



Major Automotive Global Trends of March 2024

**On the background of
“Iron Swords” war
in Israel**

April 2024 Edition



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1. Europe

EU instructed preparations for taxing Chinese-made EVs and faced criticism from without and within

At the beginning of March, the EU Commission instructed the customs authorities of EU member states to align for imposing customs on EVs imported from China by a preliminary procedure of listing all Chinese-made EVs imported to the EU in the tax and customs systems. The imposing of customs may begin in July 2024, a few months before the end of the official investigation that the EU commenced in November 2023. The investigation started with the suspicion that the Chinese government was applying a flood strategy to export cars to Europe. Moreover, taxes may be applied retroactively on vehicles already imported into Europe.

In an official document published by the commission, it was said that “Sufficient evidence” shows that the Chinese government indeed subsidizes Chinese-made EVs in a way that damages competition. The commission explained the urgency of the move by the fact that Chinese EV imports rose 14% in the few months since the investigation commenced. According to the commission, if the import from China continues to grow at that rate until the investigation is completed, European car manufacturers may suffer damage that will be difficult to correct. However, the commission emphasized, “The investigation is conducted according to strict legal procedures of the EU and the WTO, and all concerned parties, including the Chinese government, auto companies, and exporters, may submit comments, evidence, and counterarguments”.

As expected, the decision resulted in stormy reactions from all over the world. The Chinese trade mission in the EU expressed “Deep disappointment” from the decision, claiming that the rise in Chinese EVs to Europe “Reflects the growing demand in Europe for EVs”. The spokesperson of the Chinese Ministry of Trade also protested and said, “The European investigation is based on subjective assumptions about supposedly existing subsidies... and not on



evidence, and the decision conflicts with the WTO laws... the European side requested China to hold consultations in a concise period but provided no efficient background materials while violating the rights and interests of China... the EU pretends to defend its industry in the name of 'Fairtrade' but this is pure protectionism that will disrupt and distort the global auto industry and supply chain, including in Europe, and will have a negative effect on the commercial and economic relations between China and the EU".

According to commentators, this represents a clear threat by the Chinese government that may retaliate and damage the competitiveness of European companies in China. It is still being determined if customs will apply to vehicles produced by non-Chinese manufacturers in China. On the other hand, the decision was criticized by European auto companies that the customs are supposed to defend. The most significant fear is that their interests will be harmed should the Chinese government decide to retaliate.

On March 19th, Luca De Meo, CEO of Renault and the chairman of the ACEA, sent a letter to the EU Commission, saying that European states should strengthen their collaborations with the Chinese EV industry. He claimed, "Completely shutting the door to China would be the worst possible reaction". He also said that Europeans must face the Chinese competition by strengthening the cooperation between EU member states and the private and public sectors. According to him, "Executing an ecological transformation requires a joint effort. Due to pressure from the financial markets, European manufacturers must focus mostly on short-term profits and not long-term results. China united its' institutions, including the financial ones, around one joint goal, and we should take their example". De Meo suggested dealing with the upcoming Chinese export wave by launching all-European strategic projects such as developing small and cheap EVs, smart charging, and supplying critical raw materials. In addition to creating "Environmental economic zones" within the EU, it will give subsidies to European car manufacturers for at least the next decade.



ACEA: The growth rate of PHEVs surpasses that of EVs in February

There are additional signs of a shift in European customer preferences. According to ACEA figures, the growth rate in PHEV sales in February surpassed that of EVs for the first time in a long time. PHEV deliveries grew by 12% to 72,376 units, while EV deliveries grew by only 10.3%. These figures represent an opposing trend to 2023, in which PHEV sales fell significantly behind the market and dropped by 2.4% compared with 2022, while EV sales rose by 28.2%.

According to estimates, more manufacturers are concentrating on PHEVs to lower their average CO2 emissions. Many manufacturers, especially in the premium segment, are identifying a growing preference for hybrids with long-range over EVs. New car sales in Europe grew in February by 10% to 995,000 units. EV market share remained unchanged.

EURO 7 drawing to a close: emission demands are low, but there are new ones relating to batteries and brake wear

In March, the European Parliament approved the final version of the new EURO 7 emission regulations previously approved by the rest of the EU institutions. The agreement was approved in the parliament plenum meeting with a majority of 297 votes against 190 that voted against it and 37 that abstained. This softened, and controversial formula has caused stormy negotiations since November 2022. The European auto industry severely opposed the original formula, and eventually, the auto manufacturers won, and the existing EURO 6 from 2014 remained almost unchanged.

However, the new EURO 7 does include new demands relating to the longevity of EV car batteries and limiting the emission of particles created in the brake systems. According to the new regulations, the batteries must supply at least 80% of their capacity after five years, or 100,000 Km, 72% after eight years, or 160,000 Km (75% and 67% in Electric LCVs). Regarding brake systems wear,



the bar for PM10 particle emission for cars and pickup trucks is 3 Mg/Km for BEVs and 7 Mg/Km for Hybrids and FCEVs.

An additional innovation is that in the future, each new car in the EU will have to have an “Environmental passport” that will include all its’ environmental performance figures during registration, including emissions, fuel/electricity consumption, range, battery life span, and emissions related to its production process. The manufacturers will also have to present all the relevant information to customers on screens in the car itself. The last hurdle for the new regulations is approval by the Council of the European Common Market. However, this approval is expected to be automatic.

European Parliament seeks to enable higher GVW for ZE trucks

In March, EU institutions continued to advance the proposal to allow higher weights and longer lengths for ZE trucks. The European Parliament approved a preliminary outline, according to which the maximum GVW for ZE trucks – BEV or FCEV – will be extended to four tons to compensate for the volume and weight needed for the massive batteries and fuel-cell systems.

The EU Commission raised the issue to the agenda in mid-2023, claiming that technological innovation will make ZE trucks lighter and afford better transportation in the long run.

It should be noted that the GVW for ZE trucks in the EU is already higher by two tons, but the regulation failed to promote their market penetration due to their high prices.

It should also be noted that elements in the European parliament aspire to allow the weight bonus to diesel trucks until 2035 so that any 44-ton truck can travel in the EU territory regardless of the type of propulsion. However, environmental organizations warn against such a “Wide interpretation” of the law due to its environmental implications and the fact that such regulation will increase the attractiveness of polluting diesel trucks.



New German research: the chances of the country meeting the government's goal of shifting to EVs are not conclusive

Germany is one of the leading states in the world in promoting the shift to EVs. The country even set ambitious goals for the number of EVs driving on its roads by the decade's end. However, research published in March shows that these goals are almost unreachable.

The research, funded by the BEE (German Renewable Energy Federation), it shows that new EV sales in Germany would have to be quadrupled in the next three years and multiplied six times by 2030 for the country to meet the government goal of 15 million EVs. The research estimates that at the current rate, by the end of the decade, there will be only 10 million EVs on German roads and also that greenhouse gas emissions will be lower by a third compared with the planned goal. The lobby advocates lowering emissions by promoting public transportation, extending the use of agricultural and synthetic biological fuels, and limiting the speed of the Autobahn. The German minister of the economy also admitted that “We will not reach the goal of 15 million EVs by 2030”.

In 2023, over 524,000 EVs were sold, more than in any other European market in Germany. PHEV sales dropped by more than half to 176,000 units. However, on January 30th, the VDA announced that the cancellation of subsidies for EVs at the end of 2023 caused a slowdown in demand. According to estimates, EV sales in Germany are expected to drop by 14% to 451,000—the first decrease in the past eight years.



2. USA

The EPA flexed and introduced softened goals for reducing emissions from transportation in the US for the upcoming decade

Regulators at the EPA were gradually trying to withdraw from their original position a year and two years ago when they introduced aggressive targets for stopping the production and sale of ICE vehicles. After the EU published a softened version of the EURO 7 emission regulations, the American EPA joined it in March. It also published a “Softened” version of its original plan for reducing emissions by 2032.

The EPA’s original proposal for 2027-2032 aspired to instruct American auto manufacturers to reach a rate of 60% EV sales by 2030 and 67% by 2032 to lower the emission average of their models by 56% in 2032, compared with 2026.

In the version that was finally adopted, emissions are not supposed to drop by 56% by 2032 compared with 2026, but only by 46%. Also, the manufacturers will have to achieve an emissions average of less than 170 grams of CO₂ per mile in their fleet by 2027, compared with a target of 152 grams per mile in the original proposal draft. In 2032, the bar will be gradually lowered to 85 grams of CO₂ per mile instead of 82 in the original formula.

The EPA stated that the new demands don’t comply with the manufacturers of any specific type of propulsion to achieve them, and they can decide independently how to reach the average emissions limit. However, it is understood that with existing technology, the only way to do that would be by selling significant amounts of EVs and PHEVs. In the US, it is estimated that



the new regulations will result in a 30-56% penetration rate for EVs between 2030-3032, compared with the original target between 60-67%.

The EPA rejected claims that it has succumbed to the pressure of the auto manufacturers' lobby and claimed that the new regulations would achieve the same reduction in greenhouse gas emissions as the original proposal. However, US commentators argue that the softened targets in the new plan reflect a drop in the American auto industry's enthusiasm for EVs.

EV sales in the US slowed down in the first quarter, and the manufacturers are starting to focus on hybrid models

Is the demand for EVs in the US declining despite the administration's efforts to promote them? Data shows that such a trend began in March. American media quoted senior executives and analysts from the auto industry saying that car manufacturers and dealers have started to increase the production of hybrid and PHEV models in response to growing customer demand. At the same time, many manufacturers are postponing the development and production processes of new BEVs.

According to data from Morgan Stanley's research division, hybrid car sales in the US grew in February at a rate five times higher than EV sales. Stellantis also reported that in the second half of 2023, sales of the Jeep Wrangler PHEV caught half of the model's total sales in the US, compared with only 37% in the first half of last year. The chairman of Toyota USA mentioned that the company is aligning to significantly increase the number of hybrid models it is marketing in the US in 2024 and their sales.

Tier 1 suppliers to the auto industry, such as Schaeffler, reported that they are entering long-term investments to expand the production of components for hybrid vehicles. The German company intends to invest 230 million US\$ in a new Ohio plant to increase axle production for hybrid powertrains.



American auto companies' investments in developing hybrid cars in exchange for EVs are challenging today, as is the environmental policy of the Biden administration, which emphasized incentives for EVs. This trend also hinders the environmental pressure group's plans to set an earlier date for stopping the production of ICE vehicles.

Although the Biden administration keeps channeling incentives for EV production, US analysts estimate that most traditional auto companies may lose heavily from producing them should the administration change after the election and be replaced with a less environmental policy that will decrease the incentives. On the other hand, hybrids will continue to be profitable in such conditions and help manufacturers reduce their average emission values to meet federal targets. "From a regulatory perspective, hybrids are a significant hedge from governmental changes", said one analyst.

A study by Boston Consulting, published in late March, assesses that most auto manufacturers lose \$6,000 on every EV they sell for \$50,000 after accounting for the tax incentives given to US customers.

US presidential candidates and their agenda regarding limiting car import from China

The turbulent upcoming US elections climbed another step in March as one of the main agendas is car import from China. In February, President Biden, the Democratic candidate, announced that he had instructed the US trade secretary to open an investigation following suspicion of using Chinese "Smart" connected vehicles to gather information and damage the US's national security. The investigation had just commenced, but despite vigorous denial by the Chinese government and the minimal presence of such vehicles in the US,



it will likely evolve into a significant trade barrier for car export from China to the US.

In March, it was republican candidate Trump's turn to propose blocking the import of Chinese cars to the US. He intends to impose a 100% customs tax on Chinese vehicles manufactured in Mexico and imported to the US. Trump said, "Chinese auto manufacturers are now building huge car production factories in Mexico, thinking they can sell them to Americans without employing Americans. That will not happen. We will impose 100% tax on these cars". Earlier, Trump threatened to impose 50% customs on each Chinese car that will be imported from China and added that he is not worried about China or any other country's retaliation.

The speaker of the Biden campaign called these words "Political violence", but both candidates are now under pressure from the UAW and the American car manufacturers lobby to block the import of cheap Chinese cars and components from Mexico. The goal is to "Block the backdoor open to Chinese car import and prevent damage to many auto production plants in the US and worker layoffs".

American auto market March sales projection: swift recovery following a weak beginning of the year

After a weak opening of the year, in March, the American auto market is expected to present an impressive leap in sales, revealing the early projection of J.D. Power. According to the projection, total car sales in March, including private and fleet sales, will be around 1.526 million units, an increase of 12.1% compared with March 2023.

The seasonally adjusted sales rate (SAAR) is now at 16.4 million units, an increase of 1.6 million compared with March 2023 SAAR. Total sales of cars in



the first quarter of 2024 are expected to reach 3.83 million units, an increase of 4.5% compared with last year.

Private customer sales in March are expected to be around 1.225 million units, an increase of 10.7% compared with last March, and in the entire first quarter, a rise of 4.5% compared to the previous year. Company analysts say that despite impressive sales performance, they come following a reduction in profitability of manufacturers and dealers and a rise in unsold inventory. Dealers inventory levels in March are expected to be 1.7 million units, an increase of 4.2% compared with February 2024 and a drop of 31.9% compared with March 2023.

The average deal price is expected to continue dropping in March to \$44,000\$, a decrease of 3.6% compared with last March. The overall retail profit, including insurance and finance, is expected to be \$2,500\$, a decrease of 31.9% from March 2023. The drop stems mainly from the increase in unsold inventories and the fact that fewer cars are sold now above the MSRP. In March, only 15.7% of new cars were sold above the recommended price, compared with 31% in March 2023.

J.D. Power estimates that 31.7% of the cars were sold within ten days of arrival at the dealership, a drop from the record of 58% registered in March 2022. The average time for a car to remain in the dealer's inventory is expected to be 45 days, 15 days more than last year.

Manufacturer's incentives are expected to rise by 170% compared with February. The incentives rose by 66.6% from last March and are on their way to an average of 2,800\$ per car, or 5.8% of the average price, a rise of 2.2% compared with last year.



After steady growth during the last years, the average monthly payment for car financing is stabilizing at \$722\$, unchanged. However, the average interest rate for new car financing is 6.8%, an increase of 13% compared with last year.

3. India

Indian government approves incentives for EV manufacturers to establish factories in India

The Indian government faces heavy international pressure to improve its' problematic environmental balance. The result of using polluting energy sources and industrial facilities. Like many other governments in developing countries facing the same situation, India also waves the "EV flag" to reduce pollution. It is investing significant capital in trying to attract global EV manufacturers.

At the beginning of March, the Indian government approved an incentive plan to transform India into a global center for EV production. According to the new regulations, manufacturers that establish production plants in India will receive an array of benefits, including significant tax reductions on EVs imported to the country.

Commentators claim that the new plan that took effect immediately in March stems, among other things, from Tesla's prolonged lobby since the company will be one of the biggest profiteers from having a plant in India. Tesla has been negotiating with the Indian government for over a year, to the dismay of the local manufacturers that have so far benefited from near exclusivity in the growing Indian EV market. Vinfast from Vietnam is also expected to benefit from the incentives after building a factory in southern India with an investment of 2 billion US\$.



According to the plan, the government will lower customs taxes on EVs for the selected manufacturers to 15% only instead of 70-100% today. That benefit will be given to a limited amount of up to 8,000 cars a year for each manufacturer that will commit to invest at least 500 million US\$ in EV manufacturing in India over the next three years. The scope of tax reduction depends on car prices and a limit of \$ 50,000\$ per car. The Indian trade minister said: “We invite global companies to come to India... I’m sure India will become a global center for EV production while creating jobs and improving trade”.

India is the third-largest auto market in the world. According to Reuters, in 2023, EV sales constituted only 2% of total car sales in the country. However, the trend is growing. It should be noted that local OEM manufacturers oppose opening the market, which is why the government has been cautious so far.

4. China

The price war in the Chinese auto market is escalating, still with no significant results

During March, the price war in the Chinese auto market escalated, and almost all local car manufacturers, especially in the EV segment, slashed prices by hundreds and thousands of dollars per model. These moves are expected to significantly hurt the manufacturers' profitability, while some are marketing cars at low prices to maintain their market share.

However, a new study published by McKinsey Consulting in China in March suggests that the overall impact of competition on consumers is limited. The research, which was carried out among thousands of Chinese consumers, found that over 60% of respondents said that they view this phenomenon neutrally; that is, they await further developments and will not purchase a car at this time despite the discounts.



According to the researchers, most of the impact is on consumers with a lower financial ability, and the discounts encourage them to upgrade their old cars with new and advanced ones from the lower price tier. As part of the price war, manufacturers are now offering quite a few new EV compact models with reasonable range at a price of less than 12,000 US\$.

The research results show that over 80% of respondents said that the situation has not affected their purchasing decision positively or that it has affected it negatively, prompting them to postpone their purchase. After the price war, only 4.4% of consumers were convinced to buy a new car.

The researchers believe that consumers in the low and medium-price segments tend to develop a “Wait and see” approach, given the fierce competition that harms the value of used cars. Interestingly, Tesla, which ignited the price war in China in 2023, made a sharp turn in March, announcing it is raising the price of the Tesla Model Y in complete opposition to the market trend.

China files official complaint with the WTO

Two years after the Biden administration started implementing an EV subsidizing policy that discriminates against Chinese cars and batteries, the Chinese government filed an official complaint with the World Trade Organization (WTO).

The Chinese government claims that this is a “Discriminatory” policy that denies 3,750-7,500 US\$ tax benefits from EVs if their batteries or part of their components are manufactured in China, Russia, North Korea, or Iran.

Commentators estimate that while the Chinese have given up the chance of exporting complete EVs to the US long ago, the “Embargo” on Chinese-made



batteries and components is severely damaging Chinese battery manufacturers, causing them to lose significant clients in the auto industry.

It should be noted that Chinese suppliers dominate 85% of the global EV battery supply, including European, Japanese, and Korean manufacturers. The Chinese WTO delegation said, "Under the guise of addressing global warming, the US is adopting a policy that contradicts the accepted rules of the WTO." The Chinese also mentioned that the US policy endangers the global supply chain for EVs.

5. Global

Estimates in the auto industry: the prolonged attacks in the Red Sea are causing European car prices to go up

The fighting in the Red Sea and the Houthi rebels attacks kept escalating in March, and senior analysts are estimating that the negative influence of the situation on the European auto industry supply chain will be felt soon.

Since the beginning of 2024, most freight ships traveling from Asia to Europe and back have avoided passing in the Suez Canal, and operations in these lines entered a "New routine" with long transportation times. According to data, marine transportation rates are somewhat dropping compared with the peak at the beginning of the war. Rates from Asia to North America fell by 10%, Asia to North Europe by 20%, and Asia to the Middle East by 34% compared with the end of January rates.

Even the lines from India to Europe that absorbed the full impact of the fighting in the Red Sea started registering price reductions, and some shipping companies postponed levies and price increases originally planned for March.



However, analysts estimate that the prolonged disruptions in the supply chain and the longer transportation times are increasing the cost of specific imported components that are vital to the auto industry, such as electronic components manufactured in Asia for their primary market in Europe.

According to estimates, the crisis doubled the delivery time of electronic components sent via sea from Asia-Pacific to Europe and caused transportation costs to increase significantly. This situation causes the prices of the parts using these components to improve. Delays production and affects the total production costs. As a result, car delivery times are becoming longer and there is a situation similar to that of the “Chip crisis”. Analysts mention that 70% of the electronic components purchased by the European industry travel through the Suez Canal in peaceful times.

According to the analysts, the attempts of the auto industry and other industries in Europe to compensate for the prolonged maritime transportation times by expanding air delivery are faced with problems of air congestion and causing an increase in prices. Since the middle of December 2023, air delivery prices from South Asia to North America rose by 43% to 4.3 US\$/Kg, and prices to Europe increased by 7% to 3.02 US\$/Kg.

6. Israel

The economic committee postponed the cancelation of the yearly license fee for EVs. Purchase tax uncertainty for 2025 continues

In March, uncertainty regarding the future tax outline and benefits for EVs deepened after the economic committee rejected the vote of the ministries of finance and transportation to cancel the lowered license fee for EVs.

The official reason for the postponement was the PM’s claim that the move “Will burden EV owners in a time of financial crisis, many of the residents of the periphery.” An additional reason given was a negative effect on the shift to



green transportation. Today, EV owners pay a fixed 550 NIS yearly license fee, regardless of the car's value, and according to the finance ministry data, that benefit costs, on average, 1,700 NIS per car. Cancellation of the benefit will result in an additional 200 million NIS annually starting from January 2025, and the sum will grow significantly as the number of EVs grows in upcoming years. It should be noted that the proposal to cancel the benefit already appears in the budget proposal. Also, the money will be channeled to the "Transportation justice reform" the transportation minister is promoting. However, sources in the finance ministry were quoted in economic media saying that canceling the license fee is part of "An array of steps designed to allow for the continuation of purchasing tax benefit for EVs from the beginning of 2025". Therefore, its' cancellation may also cause the cancellation of the purchasing tax benefits for EVs.

It should be noted that at the beginning of 2025, the purchasing tax benefit plan for EVs implemented in 2019 is supposed to expire, and the tax will increase to 83%, the same as petrol cars. That is unless the order is renewed before the expiration date. According to the array of steps, the purchasing tax was supposed to increase from 35% to 45% at the beginning of 2025. Also, EV deliveries in the first quarter of 2025 caught a 25% market share. According to the Ministry of Energy's current projections published in 2023, this market share was supposed to be achieved only at the end of 2025. The current penetration rate, should it continue, is ahead of schedule, and state income from car purchasing tax will decrease this year beyond the projections accordingly.

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