CLEPA Position Paper:

Securing Europe's automotive competitiveness for jobs and value creation

Executive summary

Local value creation is at risk. Today, up to75% of the value of vehicle components is produced in Europe, but the picture is changing fast. Batteries, semiconductors and other strategic inputs are consistently sourced from abroad. European suppliers face a 15-35% cost disadvantage compared with competitors in best-cost regions. The reasons are clear: higher energy and labour expenses, regulatory burdens, and weaker industrial support. In the meantime, rivals in the US, China and other countries benefit from lower compliance costs and stronger policy backing.

As a result, components representing 60% of an internal combustion's value, and up to 70% of a battery-electric vehicles, present a significant risks of partial or complete value transfer outside Europe. Without urgent action, EU value creation could fall by nearly a quarter by 2030, putting 350,000 jobs at risk and undermining climate ambitions and industrial sovereignty.

Europe's automotive suppliers, responsible for 75% of the total value of a car, 1.7 million jobs, and €45 billion in annual investment, warn that the EU risks losing manufacturing footprint. A Roland Berger study, commissioned by CLEPA, analysed in detail the value creation across components for a European car and the risks of value transfer. The report data suggests that a 70-75% EU local content threshold, excluding batteries, aligned with non-preferential origin rules and complement by specific target for critical technologies can serve as a realistic benchmark to define a "Made in Europe" vehicle.

We call upon policymakers to:

- **Persistently prioritise the adoption and implementation of measures to shore up EU competitiveness to relevel the playing field for automotive suppliers**

  Re-establish technology openness in decarbonisation, reinforce enabling conditions, reduce structural costs of doing business and ensure the right framework for investment, as well as support both operational and capital expenditures.

- **Urgently adopt measures to safeguard industry and value-add in Europe against a distorted playing field and maintain critical EU capacities and know-how**

  Maintain critical capacities and know-how until competitiveness measures take effect. Promote vehicles and components with substantial EU value creation through a local content policy. A 70-75% EU local content threshold would preserve industrial sovereignty, secure high-value jobs and sustain innovation. This target needs to be combined with specific targets for critical technologies to ensure that the EU is building up know-how and capabilities in critical future technologies, i.e. E-Components, EV Transmission & driveline, EV Thermal management, E&EADAS, E&E-IVI, E&E-Transversal (e.g. Central compute) and E&E-chassis (e.g. brake-by-wire, steer-by-wire).

A clear definition of what constitutes a "Made in Europe" vehicle, based on the methodology and guiding principles set out in this paper, and its formal recognition in the forthcoming Industrial Accelerator Act are essential to provide legal certainty and safeguard Europe's footprint in critical value chains. Such recognition would not only strengthen industrial sovereignty but also pave the way for coherent and consistent

implementation across current and upcoming legislation, including the Green Corporate Fleet initiative, the e-cars proposal and the CO_2 standards review.

Without immediate and coordinated action, Europe risks losing much more than its position as a global leader in automotive innovation and manufacturing. The transition to climate neutrality will only succeed if Europe preserves the skills, technologies, and production base that make it possible. Automotive suppliers stand ready to invest and innovate, but they need a policy framework that allows Europe not only to compete, but to lead.

Context

Key technologies soon may no longer be manufactured in Europe

Europe's competitiveness in the global automotive race is under severe pressure. Rapid technological shifts, soaring costs, and mounting regulatory burdens are eroding the continent's industrial base. Automotive suppliers— responsible for 75% of the automotive sector's value creation, supporting 1.7 million skilled jobs and investing around €45 billion annually in European plants, equipment, and innovation—have built decades of global leadership in components and technologies.

Without urgent policy action, the future of the automotive industry may be decided elsewhere.

Europe's local-for-local strategy is reaching its limits

Today, around 85% of the components for internal combustion engine (ICE) vehicles produced in Europe are still assembled locally, generating roughly 75% of their value within the region. For battery electric vehicles (BEVs), the average share of value created in Europe per component is 70%. Key components for connected and automated vehicles have higher local value share, but much of their subcomponent production remains outside the EU.

By 2030, EU value creation in vehicle components could decrease by nearly 23%, with a further 20% decline by 2035. This threatens up to 350,000 jobs by 2030 and undermining the EU's climate goals, as imported components often carry a higher CO_2 footprint.

A distorted playing field: EU suppliers face rising costs and regulatory drag

Automotive suppliers are investing heavily in next-generation technologies that advance the green and digital transitions, reducing emissions, improving safety, and enhancing vehicle performance. Yet overly prescriptive decarbonisation targets, missing enabling conditions (from little infrastructure deployment to the lack of consistency and sometimes abrupt cancellation of incentives), as well as insufficient support for the transformation toward zero-emission mobility have weakened consumer demand. The EU now produces 3 million fewer vehicles annually than before the pandemic, while the average age of the car fleet continues to increase.

At the same time, Europe has become less competitive in terms of costs. Rising energy and labour costs, coupled with relatively high inflation and burdensome regulations, has significantly affected productivity. Recent analysis shows a 15–35% cost disadvantage across 36 automotive technology subdomains compared to best-cost locations. Other regions benefit from more favourable industrial policies, lower carbon pricing, and less stringent environmental standards.

As a result, components representing 60% of an ICE vehicle's value and up to 70% of a BEV are subject to a significant risk of partial or complete value transfer outside Europe.

Global fragmentation demands a rethink of EU trade strategy

Local content provisions in the US Inflation Reduction Act and the United States–Mexico–Canada Agreement (USMCA) risk further diverting investment decisions away from Europe's supply chains. CLEPA maintains that competition spurs innovation, while global trade enables the specialisation that brings prosperity. However, the rise of protectionist measures worldwide underscores the need for the EU to reassess its trade instruments and fully leverage all flexibilities available within the global trading system.

Policy recommendations

1. **Persistently prioritise the adoption and implementation of measures to shore up EU competitiveness to relevel the playing field for automotive suppliers.**
2. **Urgently adopt measures to support industry and value-add in Europe against a distorted playing field and safeguard critical EU capacities and know-how.**

1. Persistent prioritisation of EU competitiveness

Tackle roadblocks for a competitive automotive industry

- **Re-establish technology openness and feasibility as a pillar decarbonisation:** Technology openness must underpin the green transition. Plug-in hybrids (PHEVs), range extenders and carbon-neutral fuels should complement emobility as part of a **substantial review of the CO_2 regulations**. The short-term relief for 2025 targets should not hide the unrealistic objectives of 2030 and 2035, looking at current market situation. Imposing fines on a sector that is already facing enormous challenges risks pushing it beyond the breaking point.
- **Reinforce enabling conditions**: Europe must speed up the deployment of charging and refuelling infrastructure, both for e-mobility and alternative fuels in road transport, strengthen the electricity grid and expand the digital infrastructure to support smart mobility solutions.
- **Make automotive a pillar under EU digitalisation:** Regulate fair access to vehicle and mobility data to foster a thriving market for digital services. Establish a Single Market for autonomous vehicles and provide a stable investment environment by bringing back the Standard Essential Patents Regulation.

Complement marked based reforms with targeted funding

- **Reduce the costs of doing business**: Focus on lowering energy costs, accelerating deployment of renewable and nuclear energy, and simplifying regulatory requirements. Cut administrative and reporting burdens by 25%.
- **Provide access to markets of scale:** Strengthen the EU Single Market and the Capital Markets Union, and foster access to markets through the ratification of negotiated free trade agreements (FTAs).

- **Secure funding for pre-competitive collaboration:** Support industry-led innovation through **a FP10 program** and allocate **targeted funding to derisk investments in the industrialisation of green and digital solutions**.
- **Support operational competitiveness:** Address the cost gap between domestic production and nearshore/low-cost countries through labour subsidies, public training programs, operating cost tax credit, simplified tax credits, etc.
- **Support capital expenditures:** Encourage the installation of modern production facilities and the upgrading of existing plants.

2. Urgent need to address distortions in global competition

The automotive industry relies on globally integrated supply chains and open trade. European suppliers compete globally, and EU competitiveness depends on deep integration with global trade and its network of Free Trade Agreements. In the long run, market-based reforms are essential to reversing Europe's industrial decline.

Yet urgent action is needed to counter growing distortions in global competition. Suppliers face an uneven playing field, losing ground to lower-cost and strongly subsidised competitors, through imports or nearshoring at Europe's edge. Without reinforced safeguards, Europe risks losing critical manufacturing capacities and know-how in strategic technologies. EU sites risk being reduced to low-value "screwdriver" operations, eroding value creation and employment.

Traditional trade defence tools are often slow and often circumvented. We therefore call for a strategic shift: Europe must complement its competitiveness agenda with a targeted **local content policy** to support both demand and supply. Demand-side measures must incentivise the purchase of EU-made vehicles and components, while supply-side measures must strengthen and expand local production ecosystem, especially in emerging domains such as automotive electronics and EV powertrain components. Such a policy is not about protectionism, but about preserving the Europe's ability to innovate, manufacture and compete.

Local content rules should be **time-bound, proportionate, and integrated** into criteria for direct car incentives, purchasing mandates for public and corporate fleets, public procurement, public funding and State Aid, and FDI screening, especially where supply chain dependencies pose economic or security risks. By setting targets at both vehicle level and for critical technologies subcomponent level, the EU can safeguard and rebuild strategic value chains.

CLEPA urges the European Commission to follow up on the Automotive Industrial Action Plan with a comprehensive package of measures to protect EU value add during a period of distorted competition. This should be a mix of demand measures, production-related tax incentives (e.g. in the domain of energy), or the use of trade and local content measures, as defined in this paper, that safeguard EU industry against a distorted playing field.

A new vision for trade

CLEPA proposes a trade vision that balances open markets with strategic measures. This is what the new approach would mean for *trade-related files:*

- **Local content requirements:** CLEPA supports the introduction of local content measures in public procurement, innovation and decarbonisation funding schemes (such as the Innovation Fund, IPCEI, and STEP) and fleet guidelines. In public procurement, local content requirements could apply while recognising inputs from GPA parties as originating. Moreover, a local content requirement can also be designed as an incentive mechanism for OEMs meeting defined local value thresholds and as a benefit mechanism for consumers, for example through tax credits for purchasing "Made-in-Europe" vehicles.

  The analysis conducted by Roland Berger shows a threshold of 70–75% EU local content could be a feasible benchmark for defining a vehicle as "Made in Europe." To make this meaningful, it should be combined with dedicated targets for strategic technologies that will shape the future of mobility, such as E-components, EV transmission and driveline, EV thermal management, E&E-ADAS, E&E-IVI, transversal electronics (e.g. central compute), and E&E-chassis (e.g. brake-by-wire, steer-by-wire).

  It is therefore essential that the European Commission formally recognises this definition of a "Made in Europe" vehicle through the forthcoming Industrial Accelerator Act. The definition should follow the guidelines and principles set out in the annex of this paper and in the study. Such recognition would provide legal certainty and pave the way for alignment across possible upcoming EU legislation, including the Greening Corporate Fleet initiative, the CO_2 standards revision and the e-cars proposal.

  Local content thresholds should also take into account the supply chain realities. For instance, the EU has a significantly higher share of value add in exterior components than in electronics. Even if the ambition to increase the EU share could be justified, it's important to recognise that a reorientation of supply chains will take place. Where sensible, the European Commission could negotiate mutual recognition (cumulation clauses) with privileged FTA partners to recognise their content as part of local content calculations.

- **Tariffs and trade defence measures**: CLEPA does not support unilateral increase of tariffs, which could breach WTO principles and trigger trade wars. Anti-subsidy or anti-dumping duties have a role to play to address distortions, such as industrial subsidies. The EU must strengthen enforcement of anti-circumvention measures in the case of duties on battery electric vehicles, for instance by applying local content thresholds to companies seeking to circumvent duties by merely assembling vehicles in Europe. Currently, local content is used as an indicator to establish potential circumvention (typically, 25% would need to be sourced locally and maximum 60% could be sourced from the country subject to an anti-dumping duty), based on jurisprudence in anti-dumping cases. Updating the anti-subsidies and anti-dumping regulation to include clear anti-circumvention criteria based on a concrete local sourcing threshold would be crucial.

- **Trade agreements**: CLEPA welcomes the European Commission's bilateral trade agenda, while placing stronger emphasis on reciprocity and balanced terms of trade. We call for the swift ratification of the Free Trade Agreements with Mercosur and Mexico and support the ongoing negotiations with India and Indonesia. At the same time, defensive interests must be carefully safeguarded, particularly in the context of talks with India and Indonesia. For example, an agreement with Indonesia would only be

meaningful for our industry if it enables companies to diversify the sourcing of processed raw materials such as nickel. Moreover, the European Commission must remain vigilant to ensure that FTA partners are not used to circumvent existing EU trade defence measures (see section on anti-dumping and anti-subsidy measures).
In parallel, the EU should continue to diversify its trade agreements agenda and deepen cooperation with both established and emerging partners. This will reduce reliance on single markets and strengthen Europe's global economic footprint.

- **Foreign direct investment:** The European automotive supply industry has significantly benefited from foreign direct investment. Companies and capital from Asia and North America have long served as a vital pillar of EU competitiveness. Our industry continues to welcome international competition and investment.

  However, current geopolitical realities highlight the need to strengthen resilience and reduce strategic dependencies. CLEPA therefore supports the European Commission's efforts to explore ways of introducing resilience-related conditions into the approval of foreign direct investments.

  In key technological areas where European industry has become overly dependent on specific geographies, we advocate for joint-venture models and local sourcing requirements. These mechanisms can strengthen Europe's industrial sovereignty while preserving its commitment to open and fair global trade.

  In parallel or as way to implement local sourcing requirements, CLEPA sees a need to enhance the foreign subsidies regulation. While the regulation is currently focused on public procurement, it lacks effective tools to address market distortions in B2B contractual negotiations.

  For example, a Chinese supplier opening a European factory, while its parent company benefits from significant R&D subsidies, could undercut EU suppliers in tenders from vehicle manufacturers.

  To address this, CLEPA supports the creation of a new pillar within the foreign subsidies' regulation, specifically aimed at redressing distortions in the Single Market arising from subsidized foreign actors. Local sourcing requirements could be an innovative way to redress distortions of the level playing field in B2B settings.

- **Green fleet vehicle mandates:** CLEPA has some reservations about this measure. However, if mandatory targets for public and private fleets are introduced, they should be linked to vehicles with a strong European manufacturing footprint, as outlined in the Roland Berger study. Such an initiative could serve as a key instrument to reinforce EU value creation, particularly in the case of zero- and low-emission vehicles (ZLEVs) and related technologies. Beyond stimulating the uptake of ZLEVs in corporate fleets, it would also support the production of their components within Europe, thereby strengthening the competitiveness of the EU's automotive supply and manufacturing industry.

  Additionally, CLEPA calls for a technology-open approach to this initiative, to not only boost the uptake of battery electric vehicles and hydrogen-powered vehicles, but also of other vital technologies for the decarbonisation transition, such as Plug-in Hybrids (PHEVS) and Extended-Range Electric Vehicles (EREVs).

We therefore plead for the European Commission to adopt a life cycle analysis method that goes beyond the production phase and includes the logistical processes, alongside the need for feasible targets for CO_2 reduction. European automotive suppliers have committed to reduce emissions in their supply chain and will face an increase of local material costs, as European industries such as steel and aluminium will be increasingly exposed to a higher CO_2 price. However, these commitments will only materialise, if local suppliers continue to have offtake for made in Europe components.

Annex: Methodology and threshold structure to define a European car

To stimulate demand, local content requirements should be designed to safeguard domestic production while fostering the development of technology-critical domains. The threshold structure and calculation methodology must reflect both the capabilities and needs of the industry. In this context, the study outlined feasibility and viability guidelines, along with a proposed threshold.

1. Principles

The methodology should:

- Be simple to implement and limit administrative burden.
- Allow flexibility for OEMs and suppliers in sourcing decisions.
- Ensure achievability through gradual targets, especially for critical technologies with less developed EU ecosystems.

2. Calculation of EU value

- Vehicle-level ratio: EU value is measured as the total price of EU components over the total price of all components.
- Definition of EU origin: A component could be considered EU-originating if it undergoes its last substantial transformation in the EU, as applied in non-preferential origin rules.
- This could be complemented by minimum thresholds for locally sourced materials, especially in critical technologies where the EU footprint is weak. Thresholds should reflect local availability, vary by component, and increase gradually over time

3. Feasible threshold

- The study data indicates that a threshold of 70%–75% EU local content is both realistic and effective, offering a clear benchmark while maintaining competitiveness and flexibility in supply chains.

About CLEPA

CLEPA, the European Association of Automotive Suppliers based in Brussels, represents over 3,000 companies, from multi-nationals to SMEs, supplying state-of-the-art components and innovative technology for safe, smart and sustainable mobility, investing over €30 billion yearly in research and development. Automotive suppliers in Europe directly employ 1.7 million people in the EU.

Interested in more information?

You can contact CLEPA's Market Affairs & Trade Manager Archibald Poty at a.poty@clepa.be

www.clepa.eu

Follow us.

CLEPA - European Association of Automotive Suppliers
Cours Saint-Michel 30g | 1040 - Brussels
+32 2 743 91 30
info@clepa.be

Status: September 2025
Image licenses: CANVA