Too big to ignore

The combined automotive and vehicle logistics sector is nearly as big a contributor to the European economy as a large country. It's time the EU did more to support its growth, writes **Costantino Baldissara**

A pertinent study into the state of the automotive manufacturing industry was presented at the ECG's Spring Congress in Dublin last month, highlighting the difficult plight of Europe's carmakers and logistics providers.

OEMs can largely be split into two groups, said Arthur Maher, director of research at LMC Automotive. On the one hand, luxury brands based in Germany are seeing strong orders, driven to a large extent by China, and are enjoying plant utilisation in excess of the 80% level required to make a profit. Car sales in China increased by more than 10m units between 2008 and 2012 – a level of growth some expect the country to maintain between now and 2016.

On the other hand, domestic European demand has been dropping off at breakneck speed. The contrast between booming China and the new lows seen in my country, Italy, could not be greater. New car registrations in Italy have fallen by 45% – that's one million units – over the last five years, the LMC study showed. We are now back to levels last seen in 1978, before younger readers of this magazine were even born. Plant utilisation rates in Italy for some factories are now reportedly languishing at little over 20%. You can imagine what this means for profits.

Over Europe as a whole, the picture is not much rosier. Production of light vehicles dropped 5% last year and is expected to fall by up to 4% this year, by which time we will be well below the levels seen in 2007. Registrations this past May also hit a 20-year low.

There have now been seven quarters of consecutive contraction. The negative growth curve is not as steep as it was in 2009 but the second dip in this double-dip recession has already lasted longer. Average plant utilisation across Europe is around 65%.

As I told the European Union lawmakers who came to the Dublin Congress, the European automotive industry and the vehicle logistics sector that supports it are facing an emergency. Profits have been squeezed to almost zero by rising costs and even the export orders that have helped keep some European logistics providers occupied are destined to dry up as OEMs bring local Asian plants online.

Only by kick-starting European demand can we hope to reverse this precipitous decline. Governments should relaunch the car scrapping schemes that so successfully brought business to both our clients and our member companies in 2009. Not only would such schemes be good news for us, but Europe's governments would also benefit. New car sales mean VAT income and tax income from those in work. A lack of sales not only means no tax income, it means increased benefits spending.

We're bigger than Greece

EU politicians have arguably paid too much attention to the plight of their member states and not enough to business. We can all agree that supporting Greece is important but the combined revenue of automotive manufacturing and vehicle logistics contributed much more to Europe's economy than did Greece. We are actually, as an industry, on a par with the EU's biggest member states in terms of our contribution.

While we ask for the support of those who govern us, the ECG is of course willing to play its part in ensuring the European automotive industry regains competitiveness. Via various working groups under the ECG umbrella, we are pushing lawmakers in the right direction. We are looking for action to alleviate the costs of the impending 0.1% sulphur fuel requirements for shipping that will come into force for much of northern Europe. We also continue to lobby for harmonisation of loaded length of overland car transporters.

Outside the corridors of the EU government, we're also examining ideas put forward by our membership, including possible joint purchases of equipment such as tyres. With the support of OEMs we hope to improve electronic data interchange. Our quality working group is examining harmonisation of storage requirements with regards to gears, handbrakes and keys.

All the while we continue to invest in people, with the latest batch of 17 young logistics managers graduating from the ECG academy this past spring. Now in its eighth year, the academy has already produced around 140 graduates, nearly all of whom are still working in the industry with either logistics providers or manufacturers. The course fosters necessary skills and allows students to become familiar with the reality of car factories, ports and railheads so future managers get a practical feel for all aspects of the industry. It also provides a great way to cement the industry contacts that will be so useful to tomorrow's executives.

The question is, what state will future students find our industry in if it is not given the attention and allowed the influence that an employer of its size needs and deserves?