PRESS RELEASE

AUTO INDUSTRY ON FRONT LINE OF TRANSITION TO CARBON NEUTRALITY

Paris, November 10, 2022 – Renault recently announced it is creating two separate subsidiaries to manufacture its electric vehicle (EV) and traditional combustion vehicle businesses so it can finance the investment needed to ramp up its development of electric cars. The manufacturer is facing the same challenges as the vast majority of industry actors (not just other car manufacturers but also equipment suppliers and dealers) : the recent drop in sales, market volatility, gloomy economic prospects and tightened environmental standards. Against this background, low-carbon mobility (electric, hybrid and hydrogen) is a pivotal area of development for the decades ahead. The battle for leadership and innovation in metals and technologies is raging, and the global stakeholders have embarked on a fierce competition. Access to metals and supply chains will, of course, be vital as will investment capacity and access to sought-after skills.

Low-carbon mobility now a major global challenge

Vehicle electrification has turned into a global competition. Players across the board – advanced and emerging economies, mining countries and so forth – are gearing up to make sure they do not miss the boat that is low-carbon mobility. **China has already made its mark as a key actor in battery production**: it boasts 60% of the world's lithium refining capacity, 77% of global battery cell production and 60% of global battery component manufacturing.

Decarbonisation is also high on the political agenda of OECD countries. In addition to environmental concerns, economic challenges (job creation and re-industrialisation) and industrial sovereignty are important factors**. Subsidising car purchases is one of the tools regularly employed by governments to support the business** and drive up consumption. The Chinese and US authorities recently introduced subsidies for households to purchase EVs. These two countries can rely on their vast domestic markets to develop the industry. In France, the government is considering "social leasing" to help the poorest households buy EVs in addition to conversion bonuses. However, we may well ask how these measures will be sustainable given the pessimistic economic outlook worldwide and the rising inflation.

The major actors in the auto industry are also working on the vertical integration of value chains. Several vehicle and equipment manufacturers have announced joint ventures for lithium-ion and hydrogen batteries. **The challenge is to control supply and costs at every stage of the industrial process** (raw materials, batteries, engines and vehicles). Expanding this market should help new opportunities emerge for all actors in the production chain. Nevertheless, the structural pressure on equipment manufacturers and car dealers is still there and the trend is growing.

Production and consumption facing significant risks

The main short-term risk is linked to the availability of the resources required to manufacture vehicles and batteries. This is based on very specific raw materials (lithium, copper, nickel, hydrogen, etc.), while the massive, rapid switch to low-carbon vehicles is generating strong pressure on production and supply. This trend is likely to continue in the medium and long term given the requirements for energy storage.

In the short term, there is also a significant risk that European manufacturers and equipment suppliers depend on certain countries and players. This is particularly the case in Europe, where the 2035 ban on selling traditional combustion vehicles depends on immature re-industrialisation projects – mining and gigafactories – and heightens the vulnerability to crises in the supply chain (logistical shortages, maritime blockages, etc.)

Finally, **the gloomy economic outlook will have a certain negative impact** on the sector. Vehicle sales are linked very closely to the health of an economy, and Coface forecasts a slowdown in global GDP growth to 1.9% in 2023 (2.8% in 2022). **Household confidence is low** and the **increase in the cost of loans** is likely to have an impact on demand. The **price of low-emission vehicles will remain high** in the medium term in a context where the cost of energy affects the entire value chain (production costs, the cost of operating dealers and so forth). The lack of charging networks today is also putting buyers off.
It remains to be seen whether a part of the economic model could draw on innovative new mobility solutions such as long-term rental, car-sharing for electric cars or a subscription service.

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