Made in Europe

Local content policy for the European automotive industry

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Executive Summary

Background and context

China has become the main global exporter of light vehicles, of intermediate and semi-finished goods for Electric Vehicles, of tires, brakes and their respective parts, the second exporter of engine parts behind Germany and the third exporter of body panel parts behind Germany and Mexico. Without "strong defensive action from traditional auto hubs", supply chains for both ICE and EV parts will further concentrate in China [1]. Europe is currently the most exposed region to this risk [2].

The tariffs for auto parts imported from China to Europe are set between 3% and 4,5% depending on the type of products, and at 1,3% for lithium-ion batteries by comparison with 18% to 45% for Battery Electric Vehicles. Imports of auto parts from China have been constantly rising during the last ten years and already represented in 2024 one auto part out of four imported to Europe. So far no action has been taken by the European Commission to address this risk [3]. Since 75-80% of the value of vehicles manufactured in Europe come from car-part suppliers [4], this represents a major threat to the whole European automotive ecosystem.

A letter addressed ahead of the Strategic Dialogue on the Future of the European Automotive Industry by a consortium of French and Italian equipment manufacturers and their professional associations has demanded the introduction of local content requirements and incentives to fulfil this regulatory void and preserve the resilience of the European automotive supply chain against unfair Chinese competition.

The Industrial Action Plan for the European automotive sector announced on the 5th of March highlights the need to strengthen the "trade defence" toolbox and "to investigate

[1] Kratz, Piper, and Bouchaud, 'China and the Future of Global Supply Chains'.
[2] Goujon and Sebastian, 'Car Trouble: ICTS Rule Rewires Global Auto Supply Chains'.
[3] Sebastian and François Chimits, '"Made in China" Electric Vehicles Could Turn Sino-EU Trade on Its Head | Merics'; Fix and Crebo-Rediker, 'China's Double Threat to Europe'.
[4] European Commission, 'GEAR 2030. High Level Group on the Competitiveness and Growth of the Automobile Industry in the European Union'.

unfair practices further up the supply chain, including in the batteries and parts segment *when necessary*" [5]. However, there are no references to local content requirements or incentives, at least for the auto parts' sector.

Against this background, the present reports focuses on two questions:

- **Why is it necessary to implement now a comprehensive local content policy (LCP) for the automotive sector?**
- **What type of policy mix should Europe implement to introduce rapidly and efficiently local content requirements for automotive production?**

How big is the Chinese threat for the European automotive suppliers?

To answer the first question, the report develops a detailed assessment of the risks that European automotive suppliers face if such a comprehensive LCP is not implemented at the EU level.

The analysis is based on:

- The evidences presented in the two enquiries made by the DG Trade in 2024 on illegal subsidies and trade distortions from China;
- The customs' data extracted from Eurostat concerning 18 different categories of auto parts and their trade flows within Europe, outside Europe and in particular with China, between 2014 and 2024;
- An online questionnaire completed in February 2025 by 108 French based automotive suppliers which were asked to quantify the risks represented by the "Chinese threat" and more generally by the current pressure to relocate towards extra-EU low-cost countries for their French and European production over the next five years.

The results confirm the need to implement a comprehensive LCP at the EU level to avoid rapid and massive disruption of the European supply chain.

First, both EU enquiries carried in 2024 conclude that the Chinese Government is actively promoting *"coordinated overseas expansion of Chinese brands which include both car manufacturing companies and car parts manufacturing companies*" [6]"; that "*The competitive dynamics seem to be distorted also in the industry of parts and components";* and that all the illegal tools used to support NEV manufacturers – "*direct grants, taxation policy support, financial service support and venture capital support*" – have been also used to develop the supplier industry [7].

Second, the trade data shows that the European supplier industry has remained competitive (despite the current difficulties) against extra-EU imports during the last ten years, with the only exception of China, whose imports have increased in all 18

[5] European Commission, 'Industrial Action Plan for the European Automotive Sector', 17.

[6] European Commission, 'On Significant Distortions in the Economy of the People's Republic of China for the Purposes of Trade Defence Investigations', 680.

[7] 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', 118.

categories of auto-parts considered, with significant disruptive consequences for some of them, like tires, steering wheels, road wheels and lithium-ion accumulators.

Overall the EU deficit on auto-parts with China in 2024 is of €1,6 billion (from a surplus of €7,7 billion in 2014). If we exclude Germany, the deficit for all the other EU countries in 2024 is of €7,6 billion (from a deficit of €0,5 billion 2014). Even for Germany, which benefits from important volumes of German cars exported to and manufactured in China, the trade surplus in auto parts with China has declined by €2,2 billion since 2014. **If we include lithium-ion accumulators as auto-parts, the EU trade deficit with China climbs to €21 billion in 2024 (from a €7,3 billion surplus in 2014) and also Germany is concerned with a trade deficit of €2,2 billion.**

Third, the trends identified in the trade data suggesting an emerging de-Europeanization of the automotive supply chain driven by increasing Chinese imports, are confirmed by the survey of 108 French based suppliers. On average between 30 and 50% of the French production and between 15 and 30% of the European production of these suppliers is threatened by the increasing pressure exerted by OEMs to shift their sourcing towards low-cost extra EU countries and in particular to China.

To avoid such a massive disruption of the European automotive supply chain a local content target of at least 75% is needed. An 80% threshold is suggested to preserve the current configuration from further disruption in a context already characterized by spreading factory closures and restructuring.

Such a level would also make sure that new Chinese production sites in Europe for car or component manufacturing are on the same level playing field than EU factories and do not benefit from massive imports of cheap Chinese components and parts.

Local content policies for the automotive sector

The second section of the report reviews the different types of LCP that have been implemented internationally since the 2008 financial crisis. We focus in particular on automotive related LCP to identify the types of policies implemented in other countries and to assess their record in promoting domestic production and reducing imports. We also analyse the implementation of "Rules of Origins" in Free Trade Agreements negotiated since 2016, including those negotiated by the EU, and their implications for automotive trade.

We have found that between 2009 and 2024, 5330 different LCP have been implemented in 57 countries. About 7% of these policies have been implemented in Europe but only by two countries, Germany and the UK, which have applied local value added requirements for state loans and incentives to support extra EU exports and FDI. **If we exclude this specific policy, Europe represents less than 1% of the LCP implemented.** The main countries by number of implemented LCP are Brazil, the US, India, Saudi Arabia, Indonesia, Russia and Canada. China is only 13th in this list, with about 4% of the LCP implemented, because its main policy tool to support and develop domestic industries consists in direct subsidies to Chinese controlled companies – China concentrates 75% of the direct subsidy policies implemented globally during this period. If we exclude local content incentives in Brazil (which represent alone 52% of the LCP implemented), **the annual number of LCP implemented has increased to 30**

between 2009 and 2018, from less than 10 in the previous period between 2000 and 2008, and to 70 in the period 2019-2024. Automotive related LCP represented on average 14% of the LCP implemented.

The report analyses in detail four automotive LCP: **the Inovar AUTO in Brazil** (2013-2017), **the NEV policies in China** (2012-2024), **the Inflation Reduction Act in the US** (2022-2024), and the **EV LCP in Turkey** (2019-2024).

We found that these policies contributed in reducing automotive imports and had a positive impact on new investments. We did not find evidences of price increases or reduced international competitiveness due to the long-term effects of these polices, also because their implementation was target-related (to address spikes in imports, support new emerging sectors, increase R&D investments, etc.) with limited time frames (policies evolved regularly and local content requirements were removed once the targets were achieved).

The evolution of these policies also highlights a more general change in the scope and targets of LCP. In the post-2008 crisis context, the emphasis was still on the traditional targets of such policies, i.e. reducing imports, fostering investments and upgrading domestic supply chain in strategic industries. This was typically the case in the auto-parts sector (i.e. the Inovar AUTO policy), even if many of these policies already concerned in this period new technological sectors (solar panels, wind turbines, clean energy, etc.). This was also why most of these policies were concentrated in emerging countries, and in particular in the BRICs.

In the post-2019 pandemic context the emphasis has shifted towards de-risking (reducing strategic economic dependencies) and re-shoring strategic production capacities. The main sectors concerned are now the pharmaceutical sector and clean-tech sectors including the electric vehicle value chain as in the case of IRA in the US. The most-active countries include mature economies such as the US, Japan and Korea, besides major emerging economies such as China, India and Indonesia.

The main exception in this new geo-political landscape characterised by widespread implementation of de-risking and/or re-shoring policies is Europe. The lack of such policies in Europe represents a threat to its competitiveness and sovereignty in key strategic sectors, with the automotive industry being one amongst many.

We conclude that given this evolving context it is now a matter of time before such policies are implemented, and it is reasonable to assume that the sooner this happens, the more effective these policies will be.

Rules of Origins: the right template?

To explore how Europe could rapidly address the lack of LCP for the automotive sector we analyse the current application in the EU of Rules of Origins in Free Trade Agreements. ROO are local content requirements that only apply on imported and exported goods within a given FTA. We analyse ROO for the automotive sector in 10 different FTAs negotiated since 2016, 7 of which are currently implemented in the EU.

We have found that ROO provide a solid framework to implement local content requirements by using three different criteria: change in tariff classification; value added percentage; and localization of specific manufacturing or process operations. These criteria are already applied in many FTAs and can be combined together to address the risk of circumventing strategies from third countries' exporters.

The proposal: a Rule of Origin for Made in Europe cars and auto-parts

We propose to create a ROO (as a local content requirement) for the Single Market set at 20% MaxNOM (maximum value of Non-Originating Materials) for passenger cars and light vehicles which corresponds to a local content requirement of 80%.

We propose to set at 25% the MaxNOM for auto-parts. A distinction between core-parts, principal parts and complementary parts as used in the USMCA FTA could be introduced to adjust the MaxNOM at different levels to reflect the reality of current international trade flows and avoid negative impacts on the competitiveness of OEMs. We propose to combine these MaxNOM with a manufacturing operation requirement for at least core-parts.

We propose to exclude batteries from the EU vehicles-auto-parts ROO and to have a separate ROO for batteries that will be set according to the EU "Battery Booster package" and the announced target of at least 50% value added along the battery value chain made in Europe by 2030 [8].

The new European ROO for passenger cars, light-vehicles and auto-parts will define what is a "made in Europe" car or auto-part, and could be then used in different key EU and national policies:

- In **trade policies** to exclude non "made in Europe" cars and auto-parts from the free-circulation of goods within the Single Market;
- In **public procurement** to effectively implement a "buy European" procurement plan;
- In **policies for boosting demand for zero-emission vehicles** such as social leasing schemes and corporate fleet's decarbonising schemes;
- In **incentive schemes for consumers' purchase**;
- In the **up-coming Clean Industrial State Aid framework** to define the eligibility criteria for overseas players;
- In the **FDI screening regulation** to regulate foreign automotive production in Europe.

Such a comprehensive LCP is fully coherent with the Mario Draghi's call for "protecting jobs (in the automotive sector) from unfair competition"[9] and Ursula von der Leyen's will to "ensure that the future of cars remains firmly rooted in Europe" [10]. It will align European trade and industrial policies and regulations with those of our main competitors. It will boost the resilience and sustainability of the European automotive sector and avoid the imminent massive disruption of its supply chain.

[8] European Commission, 'Industrial Action Plan for the European Automotive Sector', 11.
[9] Draghi, 'The Future of European Competitiveness', 41.
[10] European Commission, 'Strategic Dialogue on the Future of the European Automotive Industry to Start in January'.