



Major Automotive Global Trends of April 2024

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

May 2024 Edition



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1. Europe

The German government and auto industry call the EU to avoid imposing customs tax on Chinese-made EVs

The EU Commission is taking a firm stand, imposing sanctions and customs on Chinese EVs. They argue that the Chinese government's 'Flood policy' of subsidizing car exports to Europe is unfair. In a recent update, the commission revealed that some major Chinese auto manufacturers are directly controlled by the government, enabling them to bypass trade limitations and dominate the competitive market.

However, during April, cracks began to appear in the united front presented by the Union vis-a-vis China on this issue. The opposition is led by Germany, whose auto industry has many economic and industrial interests in the Chinese market that could be harmed if the Chinese government takes reciprocal measures, causing a "Trade war".

Olaf Scholz, the Chancellor of Germany, indicated this in mid-April during a visit to China, accompanied by senior officials from the German auto industry. During the visit, the chancellor supported an open and fair market between the EU and China and called the EU not to strive for protectionism.

Chancellor Olaf Scholz, during his visit to China in mid-April, underscored the importance of open and fair competition in the European market. While he acknowledged the inevitability of car



exports from China to Germany, he stressed that the competition must be fair, without any flooding, production capacity surplus, or copyright infringement from Chinese manufacturers. His speech at Shanghai University encapsulated his stance, 'Car export from China to Germany is inevitable. The only rule is that competition must be fair.

Scholz compared the current European concerns about Chinese cars' "Invasion and occupation" to similar concerns about Japanese and Korean cars a few decades ago. According to him, these concerns are refuted both then and today.

The Chancellors' words reflect the formal position of the VDA (The German Association of the Automotive Industry) that April announced that imposing custom taxes on importing EVs from China would hurt, firstly and foremostly, Europe itself. According to the VDA chairman, "Should a trade war commence between the EU and China, any tax imposed by the EU on Chinese-made EVs may harm the German auto industry, jeopardize the goals of the EU for EV promotion, and threaten jobs in the European auto industry".

He says, "The current business connections with China generate many jobs in Germany. Our auto manufacturers are undergoing a very expensive transformation now, and the financing for that comes from sales in the strategic Chinese market."



EURO 7 passes another hurdle on its way to implementation

On April 15th, the EU Council published the final format and dates for implementing the EURO 7 regulations approved by the various EU institutions over the past months. In the next phase, the regulation will be signed by the EU parliament president and the president of the council, published in the official records, and, twenty days later, take effect.

According to the EU Council publications, three timetables will be established to implement the new regulation. New passenger and commercial models must meet the standard within 30 months of the records' publication. Bus, truck, and trailer new models must comply within 48 months of publication, while vehicle systems, components, and units intended for installation in light and heavy vehicles must comply within 48 months.

If the regulation becomes effective on June 1st, 2024, EURO 7 will begin on January 1st, 2027, but only for new passenger cars and LCVs. The new regulation will become compulsory only 12 months after the effective date for existing models, which have already undergone standardization.

It should be remembered that the final EURO 7 regulation has been softened significantly since it was first proposed. The original draft, submitted to the commission in November 2022, was almost completely deleted due to pressure from the auto industry. As a result, the final emission requirements of EURO 7 are not



fundamentally different from those of the existing EURO 6 regulation, and the emission values are almost identical to those initially determined in 2014.

However, the new regulation includes several new sections, such as setting values for batteries' minimum lifespan and brake wear. In the new regulation, EV batteries must provide at least 80% of their original capacity after five years, or 100,000 Km, and 72% after eight years, or 160,000 Km. In the case of trucks, the values will be 75% and 67%, respectively. The limit values for the emission of particles from the brake system (PM10) for cars and pick-ups are 3 mg/Km for EVs and 7 mg/Km for hybrids.

According to EURO 7 regulation, any new model will be presented with an "Environmental ID" that includes information regarding its environmental footprint during registration. That will include limit values for pollutant emissions, average fuel or electricity consumption, electric range, battery life span, and more. Car users will also have free access to current information about fuel consumption, battery condition, emissions, and other relevant information from their car's engine computer.

European Parliament approves strict CO2 emission goals for buses and trucks

At the beginning of April, the European Parliament approved new goals for reducing CO2 emissions from heavy vehicles, including trucks, buses, and trailers. Three hundred forty-one parliament



members voted for, 268 against, and 14 abstained. According to the decision, manufacturers will have to reduce the average CO2 emissions of trucks weighing over 4.5 tons by 45% from 2030, by 2035 by 65%, and by 90% by 2040. Starting from 2035, the emission goals will apply to exceptional vehicles such as garbage disposal and construction trucks.

By 2030, 90% of new urban buses will have to be zero-emission and 100% by 2035. Contrary to the compromises and concessions reached in the environmental regulations for private vehicles, the goals for heavy vehicles are almost completely consistent with the commission's original proposals. The main difference is that in the original proposal presented at the beginning of 2023, the goal to achieve 100% emission-free buses was 2030, and now a five-year extension has been given to reach the goal.

The new regulation will not apply to vehicles intended for military and firefighting purposes, ambulances, vehicles for maintaining public safety, and several other categories. In addition, the proposal to completely ban trucks with internal combustion engines was shelved due to impracticality. On the other hand, a political consensus was reached in the EU that a 90% reduction in CO2 emissions compared with 2019 figures should be achieved, and the only practical way to realize this goal is to shift most of the heavy vehicle market to electric propulsion.



According to the European environmental lobby group (Transport & Environment T&E)), one of the largest in Europe, the law will help European manufacturers compete with foreign manufacturers in the electric truck segment. The intention is mainly against the Chinese, who have already been leading the heavy electric segment in recent years. The group claims that the new goals of the EU will result in at least 31% of new truck and bus sales being ZE by 2030 and at least 77% by 2040. Regarding the total number of vehicles, including used ones, the group anticipates that 30% of all heavy commercial vehicles moving on EU roads in 2040 will be ZE.

SMMT figures: British auto market recovering, but EV sales to private customers are slowing down

The British car market continues to slowly recover from the crisis it has been in for the past three years, but the road to 2019 sales figures is still far. The figures published in April by the Society of Motor Manufacturers and Traders in Britain (SMMT) show that the volume of new vehicle deliveries in Britain grew by 10.4% in March to more than 317,000 units. This is the 20th consecutive month of growth and also the highest growth rate for this month since 2019. However, the figures are still almost 20% below those of 2019.

Sales to fleets continued to be the main sales engine of the British market, with a 29.6% increase in deliveries compared with last year. On the other hand, sales to private customers decreased by 7.7% due to problematic macro conditions, including low economic



growth, a decrease in consumer confidence, and high interest rates. Vehicle deliveries to private businesses also shrunk by about 8% compared with March 2023.

Petrol vehicles still compose the largest share of the British car market. In March, the segment grew by 9% compared with March last year, with a share of 55.7% of all deliveries. Diesel vehicle deliveries decreased by 2.7%, with a market share of 7.3%. Hybrid vehicle deliveries reached a record high of 19.6% compared with March last year, while plug-in vehicle deliveries grew by 36.7% to a market share of 7.7%. Although deliveries of EVs reached an all-time high, their market share fell by one percent compared with the same period last year to 15.2%.

The SMMT mentioned: "The decrease in EV market share against the background of positive general growth in the market emphasizes the need for continued government encouragement for EV purchasing by private customers. Although the large fleets continue to drive the market thanks to tax incentives, private consumers are less motivated to pay the high prices accepted in this segment".

In a quarterly calculation, about 545,000 vehicles were delivered in Britain, an increase of 10.4% compared with last year. The market share of electric vehicles stood at 10.6%.



2. USA

The resounding success of the US Treasury's plan to transfer the subsidy for the purchase of EVs from the government to customers via the dealers

On April 12th, the US Department of the Treasury reported that since the beginning of 2024, it transferred more than 580 million US\$ to car dealers and marketers in the US for tax credits to customers who purchased EVs from them. Until 2024, car customers in the US could receive a federal tax credit of up to \$7,500 for a new EV or \$4,000 for a used one only when filing their taxes the following year. However, from January 1st this year, they can also receive the credit directly from the car dealers at the time of purchase, when they receive the money centrally from the government.

The US Treasury informed that this year, the Internal Revenue Service (IRS) received about 100,000 requests for credits for the purchase of EVs, of which 85,000 were for new vehicles. More than 90% of the requests were for the maximum credit of \$7,500. Most of the 15,000 applications for credit purchasing a used EV were within the maximum ceiling of \$4,000.

It should be noted that the lively demand comes even though, at the beginning of the year, the US Treasury published a series of guidelines that significantly limited the number of models eligible for federal tax credits. As a result, the number of models on the



approved list decreased from 43 to 19, and some versions of the Tesla Model 3, as well as popular models such as the electric Chevrolet Silverado, Ford Mustang, Ford Mach E, and more, lost the benefit they were entitled to in the past.

Also, not all customers are entitled to the tax benefit, but only those who prove that their gross annual income is up to \$150,000 for an individual and up to \$130,000 for married couples.

The American administration presents emission targets for heavy vehicles by the end of the decade

After the US government gave in to the strong lobby of the auto industry and auto workers and "softened" the requirements and emission targets for passenger cars, it seems that the environmental reform of commercial and heavy vehicles is undergoing a similar process. According to the US administration announcement from April, stricter emission standards are currently being formulated for heavy vehicles, including heavy trucks, semis, and buses. However, they will not be as strict as originally proposed in 2023.

The US Environmental Protection Agency (EPA) announced that the new standards for the years 2027 to 2032 would reduce greenhouse gas emissions by one billion tons by 2055. As a comparison, the original standards proposed by the EPA in 2023 were supposed to reduce greenhouse gas emissions by 1.8 billion tons.



The new standards will apply to transport trucks, garbage trucks, service trucks, school buses, and tractors. Heavy vehicles are responsible for 25% of greenhouse gas emissions from transportation, which is responsible for about 29% of greenhouse gas emissions in the US.

The EPA said the new standards are "Technology-neutral and performance-based. They allow each manufacturer to choose the emission control technology that best suits its needs and the needs of its customers".

The projected sales rate of heavy EVs in the US until 2029 will also be lower than the original target. Despite this, the American auto industry claims that the new standards are still excessively strict.

The Truck and Engine Manufacturers Association, which represents some of the largest players in the US in this market, expressed concern that "The final goal will be the most challenging and most expensive in the history of the sector". The association added that it is impossible to place concrete targets for shifting to ZE before the manufacturers since they have no control over the demand side of this transition.

On the other hand, Tesla and several environmental groups called the EPA to adopt stricter standards. They argued, "The agency is surrendering to pressure from the auto industry and not doing enough to protect the public from the harmful health effects of pollution from heavy trucks."



New market research: American consumers want efficient and cheap EVs, but the manufacturers are losing thousands of dollars on each EV they sell

In April, the Boston Consulting Group (BCG) published a comprehensive consumer study that analyzed the preferences of American customers regarding EVs. The study, which was conducted among 3,000 American consumers, revealed that the configuration that will convince most customers to switch to an EV is found in models that cost less than \$50,000, have a range of at least 350 miles (560 km), and have a charging time of twenty minutes at most for 80% capacity.

BCG's survey reveals that 65% of American consumers are "Considering buying an EV as their next car or in the longer run." The researchers mention that the shift to EVs in the US recently slowed down, but it may accelerate again should prices go down. At the same time, performance in areas such as range will improve.

It is unclear whether and when that will happen since, according to BCG, auto manufacturers are losing \$6,500 on every EV with a price tag of \$50,000. The reason is that the existing technology is still incompatible with the mass production of cheap, affordable EVs.



3. India

The Indian auto market comes alive with sales growth, and government plans to expand the penetration of EVs

India is the most densely populated country in the world and the third-largest auto market. However, until recently, most new vehicles sold in India were two-wheeled or cheap and basic passenger and commercial vehicles. But this situation is changing rapidly with the entrance of EVs into the country and the eagerness of the Indian government to enter new players into the auto manufacturing market in the country.

The result is an acceleration in sales. Data published in April by the Federation of Indian Automobile Dealers Associations (FADA) reveals that the passenger car market in India grew by 11.6% in the first quarter of 2024. The federation president estimated that sales of SUVs and crossovers in the country will continue to grow faster than other segments and may capture a share of 55-60% of total sales this year. He mentioned that 70%-80% of all new passenger models launched this year were SUVs.

According to FADA figures, governmental subsidies significantly pushed EV sales in India, and their market share rose to a new record of 9.12% last year. However, most sales comprised two-wheeled vehicles (bikes, scooters, etc.).

In the first quarter of 2024, EV sales in India, including two-wheeled vehicles, reached a record of 469,000 units, an increase of more



than 40% compared with last year. Today, there are 3.95 million EVs registered in India, most of them two-wheeled. Sales of electric cars in the first quarter of 2024 were 21,000 units, only 4% of the total passenger car sales.

In March, the Indian Ministry of Industry announced a plan to promote the penetration of EVs during 2024 with a budget of 60 million US\$. The plan includes subsidies for electric two—and three-wheeled vehicles, including electric rickshaws. At the same time, the Indian government announced that it would provide significant tax benefits for auto manufacturers that commit to building EV and battery manufacturing plants in the country in the next three years. Several manufacturers are already in advanced negotiations with the Indian government.

In April, Counterpoint Research, a consulting firm, estimated that EV sales in India, excluding two- and three-wheeled vehicles, are expected to grow by 66% in 2024 and compose 4% of all passenger car sales. By the decade's end, the firm expects the penetration rate to reach 30%.

4. China

Chinese government presents a strategic plan to support scrapping of old vehicles and swapping them with new EVs



On April 11th, the Chinese Ministry of Information announced a new strategy for “Promoting the renewal and swapping of old consumer goods with new ones on a large scale.” The ministry called the local governments in the various districts in China to formulate a fiscal and product-customized supporting policy to encourage swapping old equipment with new ones, including vehicles.

According to the program, old and polluting passenger car owners will receive a permanent subsidy when purchasing economical and low-emission vehicles, such as vehicles with alternative propulsion (electric, hybrid, and plug-in). The subsidy costs will be divided proportionally between the central treasury and the local governments.

The plan also allocates funds to support the launch of a pilot project to close the gaps in the charging infrastructure in the various districts while emphasizing the thickening of the infrastructure in the periphery of China, where the penetration of electric vehicles is minimal.

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According to the ministry's action plan, by 2027, the scope of the governmental investment in swapping industrial and agricultural equipment will grow by 25% compared with 2023. The action plan presents twenty key national missions in five areas:

- Equipment update: To encourage the renewal of equipment in key industries, accelerate the updating of equipment in the areas of construction and urban infrastructure, and support the updating of transport equipment and old agricultural machinery.
- Expansion of trade-ins for consumer products - executing trade-ins for old and polluting cars.
- Expanding recycling - improving vehicle and product recycling infrastructure to save resources.
- Upgrading standards - speeding up the formulation of new standards to improve energy consumption, emissions, and production quality, strengthening the supply of resource recycling standards, and strengthening the connection between local and international standards in key areas, including cars. (In this context, it should be noted that during April, the Chinese Ministry of Technology called for deepening the efforts to "export" the local vehicle standards to other countries, including Israel).



- Strengthening financial support - increasing subsidies, improving taxation support, financing conditions, and bank credit available to customers and sellers to support the acceleration of the renewal.

Chinese car export to Europe shrinks in Q1, possibly following the investigation of the EU Commission

According to reports from China, the EU's investigation into the suspected anti-competitive flooding policy of Chinese EV manufacturers in Europe continues to make waves and affect the market.

The EU is supposed to publish the investigation's result in November, and it is assumed that if it recommends imposing "Protective customs tariffs" (or "Punitive taxation" as the Chinese refer to it) on EVs imported from China, the situation will make it very difficult for new models to enter the market.

The main and immediate influence on the Chinese auto industry is in three areas:

The first is the concentrated effort by Chinese automakers to enter Europe by November 2024 with as many new electric models as possible. In China, a massive wave of new electric models produced by various brands is expected to complete the European standardization procedures in the coming months and join the competition.



The second effect is attempts by major Chinese car manufacturers to set up production bases in Europe to circumvent the "Punitive tax" if and when it is imposed.

The third effect is a slowdown in Chinese car exports to Europe since the beginning of the investigation. Some of the reasons for this are objective, including prolonged delays in vehicle exports due to the Houthi attacks and France's new "Nationalist" subsidy regulations, which denied all EV models made in China and sold in France the right to a government subsidy of 5,000 euros.

However, commentators estimate that the decrease in exports is also designed to "Lower the profile" of Chinese car exports to Europe until the investigation is finished and not to provide the EU Commission with "Ammunition" regarding the flooding allegations. One way or another, in the first two months of 2024, 76,000 EVs were exported from China to the EU, a drop of 19.6% compared with last year.

5. Global

The International Energy Agency (IEA) estimates in a new report that the global EV market is expected to maintain vigorous growth

Almost one of every three cars that will move on China's roads by the end of the decade and more than one of every five in the US and Europe will be electric, so estimates the International Energy



Agency (IEA) in a report published in early April. According to the report, in 2024, 20% of the total global sales of passenger cars (around 17 million units) will be of EVs. This represents an increase of 35% compared with 2023, in which 14 million EVs were sold globally (around 18% of all sales).

Contrary to recent publications about the slowdown in demand for EVs, the inter-governmental agency estimates that "The global electric car revolution is preparing for a new phase of growth". The report states, "A wave of investments in battery production infrastructure indicates that the electric car supply chain is aligning to respond to the ambitious expansion plans of EV manufacturers. As a result, the share of EVs is expected to grow rapidly".

According to the report, in 2023, more than half of the global production of EVs was concentrated in China, compared to only 10% of ICE vehicles. China was also the largest exporter of cars in 2023 and sold about 4 million units in foreign markets, of which 1.2 million were EVs.

The IEA determines that Chinese companies are the biggest winners in the growing EV market thanks to their advanced manufacturing capabilities and government subsidies, which allow them to lower prices and spread to many markets. The report estimates that about 60% of EV models sold in China are cheaper than equivalent ICE models. In other countries, price parity is expected only around 2030.



The report states that the boom in EV production in China poses a fundamental challenge to car manufacturers in the US and Europe. European and American auto manufacturers are under increasing pressure in the face of the wave of Chinese exports and are adjusting their corporate strategy accordingly. According to the report, the demand for EVs is also "Awakening" in developing economies, especially in Southeast Asia. Vietnam has shown unprecedented growth in EV sales - despite the moderation of its auto market, EVs captured 15% of all car sales in the country in 2023.

Thailand is also a growing market for EVs, with a penetration rate of about 10%, four times more than in 2022. This is despite a decline in overall car sales in 2023. Chinese electric models accounted for half of sales last year in Thailand, and at the same time, the country is becoming a significant production center for many Chinese auto manufacturers.

Although the penetration rate of EVs in India and Indonesia was only 2%, the governments of both countries are making efforts to attract international investments through incentives and tax benefits.

According to the report, the growing demand for EVs has driven large investments worldwide, especially in battery production, where production capacity already exceeds demand. The IEA estimates that the existing battery factories and those under



construction can meet the expected volume of demand for EVs by 2030.

The agency emphasizes that the increase in EV sales comes despite negative pressures in the automotive market, such as instability in raw material prices, limited margins, and changing government policies. It predicts that the rapid adoption of EVs will save the consumption of 10 million barrels of oil per day by 2035, equivalent to the amount required to fuel all transportation in the US today. The agency states that, in an optimistic scenario, in 2035, up to two-thirds of all car sales will be electric, provided that all governments meet their climate goals.

Dead-end in the negotiations between the EU and the US regarding a compromise that will allow European EVs to be eligible for tax benefits in the US

Since the Biden administration launched two years ago the new subsidy regulations for EVs that discriminate against models and batteries manufactured outside the US, the EU has tried to reach a compromise with the American administration to allow European EVs that contain batteries made outside the US to be included in the list of models eligible for subsidies.

The last meeting between the two parties occurred in April as part of the Trade and Technology Council (TTC), which regularly discusses trade issues between Europe and the US. Commentators point out that the meeting was the last chance to reach an



agreement with the US government before the presidential elections, which will be held in November. However, as mentioned, the Americans did not agree to flex the regulations for the Europeans.

This fact disappointed Germany, one of the largest car exporters to the US. According to the German Association of the Automotive Industry (VDA), "The partners once again missed an opportunity to deepen transatlantic cooperation and to promote the development of the supply chain for car batteries on both sides of the Atlantic Ocean."

As recalled, the Inflation Reduction Act (IRA), which includes limiting subsidies for EVs and foreign-made batteries, was originally designed to limit importing Chinese-made vehicles and batteries to the United States. However, the European and Korean auto industries have suffered "Peripheral damage", with many models that are made outside the US or even made in the US but with batteries that have more than 40% of their minerals sourced outside the US (and there are many such models) lost their subsidy and suffered a competitive blow in the important American market.

The negotiations between the EU and the American administration to compromise on the issue have been ongoing since March 2023, but, as mentioned, no agreed-upon formula has been reached. The compromise suggestion was that for the purchase of an EV made in Europe, the US government would grant a partial subsidy of



\$3750, half the subsidy for EVs made in the US. In addition, cars purchased for commercial use (for example, leasing) will be entitled to the full subsidy.

6. Israel

Tax authority periodic review: despite the accelerated shift to EVs, state income from car purchasing tax rose between 2022 and 2023 to a historical record

The tax authority published its periodic review for 2022 and 2023 in April. The review reveals that despite the accelerated penetration of EVs, which enjoy a reduced purchase tax, years of collecting purchase tax from new car imports were recorded.

In 2022, a record sum of 12.97 billion NIS was collected from purchase tax on new cars. However, in 2023, the record was broken again with the collection of 13.95 billion NIS, an increase of 3.3% compared with 2022. The review shows that the average purchase tax collection from a new passenger car in Israel in 2023 was 46,000 NIS per vehicle, an increase of 12.6% compared with 2022. This was after many years when the average purchase tax for a car was approximately 33-37,000 NIS.

The tax authority explained the increase in tax collection by saying that the years 2022-2023 were years with very high activity in the automotive industry. These years were interspersed with events, which led to an increase in the value of production and import and, as a result, also in the value of the vehicles imported to Israel.



According to the review, the import value of passenger and commercial vehicles in 2022 amounted to 22.7 billion NIS, an increase of 21% compared with 2021. In 2023, it reached 24.3 billion NIS, an increase of 2.7%. The authority notes that another reason for the increase in import value is the relative weight of EVs, which are more expensive than ICE vehicles.

It should be noted that these findings contradict early estimates, according to which the rapid increase in EV sales will result in a sharp decrease in tax revenues. These estimates were used, among other things, as a justification for canceling tax benefits for EVs.

The tax authority notes: "The weight of import taxes from vehicles about GDP shows continued stability and even a moderate increase in 2022-23, to a rate of about 0.8%... A similar situation also exists in the ratio of revenues from vehicle taxes to all tax revenues. However, in 2022-23, there is a more noticeable increase - from the low rate of 3.2% in 2021 to those of 3.4% and 3.8%, respectively, in 2022 and 2023.

The review reveals that the tax authority believes that there is no longer any room to grant "Fledgling industry benefits" to encourage EV purchases, and this is because: "Now this designation is losing relevance in light of the widespread penetration of these vehicles into the market... alongside the increase in fuel prices, the attractiveness of purchasing an EV is increasing and the demand is



high... the 2022 tax increase did not stop the rapid increase in purchases".

Regarding the mileage tax and the continuation of the plan to reduce the purchasing tax on EVs from 2025 onwards, the review states that: "Government resolution No. 1263 establishes the imposition of a mileage tax on EVs at the rate of 15 pennies per kilometer as a substitute for the excise tax applicable to vehicles that use fuel, effective from 2026. Also, the government's decision establishes a continuation of the purchase tax rates on EVs, which, in the absence of legislation, would have risen to normal purchasing taxation on cars (83%) starting from 2025...it is important to clarify that this does not yet have the effect of law and requires a legislative process including approval by the finance committee of Knesset for these rates and amounts – and there may be changes - become legally valid".

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A handwritten signature in black ink, appearing to be the name "Hezi Shayb".