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A “Car Crash” Made in Europe – And How to Fix It

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The European automotive industry is slipping deeper into crisis. While this decline has external drivers such as US tariffs and Chinese overcapacities, it is also “made in Europe” in many ways. Can new policy measures save the industry from its woes?

Since 2020, electric car sales have gained momentum, and until 2025, it was widely believed that the era of the combustion engine would soon be history.

While Europe is certainly on the way towards electromobility, this is not a linear process: there are constantly ups and downs with new concerns emerging. There is also much uncertainty in a complex and turbulent geopolitical context in which multilateralism is eroding and “zero-sum-game” perspectives are becoming dominant.

The initial fear about electromobility was that it would lead to job losses, as building battery electric vehicles (BEVs) is less labour-intensive than producing vehicles with internal combustion engines (ICEVs). While some of our earlier publications at the European Trade Union Institute demonstrate that employment loss is indeed a direct consequence of electrification in the powertrain sector – and to a lesser extent in automotive manufacturing at large – the aggregate employment effect across the entire automotive ecosystem is expected to be neutral.

Although this aspect of the transition is certainly important, the greater concern about the future of the automotive industry is how the EU can position itself in a completely new economic geography defined by the EV era and fierce geopolitical rivalries. In this context, the main question is whether EU manufacturers can maintain their core competence and market share.

The developments of the last few years indicate that this is not the case, with the EU automotive sector slipping deeper and deeper into crisis.

A crisis how deep?

With 2.5 million jobs, the automotive industry is not only the largest employer in European manufacturing – supporting a total of some 13.6 million European jobs – but its transition is also the most complex. The green and digital transformations it faces are intertwined with global value chains that are fully exposed to changing geopolitical realities.

Although fast-track electrification started out as a policy-driven process, there is already a strong business case for the industry to embrace it, and the future competitiveness of each automotive location depends on its ability to adopt the new technology. Unfortunately, it has taken a very long time for incumbent EU car manufacturers to realise that their leading market position in combustion engine technology – and diesel in particular – is not transferable to the era of electric vehicles, where much of the added value will come from batteries and software. Dysfunctional emissions regulation and zig-zagging industrial policies have not helped either.

Transport is the only major sector in the EU economy in which greenhouse gas emissions have risen rather than fallen over the last few decades: since 2010, emissions have grown by 9 per cent. Reversing this trend to meet the EU’s 2040 emissions target and achieve net-zero by 2050 is a formidable challenge.

The reasons for this failure are multiple. The European policy framework for the decarbonisation of road transport has been far from optimal, often hindering the green transition by favouring large and expensive vehicles. Many European carmakers have also been slow to embrace the shift to electromobility, and now face a loss of market share in both domestic and export markets.

Despite this, the European Automobile Manufacturers’ Association (ACEA) reported a 1.8 per cent increase in new car registrations in 2025 compared to 2024, even though the number remained 17 per cent below the 2019 level. In the first half of 2026, a further increase of 5.7 per cent took place.

Since 2020, the share of petrol and diesel vehicles in car sales has continued to fall, reaching 22.2 per cent and 7.5 per cent

respectively in the first half of 2026. Meanwhile, the share of hybrid electric vehicles (HEV) grew to 37.2 per cent in the same period, and that of plug-in hybrid electric vehicles (PHEV) reached 9.2 per cent. Most importantly, sales of fully electric vehicles picked up again in 2026 to reach 20.7 per cent.

These trends illustrate that, while the initial momentum in the shift towards electromobility has been broken, the trend is again upward. But is Europe reaping any benefits?

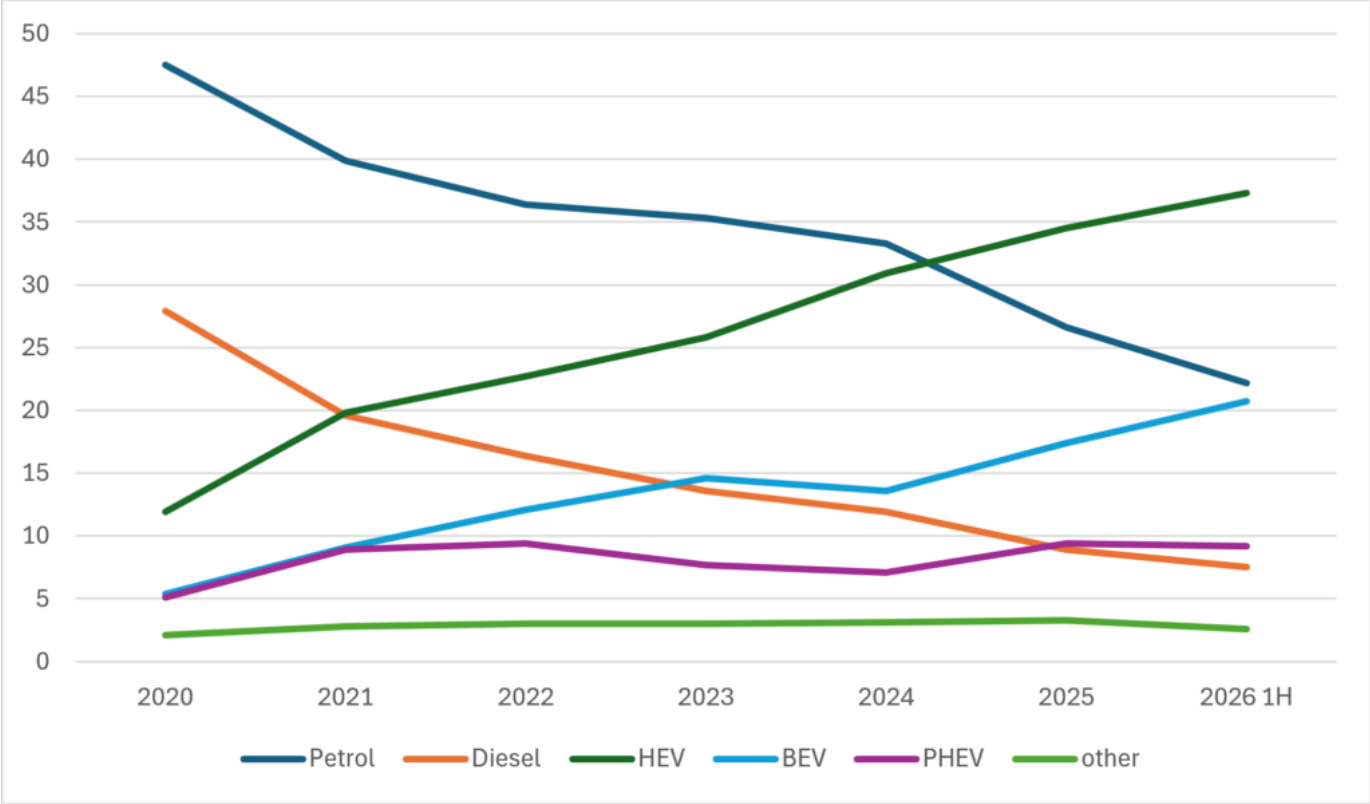


Figure 1. New car sales by fuel type in the EU (2020-2026 first half), shares (%). Source: ACEA (2026)

The number of cars produced in the EU grew modestly (by 0.3 per cent) in 2025 (up in Germany and France – by 2.3 per cent and by 15.5 percent respectively – but down in Italy by 22.9 per cent). At the same time, production numbers in 2025 remained 18.7 per cent below the 2019 level, again with significant differences between countries (down by 10.3 per cent in Germany, 38 per cent in France, and 56.7 per cent in Italy).

The automotive industry's woes become more apparent when looking at the latest trends in foreign trade of cars. While the EU maintains a significant trade surplus in the sector (76 billion euros in 2025), the number shrank by nearly 9 per cent last year. It is noteworthy that 2025 was the first year when the EU's balance in vehicle trade with China turned into a deficit (with 15.1 billion euros in imports and 8.5 billion euros in exports).

	2023	2024	2025	per cent change (2025/2024)
Imports	80,266	74,231	71,872	-3.2
Exports	169,802	157,731	147,901	-6.2
Balance	89,536	83,500	76,028	-8.9

Table 1. EU car trade surplus narrows as exports fall faster than imports (2023–2025, €m). Source: ACEA (2026) based on Eurostat data
Note: figures refer to EU trade with non-EU countries.

The picture looks worse if we look at the trends with the EU's two most important trading partners, China and the US. Compared with 2024, EU exports (in value) to the US in 2025 shrank by 21.4 per cent, while exports to China saw a staggering 43-per cent drop.

The import side does not look any better, although here a big difference appears between the value and volume of imports. In 2025, total EU car imports from China only grew by 4 per cent when measured in euros, but when measured in volume (number of units), the increase was 30.7 per cent, reaching over one million cars. In other words, cars imported from China surpassed the number of cars produced in France that year. Data for 2026 show an acceleration of the increase. For

instance, imports in May 2026 grew by 65 per cent compared to the same month last year. Figure 2 also shows that, between 2021 and 2025, the number of cars the EU imported from China grew by 270 per cent.

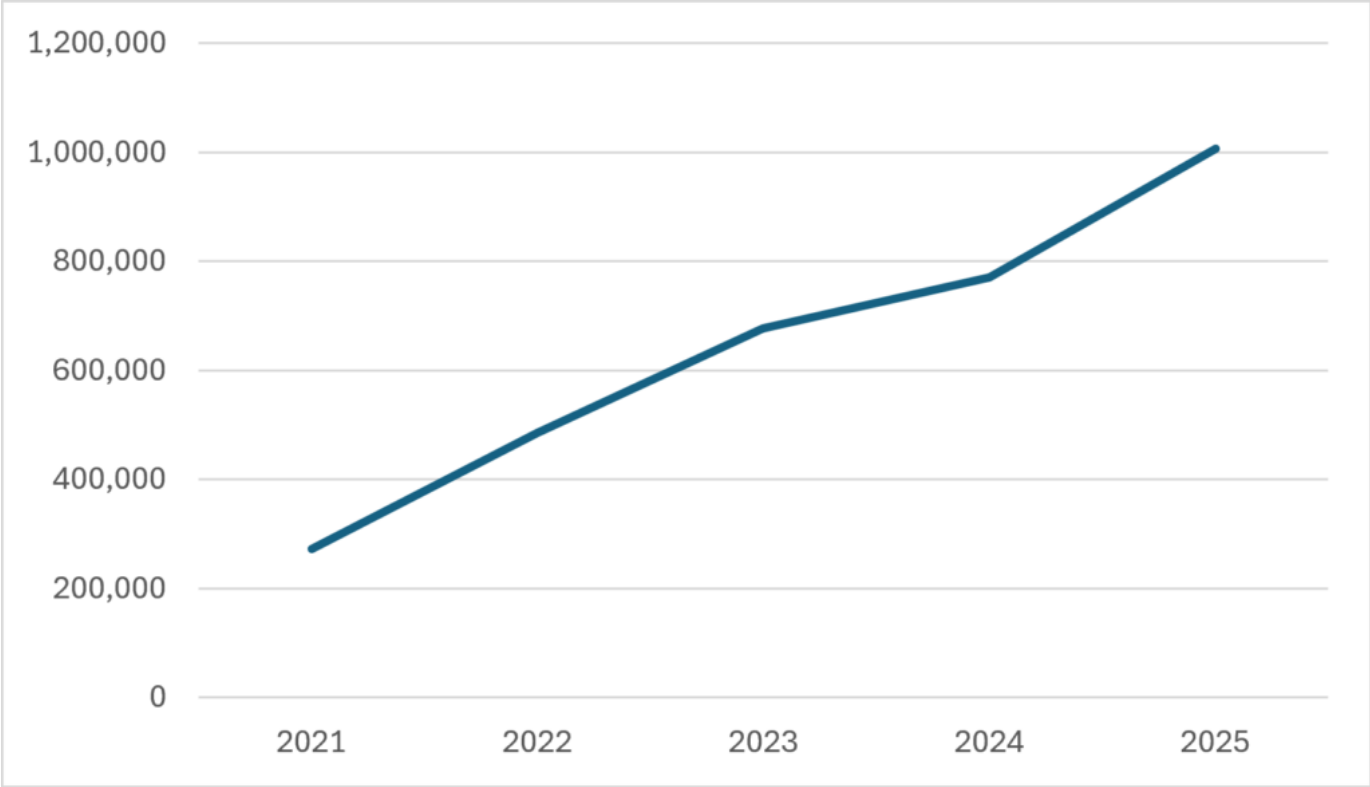


Figure 2 EU new car imports from China, number of units. Source: ACEA (2026)

A further concern in Europe is that China's share in the European car market is rapidly increasing, having reached 7 per cent in 2025, up from 5 per cent the previous year. Data for the first half of 2026 reveal that China's share increased further to 10 per cent. This means that the expansion of the EU market in 2026 benefited manufacturers in China, while EU manufacturers suffered a 3-per cent market share loss (with Japanese carmakers also losing 2 per cent).

This is worse than it may initially appear. A report by the Rhodium Group shows that despite punitive tariffs introduced from October 2024, sales figures for made-in-China BEVs in 2025 bounced back to pre-tariff levels. At the same time, the sale of Chinese-made PHEVs and ICEVs – which are only subject to the 10-per cent basic tariff – accelerated. A recent report by Transport & Environment (T&E) supports the view that the 2024 tariffs backfired, showing that they only curbed imports of China-made EU BEVs. While, as of early 2026, made-in-China cars dropped to 17 per cent of BEV sales in the EU, down from a peak of 22 per cent in 2024, the decrease is due to fewer imports of China-made EU cars. The share of Chinese brands in made-in-China car imports grew from 35 per cent in 2024 to 54 per cent by early 2026. T&E also projects that without further policy change, weaker EV targets in the EU would increase the market share of Chinese carmakers in 2035 to 30 per cent of BEV sales in the bloc.

European manufacturers' loss of market share also results from their choice to focus business strategies on premium market segments, abandoning the production of smaller, more affordable entry-level electric cars. If the European automotive industry cannot produce affordable clean EVs, this will not only add to inequality in clean mobility but also pose a threat to high-quality jobs in European automotive manufacturing.

EU policy responses

In March 2025, the European Commission launched its Industrial Action Plan for the European automotive sector to boost demand for European EVs. The plan includes a law to green corporate fleets and measures to encourage national incentives schemes and social leasing for electric cars. The declared objective is to maintain a strong European production base and avoid strategic dependencies.

However, the Commission caved in to industry lobbying, providing flexibility regarding CO2 targets. An amendment to the CO2 Standards Regulation for cars and vans enables car manufacturers to meet their compliance targets by averaging their

performance over a three-year period (2025-2027), offsetting shortfalls in any one or two years with excess achievements in the other year(s).

The EU Automotive package, launched at the end of 2025, also chose short-term competitiveness over long-term goals. It opened possibilities for plug-in hybrids, range extenders, and ICEVs to remain part of the automotive landscape beyond 2035. The International Council for Clean Transportation estimates that this could slow down EV adoption, with BEV shares expected to drop from 61 to 44 per cent by 2030. Regarding corporate vehicles, mandatory targets are set at the member state level to support the uptake of zero- and low-emission vehicles by large companies. In the run-up to 2035, carmakers will benefit from “super credits” for small, “affordable” electric cars made in the EU.

Meanwhile, the Industrial Accelerator Act (IAA) proposal published in March 2026 seems more like damage control than a strategic initiative. Made in Europe (MiEU) criteria are limited to public interventions and procurement decisions and do not include labour conditionalities. EVs will be required to have green steel, while 70 per cent of their components, excluding batteries, will have to be produced in the EU.

The main purpose of the initiative is to put made-in-China vehicles at a disadvantage in Europe, and to address the growing use of Chinese components in European vehicle production. As Europe struggles to build a competitive battery industry, European carmakers are increasingly sourcing inputs from China. Beyond defining content thresholds and determining what countries (beyond EU member states) will qualify as having MiEU origin, a major challenge is how these requirements would actually be applied in the sector and what exactly the scope of the measures will be. Once the IAA is finalised and the transition period has passed, member states would be required to procure MiEU vehicles exclusively as part of their public procurement, to restrict financial incentives (both EV grants and as part of corporate fleets) to Made in Europe vehicles, and to provide CO2 supercredits only to small BEVs made in Europe.

Several important factors limit the IAA’s effectiveness. Timing is one, as measures are not expected to take effect before mid-2027. Scale is another, given that public procurement accounts for less than 2 per cent of the passenger car market. Supercredits for small BEVs and low-carbon steel requirements matter less for Chinese firms, as they generally have strong CO2 fleet balances. On the other hand, the Corporate Fleet proposal is particularly important. From 2028 onward, member states would be allowed to provide financial support only to corporate fleets operating low-emission and EU-made vehicles. Notably, this would not fully lock Chinese exporters out of the largest demand segment, but put them at a significant disadvantage, and around 30 per cent of the market would remain fully open. And even within the protected segments, original equipment manufacturers (OEMs) would face higher costs to remain eligible for support due to local content requirements. It is also uncertain whether EU manufacturers would be able to provide all the required elements of the value chain.

In summary, measures of market protection would indeed raise a barrier for Chinese manufacturers, but the EU is still lacking in bold, forward-looking, actionable initiatives to prop up European producers. For instance, the bloc’s 1.8-billion-euro Battery Booster Facility is modest when held up against the investment needed to close gaps with global competitors.

As the bankruptcy of Northvolt – a flagship EU project – and the subsequent cancellation of more than 100 GWh of battery capacity illustrate, what the EU automotive industry needs most is investment and innovation; protecting the status quo will not help. Short-term, defensive measures, such as the decision to give carmakers two extra years to comply with the 2025 car CO_2 emission targets, are harmful. The weakening of the zero-emissions target in 2035 is an even bigger blow, as it opens the door to high-emission combustion engine vehicles and undermines the future competitiveness of EU carmakers in electromobility, in particular with regard to Chinese BEVs. These are confusing signals both to the industry and consumers, and divert investment away from electrification at a time when European manufacturers urgently need to catch up with Chinese EV-makers. OEMs have already written off tens of billions of investments into electric vehicle development and launched new combustion engine projects.

Trade unions fight back

Even if 2025 was not a year of crisis in terms of production and sales for the EU automotive sector, it certainly was so in terms of employment. Loss of market share and competitiveness is putting the future of EU automotive jobs at risk.

While the number of car registrations and vehicles produced in the EU in 2025 grew somewhat, production value has seen a downward trend over the last several years. In Germany – the EU’s biggest producer and market – production value in 2025 shrank for both car makers and suppliers (down by 1.1 per cent and 4.3 per cent respectively). Employment fell sharply too: manufacturers cut 18,000 jobs (3.6 per cent of all positions), while suppliers laid off 29,000 (11 per cent of employees). Employment trends were also downward in the EU as a whole, with the European Association of Automotive Suppliers

(CLEPA) reporting 54,000 losses among EU suppliers for 2024, and a further 22,000 in the first half of 2025.

A series of layoffs and company closures illustrates this trend, as a Eurofound study from early 2025 shows. In 2024, restructuring announcements in the EU automotive industry were dominated by job contraction, with a forecast net loss of 53,669 jobs in the EU, not including Volkswagen's December 2024 announcement about a 35,000 reduction of its workforce in Germany by 2030. In 2026, Volkswagen management was considering expanding the workforce reductions up to 100,000 by 2030. Further examples include the closure of Audi Brussels in February 2025, which led to a loss of 3,000 quality jobs, and the shutdown of Ford Saarlouis in Germany in 2025, affecting 3,600 employees. But how have trade institutes responded?

In Germany, IG Metall – the country's dominant metalworkers' union – and works councils have sought to expand their existing repertoire of collective bargaining and company policy instruments in order to co-manage change. In this regard, collective agreements for securing the future and competitiveness (in short, "future-oriented agreements") have emerged as the main tools to protect workers' rights. The 2021 round of collective bargaining in the metal and electrical industries provided works councils, IG Metall, and employers with a collective framework to regulate measures to realise innovations, improve competitiveness, reskill employees, and achieve their continued employment. IG Metall has carried out successful projects to tap into new, previously unorganised workers, such as at the Tesla factory near Berlin. It has also managed to foster creative and disagreement-led company target-setting processes, including at the Mercedes site in Marienfelde, near Berlin. Moreover, works councils at Mercedes have successfully expanded the scope for codetermination.

In terms of content, future-oriented agreements comprise three elements: first, concessions on the part of employees, for example on the subject of working hours; second, a temporary exception from redundancies in operational areas. These processes form the framework for the third element, namely negotiations conducted jointly by management and works councils on the future use of the individual sites. Although these processes are organised at plant level, they are integrated into the coordination structures operating within the company. This practice provides proof that managing change in a forward-looking manner is possible. That said, future-oriented agreements don't guarantee success.

The developments of 2024 in Volkswagen, where management withdrew from longstanding job security commitments, illustrate this clearly. In an unprecedented move, the company announced it was considering two plant closures in Germany, putting aside the employment guarantees contained in its "2016 Pact for the Future" that was viewed as an example of codetermination and responsible just transition practices. In December 2024, Volkswagen AG, IG Metall, and the works council reached a final agreement on a socially responsible reduction of the workforce by more than 35,000 across the company's German locations by 2030.

On the other hand, collective social agreements are not a new collective bargaining instrument, but one that has experienced a revival in the wake of site closures and transformation-related pressure on workforces. This is demonstrated by recent collective bargaining disputes at various Continental and Vitesco sites; at the Ford plant in Saarlouis, where production came to an end in 2025; at the Japanese supplier Musashi; and at the supplier GKN Driveline.

The collective social agreement concluded by IG Metall for the closure of the Ford plant in Saarlouis is one of the most comprehensive and generous among such agreements in Germany. Out of the 3,600 employees affected, 1,000 will be kept until at least 2032 and assigned to different projects (Ford car parts and battery recycling, among others), while 1,400 workers will move to a transfer company for further qualification and skills development (18 to 24 months with a compensation of 80 per cent of their previous salary). The rest of the workers are entitled to severance payments.

The stakes

The particular challenge for the automotive industry is that it is undergoing multiple and intertwined changes at the same time, including decarbonisation, the digitalisation of both product and process, the automation of production, and the complete reorganisation of automotive value chains. This is leading to fierce competition between production locations for new developments, with decisions often being focused on labour costs and resulting in relocations and job losses.

How workers can shape the complex restructuring processes of the European automotive industry is decisive for making this transition just, as well as for achieving zero-carbon mobility. Despite its lower labour demand, electrification is the lesser threat to EU jobs; what is most important is how (and to what extent) EU manufacturers manage to keep up with clean mobility needs. This is about re-defining the competitiveness of a key industrial sector in the new era of electromobility under geopolitical pressures from both the East and the West.

In a turbulent and challenging geopolitical environment, market protection is necessary and useful only if it is instrumentalised

to foster innovation and technological catching up. Carrying on the old business model of building ever bigger, heavier, and more expensive cars (even if often under hybrid or plug-in hybrid cover) would be a massive failure. Giving up already binding legislative commitments, like the 2035 ban on combustion engine cars, is not only bad for the climate but also jeopardises the medium- and longer-term future of European automotive jobs.

Policy also needs to push towards a more comprehensive transformation of mobility systems. The whole system of national subsidies for both the production and sale of BEVs must be reconfigured to support more affordable BEVs and electromobility services, with a clear priority for social groups most dependent on cars and, recently, most excluded from car ownership.

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