

CORONA and the AUTOMOTIVE INDUSTRY

Some reflections on what is happening now and how this could affect the future

Following the global outbreak of the Corona virus ,most automotive manufacturers have by now announced measures to close their production facilities, certainly in Europe and in the Americas ; at the same time, these announcements to halt production has triggered questions about what to forecast for the remainder of the year 2020. How will this crisis affect production and sales for the remainder of the year 2020.

The Corona virus or better called COVID-19 has started to contaminate the entire automotive industry across the globe after it first had hit China and the rest of Asia several months ago.

Before OEMs decided to stop production across more countries, everybody tried hard to explore how best to address health and safety concerns for the many workers on the assembly line : how to respect social distancing requirements when you work on an assembly line (which consist of keeping between people a distance of 1,5m) ? Hard to do . This was initially the subject of discussions between the big three OEMs and the unions in the US till they also decided that the only way forward was to stop production all together.

According to reports in the *Financial Times*, the deal between the “Detroit Three” to halt all manufacturing until the end of March came just hours after additional plant closures across Europe brought the continent’s auto industry to a near-total standstill.

In parallel, many governments ordered closure of businesses and shops which triggered the closure of most dealerships and repair shops, especially in Europe and the US . One could argue that dealerships are vital ,not only for sales and vehicle maintenance, but also for safety repairs and recall and warranty work and should be authorized to stay open in order to serve their customers. In some countries they went even that far by mandating that technical inspection of vehicles had to be put on hold. Some governments started to realize this was a step too far and some have reopened technical inspection units again.

It is hard to imagine how bad the impact will be of these measures on production & sales of vehicles, across the globe, after the initial negative effects on the markets in China and the rest of Asia. According to *Forbes*, some forecasters were predicting that European sales might only slip a manageable 5%, but only last week *Professor Ferdinand Dudenhoeffler, in a report for the University of St Gallen, Switzerland*, said his best case scenario was sales in Western Europe diving over 10% in 2020 to 12.7 million from 14.3 million the previous year, with the market not recovering to 2019 levels until 2030.

“Western Europe’s auto market will shrink around 19% in 2020, contributing to a 9% decline in new car sales worldwide as the Covid-19 pandemic disrupts the industry’s

supply chains, brings production to a halt in some countries and suppresses demand,” Berlin-based *ratings agency Scope* said in a report. Let’s not forget that the impact the Corona crisis will have on the automotive industry , is coming on top of the costs of technological change the sector has embarked upon as well as the trade wars triggered by U.S. President Donald Trump.

This is obviously bad news, not only for OEMs but for the entire supply chain globally including suppliers as well as dealers and repair shops. Where some OEMs were able to restart production in China while closing production in Europe, some do now get hit by the lack of supply of parts & components from Europe: this starts to underline the vulnerability of the currently adopted global business models in the automotive industry.

When we look at the medium & long term impact that the COVID-19 virus crisis will have for the automotive industry . I can already anticipate major implications in three important areas:

First of all, the implications on currently used supply chain models , second the impact for environmental measures to address climate change and third the opportunity this crisis creates to rediscover the value of vehicles for society.

According to *Oliver Zipse, Chairman of the Board of Management of BMW AG*, the current crisis means the “one model for the world” approach no longer works. It will require some major rethinking about how to drive new efficiencies in the current global and fully integrated supply chain systems . This was an issue already becoming clear when discovering the painful negatives of BREXIT for the automotive suppliers and manufacturers operating across the Channel.

When talking supply chain , we should not only consider the impact on how to work with suppliers but also with dealers . As correctly pointed out in a recent report by *McKinsey* , in-person contact is essential to many purchases, especially those within the automotive sector, where customers traditionally have extensive interactions with salespeople at dealerships as they seek product information, consider their options, and evaluate available models. COVID-19 has changed this dynamic in hard-hit areas, since many people are staying at home, either voluntarily or because of quarantines and travel restrictions. To serve these regions, automotive OEMs can strengthen their online marketing and sales channels, by allowing customers and dealers to make offers and purchases on-line. While for many customers, online information cannot substitute for a test drive, McKinsey suggests that OEMs could consider supporting dealerships in providing at-home demonstrations and test drives for customers. Such strategies limit personal contact while also giving customers the on-road experience they need.

Separate from rethinking supply chains, the question must also be raised on what impact the consequences of this health crisis will have on how we best proceed to deal with climate change.

Production in many sectors is now on hold ;many people have stopped traveling for business or for leisure which has created a disaster for the airlines and tourism industry ; instead of driving to work, people stay home to do telework .

According to *Glen Peters, Research Director at the Center for International Climate and Environment Research - Oslo*, there is a strong link between economic activity and global carbon dioxide emissions, due to the dominance of fossil fuel sources of energy. This coupling suggests we might be in for an unexpected surprise due to the coronavirus pandemic: a slowdown of carbon dioxide emissions due to reduced energy consumption.

Based on new projections for economic growth in 2020, the impact of the coronavirus might significantly curb global emissions. However, emissions declines in response to past economic crises suggest a rapid recovery of emissions when the pandemic is over.

This means that there will be a need to continue reducing also CO₂ emissions from transport and from vehicles.

The current Corona virus crisis with suspension of production and sales of vehicles will negatively affect the capacity and capabilities of OEMs to meet the stringent CO₂ emission targets in the European Union which they have to meet by end of 2020 and 2021 under the currently applicable European CO₂ regulations. Already before the outbreak of Corona, several OEMs saw further increasing CO₂ emissions across their brand portfolio mainly due to the continued increase of sales of gasoline cars to the detriment of diesel powered vehicles. While all OEMs continue to show commitment to meet the CO₂ targets, the current suspension of production will make the situation only more challenging to be ready for the market with more low and zero emission vehicles; these should be sold still this year massively in order to meet the CO₂ target of 95 gr CO₂/km. The fact that governments will now focus all budget expenses to deal with the current health crisis (rightly so), will not help in getting more investments into recharging infrastructure for electrically chargeable vehicles.

All this comes at a time that the new European Commission announced to launch a European Green Deal to make Europe's economy carbon neutral by 2050, which will require even more ambitious CO₂ reduction targets in 2030 than already agreed to date.

This will force the European Commission and governments in Europe to reflect on how best to proceed to find this delicate balance between what is needed for the planet, for people and for business. It is already clear now that businesses and governments will have to team up to adopt economic recovery plans which will support all industries including the automotive industry to move out of the current crisis situation.

There is an opportunity to invest the stimulus money in structural changes leading to reduced emissions after economic growth returns, such as further development of clean technologies and the right enabling infrastructure.

Next to the impact on the business model of OEMs and on the fact that this may affect the capability of OEMs to deliver on further CO₂ emission cuts, we should not forget that this crisis also underlines how important vehicles are for society.

We now need more than ever vehicles to ensure medical care and to transport medical supplies to the hospitals where people are being treated; we will need more than ever to keep open the supply of food and other essential products to our

citizens: this requires commercial vehicles which can continue transporting these essential goods. While in many public debates recently, vehicles were seen as something evil only to be blamed for the emissions they trigger, increasingly one starts realizing that the sector provides also much needed mobility solutions which are essential to survive a crisis like we experience today .

We should and can use this crisis as an opportunity to showcase the benefits we can bring to our society without dismissing our responsibility to continue innovating in order to develop vehicles which are more respectful to the environment. At the same time, we can learn from the issues currently experienced to start addressing them for the near future; this will require further review in consultation with all other relevant stakeholders across the automotive value chain : this should make the industry stronger than ever before.

Let me conclude with some ideas on what can be done in these challenging times by those active in the automotive business: First of all , the current situation is forcing all industry players to be ready with a crisis management plan : there is no room for improvisation in order to protect not only your business but more importantly to care for your own employees and customers. Second, this crisis reminds us that even in times that personal contact has to be avoided for safety reasons, we should explore new ways to maintain and establish contacts with suppliers , customers and employees by fully leveraging the digital tools which are available to all of us . These tools enable you now to invest more time in training people , in following up with customers and suppliers or to find more innovative ways to present your product or services. Third, this crisis will force you to review your business plan , possibly to review some of the choices you had made for the year , jointly with your suppliers or customers : we are all in the same boat : it will be key to reach out proactively to explore jointly solutions for the challenges everybody is now facing . This will trigger more clarity on where you could use more support from government and allow you to be clear and vocal on which type of government support will help you. Given that different countries face different challenges , such analysis and focused assessment will also help to clarify your needs versus headquarters of the companies you possibly represent. Important here is to understand first , clarify and communicate what you need afterwards.

Never waste a crisis!

Erik Jonnaert

The author is currently managing director of a new consultancy Jonnaert International Consulting based in Belgium ; Erik is the former Secretary General of the European Automotive Industry Association ACEA (2013-2019) and was recently appointed by OICA, the Global Automotive Manufacturers Association, as its Special Envoy Road Safety ; Erik is also on the board of the Belgian Automotive Industry association FEBIAC and on the advisory board of the McKinsey Center for Future Mobility

Belgium, March 22 2020