Concept Note for the Third Strategic Dialogue on the Future of the European Automotive Industry

Brussels, September 2025

The implementation of the Automotive Industrial Action Plan is progressing…

Since the publication of the Industrial Action Plan for the European Automotive Sector on March 5, some first progress has been made in all areas of the Plan.

On **innovation**, it was decided to create more synergies between different innovation programs, making them more impactful and giving a stronger voice to industry in their design. This will be reflected in a Memorandum of Understanding to be signed between the Commission and key stakeholders in the margins of the Strategic Dialogue.

We also worked to improve **access to critical raw materials**. In March, 31 new Strategic Projects were announced relating to battery raw materials such as lithium, nickel, cobalt, manganese and graphite. These projects help ensure that the EU can fully meet its 2030 targets for extraction, processing and recycling of lithium and cobalt, and make substantial progress on the other materials.

To ensure that nobody is left behind in the transition, the Commission published, last May, new recommendations to help EU Member States address **transport poverty**. To provide better **support for workers** affected by the transition, the Commission amended, last April, the Regulation on the European Globalisation Adjustment Fund for Displaced Workers, allowing support even before layoffs occur. We also proposed to expand the European Social Fund Plus to better support workers seeking to reskill and transition out of the automotive sector.

Several measures have been taken to support the automotive industry in its transition to **clean mobility**. A change in the Regulation on the CO2 emission performance standards of cars and vans, adopted in May, gives producers of passenger cars and vans more flexibility to reach their 2025 emissions targets. Heavy-duty vehicles, on their part, will benefit from an amendment of the Eurovignette Directive, exempting zero-emissions heavy-duty vehicles from road tolls and user charges to 30 June 2031. Just before the Strategic Dialogue, a dedicated meeting specifically with truck manufacturers will take place to look into further measures.

More generally, recent figures indicate the **electrification of road transport** is accelerating. Charging infrastructure build-out continues to progress at a steady pace and has now exceeded one million charging points. Sales of electric vehicles in Europe have seen a significant increase by one quarter in the first half of 2025, reaching a market share of 17% for battery electric vehicles and 25% when also including plug-in hybrid vehicles. These figures show that the goal of 100% clean and affordable mobility in a decade's time remains achievable – if the required robust and coordinated action is taken.

…but structural challenges remain

At the same time, the situation for the European automotive industry remains **structurally very challenging, requiring bolder and faster action**. The industry is in the middle of deep

changes against a backdrop of slower demand growth and increasing competitive intensity. Many OEMs and suppliers have recently been facing worsening profit margins, with significant driving factors often including their diminishing market share in the important Chinese market, currently still structurally lower margins for EVs, and portfolio transformation costs. European players in particular are facing increasing international competition on production costs and key technologies, from batteries to software-enabled cars and autonomous driving hardware and software. This is eroding the traditional leadership of European automotive firms, and is resulting in job losses in the sector, with a huge impact on concerned workers and their families.

A rapidly changing geopolitical context

These structural challenges are aggravated by a rapidly changing **geopolitical context**, creating additional uncertainty.

Amidst this uncertainty, the recent EU-US trade deal provides clarity on trade terms for the short- to mid-term. While it successfully averted a likely scenario of very high tariffs, it also resulted, however, in a net increase in tariffs compared to the status quo ante, including for car components.

At the same time, Chinese players continue to make impressive progress, launching highly competitive vehicle models and expanding their presence in overseas markets. They operate at a cost advantage, driven by very low to negative profit margins, subsidies and other government support. In the Chinese market, EV market shares continue to grow.

More generally, the volatile geopolitical situation also increases the risks to supplies of critical inputs, including chips and rare earths, on which Europe remains highly dependent.

The next Strategic Dialogue in September is a timely opportunity to give clear orientation on Europe's position in this new geopolitical context, ahead of the initiatives the Commission will present in the coming months.

European car manufacturing in the new competitive and geopolitical context

Maintaining a European industry that delivers affordable clean mobility for all citizens, innovation and job security in Europe requires global market leadership on the cars of the future, inter alia by strengthening Europe's industrial position in areas where it is now too dependent: AI, software, advanced chips, batteries, and raw materials.

These elements are subject to intense commercial and technological competition between companies and countries. AI software and chips are increasingly central to advances in R&D and user experience, while batteries and their input raw materials are key control points in the EV value chain and important sources of employment and value-add. All these technologies also have increasingly important civil and military applications beyond the automotive industry. Therefore, other governments actively intervene in their development and export. Battery manufacturing is receiving substantial direct and indirect support. AI chips and advanced components, as well as critical raw materials, are more and more frequently subject to export control measures. This has a significant impact on European automotive companies.

In contrast, European collaboration remains too fragmented, with each automotive manufacturer maintaining its in-house or externally sourced Software-Defined Vehicle architecture, resulting in costly duplication instead of synergies through shared building blocks. And while many European joint ventures and startups are technologically advanced, they face fragmented national legal frameworks. Similarly, incompatible legal frameworks across different Member States also often lead European OEMs to pilot and test their next-gen automated vehicles in the US and China.

While the race towards the vehicle of the future is still open, the next two years are decisive to gain technological leadership on **Connected and Autonomous Vehicles**. More cooperation and better coordination of investment priorities and legal rules are needed to develop an autonomous connected car software and hardware stack 'built in Europe', AI models and autonomous driving ecosystems. The Commission is ready to facilitate this work, building on the European Connected and Autonomous Vehicles Alliance announced in the Action Plan and launched in the margins of the Strategic Dialogue.

The Strategic Dialogue is an opportunity to discuss how we can jointly achieve European leadership in key elements of the autonomous connected car hardware and software stack, and what role deeper European industry collaboration can play in this effort.

It is also crucial to build up a competitive European **batteries** manufacturing base with reliable input supplies. This will take time, resources and more collaboration. The current strategic stance towards domestic battery manufacturing also varies between Member States and different automotive companies. In the meantime, overseas players will continue to lead on battery technology and manufacturing know-how and enjoy considerable cost advantages. As a result, European OEMs will need access to affordable overseas products for some time. What is needed therefore is a thoughtful mix of measures, which may include smart local content requirements, appropriate conditions for overseas players on Joint Ventures and IP transfers, trade measures to protect against unfair subsidies, and financial support to domestic producers which may come with European content sourcing targets.

The Strategic Dialogue is an opportunity to give guidance on upcoming initiatives in this area, notably the Battery Booster. Key questions are how to define the right mix of measures, to enable a domestic industry while maintaining access to overseas supplies.

Near-term steps to implement the Action Plan

At the same time, we have to move fast to implement the remaining measures laid out in the Action Plan.

An intensive discussion is ongoing within the sector on the Commission's planned **review of the Regulation on the CO2 emission performance standards of cars and vans**. There is consensus among all stakeholders on the goal of overall climate neutrality by 2050, and the role that road transport has to play. Experts agree that BEVs are most likely the superior technology for clean and energy efficient, modern and competitive mobility. Some stakeholders indicate that internal combustion engines (ICE) with different types of carbon-neutral fuels should be given a limited role in the transition to zero emission road transport.

Several see a continued role for some plug-in hybrid vehicles and propose to take into account relevant technological developments such as range extenders, emission reductions in the value chain or European production footprints. There is also a promising discussion on the importance of "small, affordable European cars" to ensure that more people have access to clean mobility. As the market for small cars has been shrinking in recent years, more action is needed. That's why in the State of the Union, a new Small Affordable Cars initiative was proposed.

On July 7, the Commission launched a call for evidence and a joint public consultation on the upcoming review of the CO2 emission performance standards Regulation. We will carefully assess all input received, taking into account factors such as affordability, scalability, economic feasibility, impact on domestic employment and value-add (including in the supplier base), competing demands for renewable fuels from other transport modes, while being firmly committed to the principle of technology neutrality, cost-efficiency and flexibility reflecting relevant technological developments.

When preparing the impact assessment, due attention will also be paid to the segment of light commercial vehicles. The objective is clear: create the preconditions that will allow our manufacturers to invest in innovation and job security in Europe, while delivering on our shared goal of climate neutrality.

To support EV demand, the Commission will before the end of the year present a legal proposal aimed at accelerating the transition to zero-emission vehicles in **corporate fleets**. Member States are also currently finalising their Social Climate Plans, with many including Social Leasing Schemes. These could come with **local content / resilience criteria** for critical vehicle components, which could also be applied in other situations of public procurement or support.

To avoid that regulatory requirements lead to significantly higher production costs, work also continues on **regulatory simplification**, with on-going discussions with industry stakeholders on scope and content of a comprehensive "omnibus". Measures to simplify the Batteries Regulation were already taken in late May.

Heavy-duty vehicles will benefit from the Clean Transport Corridors Initiative, aimed at fast-tracking the deployment of heavy-duty vehicle charging hubs along key logistics corridors. The first two such Corridors (ScanMed and North Sea Baltic Corridors) will be officially presented later this month.

These few examples show that in the coming months, we have a full agenda. When taken in close consultation with all relevant stakeholders, these and other measures will contribute to maintaining a competitive and thriving automotive industry in Europe.