

# European automotive clusters warn of increasing fragility of automotive suppliers

Press release – September 2022

The European automotive industry in general and suppliers in special face enormous challenges in these days. In order to avoid the collapse of the European automotive industry, EACN invites stakeholders on all levels of the value chain to

- 1. Consider re-examining and adapting existing contracts**
- 2. Include more flexibility in future contracts in the short-term**
- 3. Create long-lasting partnerships between stakeholders on a European level**
- 4. Review the automotive sector's internationalisation strategies**

## The automotive sector, an important factor for the European Economy

Europe is the second biggest vehicle production area in the world behind China, it stands for 22% of all vehicles produced in 2020<sup>1</sup>. In 2021, 12,1 million passenger and commercial vehicles have been produced in Europe, a drop of 28% compared to the 16,8 million units from 2019<sup>2</sup>. Direct and indirect manufacturing employments represent 3.5 million people<sup>3</sup>.

The European automotive industry's turnover represents more than 8% of the overall EU's GDP, the sector generates a trade surplus of more than 45 billion EUR. Motor vehicles are also responsible for more than 398 billion EUR of tax revenue for European governments. And finally, with 62 billion EUR, the automotive industry accounts for 32% of the total European spendings on innovation.<sup>1</sup>

The automotive industry faces important challenges such as, e.g., electrification and automatization of vehicles, changing behaviours of customers with young people using (shared) cars or the most adapted transport mean for a trip instead of buying/owning their own vehicle, or necessary greening & digitalizing of production to respond to European sustainability requirements.

## Challenges and production disruptions fragilizing the whole value chain

The automotive industry is a highly connected and specialised ecosystem where OEMs and Tier-1 purchase as well on a global level as on a very local one. Suppliers, especially SMEs from Tier-2 and lower, experience very low margins that work when production is high and predictable but lead to a lack of financial buffer for modernisation and adaptation.

<sup>1</sup> Source: [https://www.acea.auto/files/ACEA\\_Pocket\\_Guide\\_2021-2022.pdf](https://www.acea.auto/files/ACEA_Pocket_Guide_2021-2022.pdf) (consulted on 18/07/2022)

<sup>2</sup> Sources: <https://www.acea.auto/figure/eu-passenger-car-production/>, <https://www.acea.auto/figure/eu-commercial-vehicle-production/> (consulted on 18/07/2022)

<sup>3</sup> Source: <https://www.acea.auto/figure/employment-trends-in-eu-automotive-sector/> (consulted on 18/07/2022)

Unfortunately, the situation deteriorates particularly since the arrival of the Coronavirus pandemic in early 2020 with the initial production and vehicle sales stops. Subsequent delivery shortages of parts and raw materials, such as, e.g., semiconductors, coming from China and other countries, led to sharp price rises and to a significant limitation of vehicle production outputs: In the first six months of 2022, cars sales dropped again by 14,0% compared the previous year.

Manufacturers' production stoppages due to the lack of these and other components have broken the economies of scale where high and regular production volumes are indispensable to justify the small margins. Today's low volumes, increased prices, and missing short- and medium-term predictabilities of production are unsustainable burdens for suppliers that endangers their viability, their permanence in the sector, and/or their survival if they cannot balance these extra costs for their clients.

Russia's ongoing invasion of Ukraine adds new turbulences as Russia is a key exporter of natural gas, palladium, nickel, steel, coal, platinum, oil, and refined aluminium, among many other products; and Ukraine is the world's largest exporter of neon gas, which is essential for the manufacturing of semiconductors, and of catalyst wiring. Business with both markets is interrupted because of sanctions or hindered due to war impacts and destructions, adding up to already existing supply chain difficulties.

This evolution over the last two years with a big impact on production volumes and predictability as well as prices of raw material and parts is now topped by the explosion of energy and transport costs, and, recently, the high and for decades unseen inflation. The European Central bank forecasts a 2022 inflation rate of 6,8% for the euro area<sup>4</sup>, far from the target value of 2%, that will induce additional price rises as well as requests for higher salaries in the upcoming months.

### Urgent measures are necessary to save the ecosystem

Reduced production volumes, unpredictable production cycles, exploding prices for raw materials, parts, energy, or transport, and foreseeable increases of salaries are burdens suppliers cannot face based on existing contract conditions.

Thus, to avoid the collapse of the European automotive industry, EACN invites stakeholders on all levels of the value chain to

- 1. Consider re-examining and adapting existing contracts**

Existing contracts have been concluded based on today anymore existing conditions on volumes and purchasing prices for raw materials and parts. Considering this as well as usual low margins for suppliers, adapting existing contractual conditions seems essential for the survival of many of them. Avoiding additional difficulties resulting from bankruptcies of suppliers is neither in the interest of the supplier nor of the one of the customers (generally the OEM or Tier-1).

- 2. Include more flexibility in future contracts in the short-term**

The next years remain characterized by uncertainties regarding production volumes and all kind of prices. Including flexible paragraphs allowing responding to (mayor) changings improves the planning abilities for suppliers and enables them to better resist on the market.

- 3. Create long-lasting partnerships between stakeholders on a European level**

Long-lasting partnerships where suppliers are considered and just honoured for their efforts enables them adapting to the overall challenges such as evolving markets due to electrification and automatization of vehicles or greening, digitalisation and flexibilization of production and supply chain. These evolutions request important investments in design and production tools, in digital

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<sup>4</sup> Source: <https://www.ecb.europa.eu/pub/pdf/fsr/ecb.fsr202205~f207f46ea0.en.pdf>

infrastructures, or in up- and re-skilling of employees. Investments that need long-lasting and predictable partnerships including sufficient margins for suppliers.

**4. Review the automotive sector's internationalisation strategies**


Recent impacts of the Coronavirus pandemic or the Russian invasion in Ukraine highlighted weaknesses in the current organisation of vehicle productions with the global purchasing strategies: Raw materials and parts that are not any more delivered 'just in time' as in the past. Transport costs will raise and weigh more in the final price without even considering sustainability and zero-CO2 aspects. And different raw materials become even less available. Taking this into account, developing strategies based on a European circular economy idea where vehicles for the European market are produced in Europe with parts from European suppliers and raw materials issued from recycled materials wherever possible, thus giving OEMs and suppliers a clearer outlook.

### About the European Automotive Cluster Network EACN

Initiated in 2017 by eight clusters, EACN is today the leading network of clusters active in the fields of automotive, transport and mobility in Europe. The network brings together 24 clusters from 12 countries representing more than 4.250 members including big companies, SMEs and start-ups from the whole value chain, academia and research, or public institutions. All OEMs with plants in Europe are member of at least one EACN clusters.

EACN members cooperate and create synergies allowing to multiply their impact for the benefit of the European automotive industry as well as their individual members. Cooperation is done through joint communications, actions, and initiatives or in collaborative research projects.

 [www.eacn-initiative.eu](http://www.eacn-initiative.eu) –  <https://www.linkedin.com/company/eacn>

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