why these components are mainly imported.

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[66] "E-powertrain components" means power electronics, transport propulsion electric motors and e-axles and their components, rotors and stators.

[67] "Main electronic systems" means advanced driver assistance systems, central computing units, wireless access systems, in-vehicle infotainment, head units and chassis electronics. Electronics.

While it is extremely important to reduce these strategic dependencies and to structure a complete European supply chain for battery and electric powertrain production[68], which Europe currently does not have, it would be wise to separate this objective from the objective of preserving the automotive supply chain that Europe has (but it is about to lose), and it would be even wiser to not confuse one objective with the other.

The main problem is that in the absence of a comprehensive industrial policy, as the IRA was for the US, which would imply a clear break from WTO rules, it will be extremely difficult to achieve such levels of local content, in particular for battery manufacturing. The EU has already made this mistake in the EU-UK Trade and Cooperation Agreement where it introduced in 2020 a local content requirement of 60% for battery packs and of 50% for battery cells for 2024, but had to withdraw it in urgency in 2023 because the European battery industry was nowhere near such targets.

Given the bankruptcy of Northvolt and the current difficulties of ACC, the only realistic option to meet the targets proposed in the IAA is that the European automotive industry will have to rely mainly on Chinese or Korean gigafactories in Europe. What we are looking at is clearly a "Made with China" scenario, rather than a "Made in EU" one.

→The "Made in EU" requirements for critical components should be separated from the "Made in EU" requirements for vehicles and other auto-parts to avoid confusion between the "safety net" (to protect the industries that EU has) and "local content targets" (to structure the industries that EU does not have yet).

Why making the battery "Made in EU" requirement alone sufficient for the "Made in EU" small and affordable electric car?

From this perspective, it is also very unsettling to see that the "Made in EU" requirements for the EU small and affordable electric car (M1E) are EITHER the 70% "Made in EU" minimum level on all components excluding battery OR at least three main specific components of batteries, among which the battery cells, originating in the Union.

This means that an M1E, which currently only needs to be less than 4.2 m long according to the EC proposal (about 40% of the BEV market), manufactured by a Chinese carmaker in Europe (or by an European carmaker with Chinese technology and components), with just the three main specific components of the battery originating in the Union, would qualify for all the subsidies and multipliers that the M1E is supposed to attract.

For instance, not only the Stellantis Leapmotors (manufactured in Saragoza with CATL "Made in EU" batteries) and the "Made with China" Renault Twingo (manufactured in Slovenia with CATL "Made in EU" batteries) will qualify as M1E (despite an EU local content largely below 70%), but also the future "less than 4.2 m" BYD, Geely, Dongfeng and Cherry assembled in Europe (with a 30% EU local content) and equipped with "Made in EU" Chinese batteries.

→ The "Made in EU" criteria for the M1E category should include both (and not either) local content requirements (at 80%) and battery requirements.

[68] Hermine and Hautsch, *Plan for the Emergence, Competitiveness, and Resilience of an EU Battery Ecosystem — Leveraging Combined Use of Local Content Policies and of New Public Aids Schemes*.

The scope of the IAA

Why integrating in the "Made in EU" scope all the countries with which the EU has FTAs or which are part of the World Trade Organisation Agreement on Government Procurement?

The decision to extend the "Made in EU" scope to about 80 other third countries is a way of making something that is fundamentally at odds with WTO rules – the European preference (the "Made in EU" approach) – compatible with these rules (by turning it into a "Made with the EU" approach) at least for public procurement and other forms of public intervention[69].

The problem is that the proposed scope is almost impossible to apply and creates a wide range of loopholes that Chinese companies can exploit to circumvent the "Made in EU" requirements. For instance, none of the current FTAs that the EU has with other countries requires neither a local content level as high as 70% for BEVs and PHEVs (on average is about 50%) nor the local production of batteries and critical components (with the only exception of the TCA with the UK). When an EV imported from one of these countries will be part of a bid to a public procurement tender or to other public interventions (eco-bonus, social leasing, etc.) in any of the EU27 members, who and how will verify if it is compliant with the "Made in EU" requirements?

It should be also noted that the strategy of Chinese companies to concentrate their FDIs in ultra-low-cost gateway countries to the Single Market such as Morrocco and Turkey (see figure 22 above) is here encouraged by the IAA rather than discouraged.

Now, the IAA gives to the EU the possibility of excluding third countries based on reciprocity (if Union products are discriminated in third countries' public procurement procedures or other forms of public intervention) or "to avoid dependencies or any other developments that may threaten the security of supply in the Union of the products in question" (articles 8 and 9). Nevertheless, this will require to monitor all these countries, and to start official inquiries to justify their exclusion from the "Made with Europe" access to the Single Market. Under these circumstances, these possibilities for derogation appear to be purely theoretical, given that the EU lacks the means to implement them. Furthermore, this extension (even if subject to derogation clauses) appears to be in complete contradiction with the principle of 'European preference' and with the intention stated in the IAA to use it as a lever for re-industrialisation (for emerging sectors) and for preserving the European industrial base (for mature sectors).

In our proposal, given the high degree of integration of the European automotive industries with some third countries (in particular the UK, Turkey, Morocco, Algeria, Serbia and EFTA countries), we introduce the possibility of a "Made with EU" exception for these countries, but only if they ask for it and under the condition that they align their policies with the requirements of the IAA.

→ The IAA should start from the "Made in EU" approach (cars, vans and auto-parts must be manufactured in the EU), because this is the only effective way of meeting

[69] The "extension" of "Made in EU" to third countries does not apply to the "financial support for corporate fleets" and the "CO2 emissions performance standard credits".

the "Chinese challenge" and achieve its main objective: to strengthen Europe's industrial base by 2035.

The screening of Chinese FDIs

On the paper, this is where the IAA seems to be, finally, up to the task.

On the one hand, the "Chinese challenge" is clearly identified as the IAA chapter on "foreign investment contributions" only applies when "more than 40 % of the global manufacturing capacity is held by the third country of which the foreign investor is a national or undertaking" (art. 17) – i.e. China. On the other hand, the six conditions considered for approving FDI include strong "reciprocal" criteria vis-à-vis China such as preventing control of the target European company by limiting the Chinese share to no more than 49% of the capital and voting rights; or forcing the Chinese investor to create a joint-venture with an EU company for a green-field investment, where the Chinese investor again will not control more than 49% of the capital and voting rights.

The problem here is the scope of the industries concerned and the fact that only four on six conditions are required for the approval of the FDI.

The scope excludes most of the automotive sector

The scope is limited to investments over €100 million in the following "emerging sectors":

(a) Battery technologies and its value chain for battery energy storage systems;
(b) Pure electric vehicles, off-vehicle charging hybrid electric vehicles and fuel-cell electric vehicles, including components related to electrification and digitalisation;
(c) Solar PV technologies;
(d) Extraction, processing and recycling of critical raw materials.

This means:

- that FDI in car assembly for ICE and HEV vehicles will not be included in the IAA requirements;
- that FDI in the very large majority of auto-parts manufacturing (both acquisitions and green-field) will not be included in the IAA requirements;
- and that even investments into component manufacturing related to electrification and digitalisation below €100 million will not be included.

In concrete terms, only carmakers and battery makers will be partially protected against Chinese FDI or acquisitions while almost all the rest of the supply chain will be excluded.

Four conditions on six is not enough

Even for the investments in gigafactories or car assembly plants, Chinese companies will not be forced into sharing the control of the target companies or into creating joint-ventures with EU companies for new subsidiaries. The fulfilment of the other four conditions will suffice to approve the investments[70].

These conditions are:

[70] "Investment Authorities shall only approve foreign direct investments made directly by foreign investors that fulfil either four or more of the following six conditions" (Art. 18).

- "Licensing intellectual property rights and know-how to the benefit of the Union Target, or the Union asset, to enable it to carry out its economic activities in the context of the foreign direct investment";
- Spending in the Union "an amount equivalent to at least 1% of the gross annual revenue of the Union target, or the gross annual revenue generated by the Union asset", in R&D;
- Hiring at least 50% of the workforce from the EU;
- Committing "to source from the Union a minimum of 30% of inputs used for the products placed on the Union market".

None of these four conditions appears to be particularly demanding:

- licencing intellectual property rights and know-how to a company fully controlled by the Chinese investor (in the case of the fulfilment of these four conditions) should not be an issue for the Chinese company;
- to invest 1% of the annual revenue in R&D is less than what this type of automotive subsidiaries normally do[71];
- to hire at least 50% of the workforce in the EU for a company operating in the EU should not be particularly difficult;
- a 30% local content requirement when the IAA requires European companies to meet at least 70% also appears as a very low and not demanding requirement.

If we consider for instance all the Japanese car assembly plants operating in the EU, they tend to satisfy all these four conditions.

The current IAA proposal for FDI screening is therefore very much coherent with the "Made with China" approach pushed by the European carmakers.

→ The IAA FDI screening should include the whole automotive sector; should have a lower threshold (50€ million) to include also small and medium sized companies in the supply chain; should require at least five conditions on the six proposed to validate the investment; and should align the local content requirement to what is proposed for the "Made in EU" label (80% - which was also the local content requirement the EU demanded to Japanese investors in the 1990s).

Not up to the task: what next?

To summarise, our impact study of the IAA clearly shows that in its current version the IAA is not up to the task of meeting the "Chinese challenge" at all.

The fundamental question that the European Parliament must now answer is whether it wants to choose a) the "Made in EU" approach, which can meet the "Chinese challenge" but requires a much more ambitious version of the IAA and a clear break from the WTO order; b) the "Made with China" approach, which currently gives to European carmakers a substantial margin to keep reducing their production costs via Chinese products and sourcing, but at the cost of both disrupting the European automotive supply chain and increasing the European dependence on Chinese companies, products and technologies;

[71] For instance, Toyota, Nissan and Honda created European R&D centres when they established their factories in Europe: Pardi, 'La Révolution Qui n'a Pas Eu Lieu : Les Constructeurs Japonais En Europe (1970-2010)'.

or c) the “Made with Europe” approach, which tries to preserve the WTO order but at the cost of taking most of the substance out of the “Made in EU” approach.

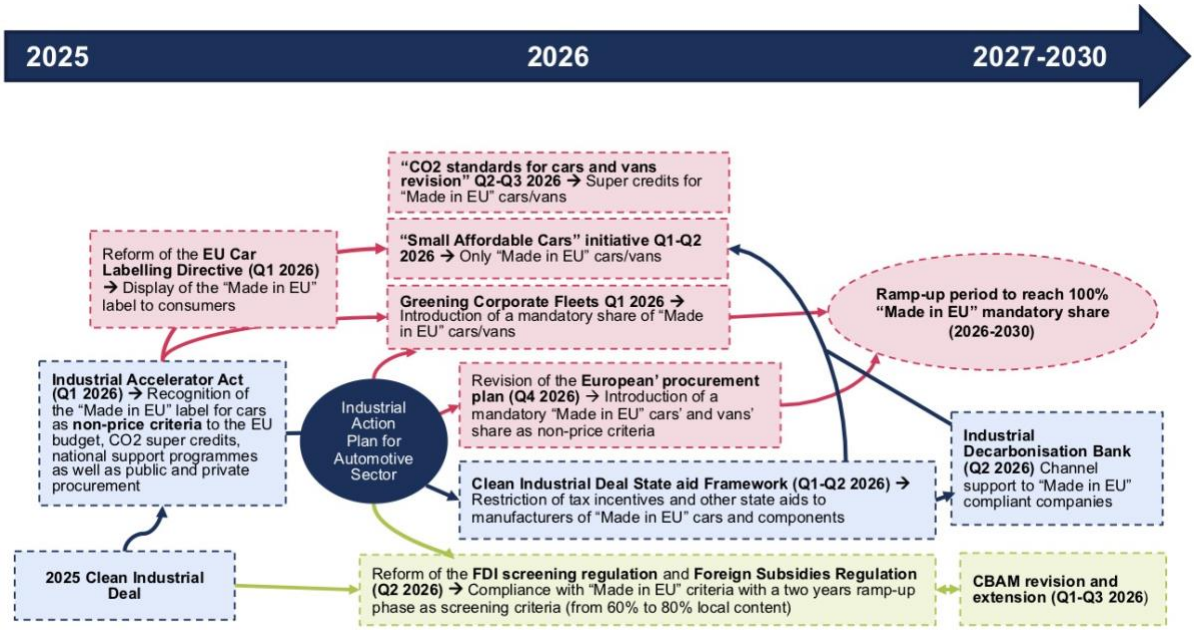
Currently the IAA is a messy and ineffective compromise between these contrasting approaches. Our conclusion is that the only way forward to achieve the objectives of the IAA is to choose the “Made in EU” approach. A “reasonable” compromise will simply not be enough to meet the “Chinese challenge”.

5. From an ambitious IAA to an effective response to the "Chinese challenge": a "Made in EU" roadmap (2026-2030)

The roadmap we propose here is coherent with the "Made in EU" approach and it starts from the implementation of a much more ambitious version of the IAA after its passage through the European Parliament. An effective "Made in EU" label for cars/vans and auto-parts will consist in establishing EU origin requirements of 80% for **all** cars/vans (including ICEV and HEV) and of 70% (on average) for all auto-parts in the Industrial Accelerator Act (May/September 2026). A separate "Made in EU" label will be also introduced in the IAA for batteries and critical components based on progressive local content targets for 2030 and will require a much more comprehensive industrial policy than the current "battery booster" and a regular review/adjustment process.

The M1E category will require both the local content level of 80% and the critical components contribution.

Figure 29. Roadmap for "Made in Europe" label for cars/vans and auto-parts (2025-2030)



The "Made in Europe" label will be then integrated in the reform of the **EU Car Labelling Directive**: only cars and vans with at least 80% of EU local content and auto-parts with (on average[72]) 70% of EU local content will receive the "Made in EU" label which will be displayed to consumers and could be used by EU member states to redesign their fiscal policies. For BEV and PHEV, the "Made in EU" label will also require compliance with the "Made in EU" label for the battery and critical components installed in the vehicle.

[72] This average level will be adjusted according to the actual level observed in each group of automotive parts concerned, in line with the safety net principle.

In the CO2 standards for cars and vans only "Made in EU" and "M1E" vehicles will be eligible to super credits (Q1 2026).

The revision of the **European' procurement plan** (Q4 2026) will also introduce mandatory "Made in EU" shares in member states' public procurement for cars and vans ramping up to 100% by 2030.

The "Small Affordable Cars" initiative (Q3-Q4 2026), which currently concerns cars shorter than 4,2 m., will only apply for "Made in EU" cars at 80% with the "Made in EU" label for batteries and critical components. As we suggested in another report[73], a mass criterion (<1 ton) should be also introduced to promote the production of electric cars lighter and smaller than those current available in the market to boost production volumes and sales and meet the demanding CO_2 targets for 2030.

The Clean Industrial Deal State Aid Framework (Q3 2026) will restrict all tax incentives and other state aids to manufacturers of "Made in EU" cars/vans, auto-parts and batteries. For this purpose, a definition based on a minimum share of "Made in EU" products on total products sold in the EU will be given as the qualifying criterion. This criterion will be also used as a condition to obtain support from the **Industrial Decarbonisation Bank** (Q2-Q3 2026) which aims at €100 billion in funding to support industrial decarbonisation and electrification.

Finally, **the FDI screening regulation and the Foreign Subsidies Regulation** will introduce compliance with "Made in EU" local content requirements for all new investments in car, vans and auto-part production. For battery production the requirement will be coherent with the local content targets set by the "Made in EU" battery regulation. Five of the six conditions proposed in the IAA will be required to authorise the investment.

The purpose of this coordinated effort is to rapidly stop the expansion of Chinese automotive exports to Europe and to prevent Chinese FDIs from relying on Chinese exports for their production in Europe.

The "Made in EU" labels will not have though any direct trade implications: it will still be possible to sell non "Made in EU" cars/vans, auto-parts and batteries in the Single Market with no additional taxes compared to the *status quo*. While this agenda will represent a break with WTO rules via the institutionalisation of the 'European preference', it will not compromise the access to the Single Market for EU trade partners (via FTAs) or with any other country (via the tariffs currently in place).

[73] Pardi et al., 'European Regulations for an Affordable Sustainable (Battery) Electric Vehicle'.

Conclusion

The comprehensive study and road map for implementing local content requirements in the automotive sector presented in this report aims at institutionalising a strong "European preference" for "Made in EU" cars, vans and auto-parts by the end of 2026.

If this roadmap is implemented, we estimate that it will limit the trade loss due to the growth of Chinese imports to about €16-32 billion by 2030, by comparison with a trade loss of about €80-144 billion otherwise[74].

It will also give a strong signal to EU carmakers and suppliers and restore their confidence in investing/purchasing in Europe. Combined with the "Small Affordable Cars" initiative, it can play a crucial role in overcoming the perfect storm currently faced by the European automotive sector and bring back production volumes and profit margins to sustainable levels.

This package of interconnected political measures to protect the European automotive sector from the Chinese "steamroller" will probably appear to some observers as too ambitious and will be met with opposition in particular from the European countries most keen in preserving the multilateral trade rules set up under the WTO umbrella. The EU still has a significant trade surplus in automotive products and it may seem contradictory to introduce protectionist measures when the EU still exports more than it imports.

Yet, when compared with the measures already taken by many other major automotive countries (the US, Japan, Korea, India) to preserve their respective economic and technological sovereignty vis-à-vis the disruptive expansion of Chinese exports and FDIs in the automotive sector, what we propose in this report is a rather modest attempt of catching up with the reality of a post-WTO world.

In just three years, Europe has become by far the main destination of Chinese automotive exports and FDIs well ahead of all these other countries. The huge and still growing overcapacities built by China in the automotive sector (amongst many other manufacturing sectors) are now outpouring at increasing speed into the Single Market. The channels through which this outpouring is taking place are getting bigger and more efficient day by day. European companies simply do not stand a chance against a price competition 40-30% below their best prices for equivalent quality products. The European supply chain will be the first to disappear; EU carmakers will eventually follow the same path.

Stopping immediately the Chinese expansion has become in 2026 the condition "*sine qua non"* of short-term survival for the European automotive sector and the first step in meeting the "Chinese challenge". The EC proposal for the IAA is not up to the task and must be amended to include ICE and HEV, to include auto-parts along cars and vans, to

[74] These estimations are made on the basis of a trade loss of €4 billion for each point of trade lost in total EU imports and equivalent to a 5-8% trade loss (with the implementation of the MiEU safety net in 2026) vs a 20-36% trade loss without such a safety net or with the current version of IAA.

raise the bar to 80% for cars and vans, to exclude third countries outside the EU from the European preference.

The purpose of this report is to make this message as clear and documented as possible and to provide a roadmap to achieve these objectives in the fastest and most efficient way.

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