Opinion of the European Economic and Social Committee on 'Industrial change and prospects for the powered two-wheeler industry in Europe' (own-initiative opinion) (2010/C 354/05)

Rapporteur: Mr RANOCCHIARI
Co-rapporteur: Mr PESCI

On 16 July 2009 the European Economic and Social Committee, under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on Industrial change and prospects for the powered two-wheeler industry in Europe.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 4 February 2010.

At its 461st plenary session, held on 17-18 March 2010 (meeting of 18 March), the European Economic and Social Committee adopted the following opinion by 140 votes, nem. con. with two abstentions.

1. Conclusions and recommendations

1.1 The powered two-wheeler industry plays an important role in the EU in terms of the economy and jobs. Manufacturers’ situations vary widely: some operate globally across all segments, or in very specialised segments, and some operate country-wide or even local businesses, which at times verge on craft trades. That is also true of the related components, distribution and aftersales sectors, in which there are a considerable number of SMEs (1).

1.2 The industry was struck by the crisis in the last quarter of 2008, and the adverse effects of the fall in demand have been felt throughout the sector, with severe structural and employment consequences (31% fall in demand resulting in a 35% fall in turnover and orders, with adverse effects on employment). Provisional data for 2009 confirm the negative market trend, with figures down 21% on 2008 and 25% on 2007.

1.3 The EESC fears that if policies to support the sector are not developed without delay there may be further, substantial job losses in 2010.

1.4 The EESC held a public hearing as part of the 67th International Motorcycle Exhibition (Milan, 12 November 2009), where it collected further statements from manufacturers, component suppliers, trade unions and users, NGOs and universities. The hearing substantially confirmed the views expressed in the study group.

1.5 Against this backdrop, the EESC:

   a) believes appropriate measures bolstering demand for powered two wheelers in the Member States are necessary, and calls on the Commission and the Member States to encourage implementation or renewal of these measures in the medium term, particularly as regards vehicles with low environmental impact and advanced safety features;
   
   b) calls on the Commission, when drafting the upcoming proposal for a regulation on powered two wheelers, to set goals which the sector will be able to achieve – phasing in targets which are in sync with design, production and the market, ensuring flexible solutions for industry and thus a smaller increase in costs for the consumer, and taking into account the economic climate and the wide range of diverse products;

   c) believes that, to ensure a level playing field, greater oversight in respect of type approval and markets is needed, and for free trade agreements between the EU and South-East Asia to be reciprocal;

   d) calls on the Commission to develop a similar approach to CARS 21 (2) for the powered two-wheeler industry, to support partnership in the industry, competitiveness and jobs;

   e) considers that FP7 can contribute to achievement of these goals and calls for a dedicated platform to be set up for the powered two-wheeler industry, supporting businesses which produce in Europe and use the European production chain;

   f) calls on the industry to pursue restructuring, mergers and acquisitions and to build further cooperation, including with component suppliers, with the aim of maximising all possible synergies;

g) believes it necessary to develop ‘social dialogue’ in order to boost employment in the sector, establishing European standards for lifelong learning and worker specialisation while, at the same time, helping to reduce insecure employment;

h) calls on the Commission to focus extensively on powered two-wheelers in the measures provided for by the Action Plan on Urban Mobility, as powered two-wheelers can undoubtedly contribute to more sustainable mobility.

2. The powered two-wheeler industry in Europe

2.1 The powered two-wheeler industry plays an important role in the EU in terms of the economy and jobs. When compared with the automotive industry (1), there are some similarities but, most significantly, the powered two-wheeler industry has some distinctive characteristics owing to the fact that it is smaller, its structure is more fragmented and its production more diversified.

2.2 This industry has changed considerably in recent decades, as longstanding European brands have been faced with growing Japanese competition. Japanese manufacturers, which are now among the leaders in the industry, have developed production activities directly in the EU. Over time, the European industry has been reorganised with restructuring, mergers and acquisitions and the birth of medium-large industrial groups, operating alongside niche producers and a substantial number of SMEs.

‘Traditional’ European manufacturers, Japanese and Americans currently share leadership of the European market, but since the 1990s they have been facing growing competition from emerging economies. In terms of vehicles produced, EU production is relatively low (1.4 million) compared with that of China in particular (over 20 million), India (over 8 million) and Taiwan (1.5 million), although it is characterised by greater added value, innovation, quality and safety.

2.3 Eurostat places the powered two-wheeler industry under NACE code 35.41. The most recent data, from 2006, present the EU 27 powered two-wheeler manufacturing sector as being made up of 870 businesses, 80% of which are located in six Member States (Italy, United Kingdom, Germany, France, Spain and Austria). The average turnover of EUR 8 million reflects the substantial number of SMEs, estimated at 650, which make up 75% of the total.

2.4 90% of European production is carried out by a hundred or so medium-large and medium-small manufacturers operating in various EU countries (in addition to those mentioned above, the Czech Republic, the Netherlands, Portugal, Slovenia and Sweden) as well as Norway and Swit-

2.5 Manufacturers’ situations vary widely: some global operators are active across all segments (motorcycles for various uses with various cylinder capacities, scooters with various cylinder capacities, mopeds, three- and four-wheeled motorcycles) or in very specialised segments, while others operate country-wide or even local businesses which at times verge on craft trades in terms of size and production processes.

2.6 Technical regulations (European type approval) establish various categories of powered two-wheeler, with different characteristics (cylinder capacity, intended use). For its part, the European Driving Licence Directive establishes different conditions for access to powered two-wheelers (AM mopeds; A1 motorcycles; A2 motorcycles; A motorcycles). These complex divisions encourage fragmentation of production and reduce economies of scale.

2.7 The origins of the fragmentation of the powered two-wheeler industry are in part historical, but derive mainly from the nature of the powered two-wheeler market. While segments more closely geared to utilitarian mobility (in particular urban mobility) such as scooters allow greater production synergies, particularly as regards engines, motorcycle-related segments lend themselves less easily to synergies such as using the same components and engines on different brand models. In particular, dynamic properties differ greatly according to the size of vehicles, and then there are differences arising from specialist vehicle use, and, lastly, the different expectations of users. In many cases different brands are strongly identified with particular cycle or engine configurations (such as the BMW boxer engine, Ducati desmodromic distribution, the Moto Guzzi v-twin engine and the three-cylinder Triumph engine), reflecting demand from European and export markets which are to a large extent made up of groups of devoted fans.

2.8 The vehicles are produced in smaller series and limited numbers, which means less yield on capital invested than in the automotive sector. This is also reflected in part in the component and distribution sectors.

2.9 Supported by an EU market which had been expanding since 2002 (+22% between 2002 and 2007), turnover from EU powered two-wheeler production amounted to EUR 7 billion in 2006 as against total turnover of EUR 34 billion for the powered two-wheeler sector in the European Union. It is interesting to note that, in the period 2004-2006, the EU powered two-wheeler sector saw a rise of 12%, which is greater in percentage terms than the figure for the manufacturing sector in general and that for the automotive sector (both +8%), with a positive impact on jobs.

(1) See the CCMI information report on The Automotive sector in Europe: current situation and prospects, adopted by the CCMI on 13 November 2007.
3. The role of the powered two-wheeler component, distribution and after-sales assistance sectors

3.1 The components and distribution sectors are also characterised by a high degree of fragmentation.

3.2 Components come partly from automotive suppliers, which have a small sideline in the powered two-wheeler industry (fuel-feed systems), but mainly from specific suppliers (wheels, exhausts, clutches etc.) because of the level of specialisation required. The number of suppliers to the industry is estimated at around 500. These suppliers have traditionally been European (concentrated in Italy, Spain, France, the United Kingdom, Germany and the Netherlands). In recent years competition from Asian suppliers has increased. In response to this competition some European suppliers have in turn relocated part of their activities to Asia. However, European component suppliers rely exclusively on orders from European producers.

3.3 The distribution and assistance network meets a need for proximity which is specific to powered two-wheelers (especially as regards mopeds and scooters): in the EU there are around 37 000 active points of sale and after-sales assistance, often run by family businesses. Italy, France, the UK, Germany, Spain, the Netherlands, Greece and Sweden account for 91 % of turnover in the distribution and assistance sector; this figure rose by 5 % between 2004 and 2006.

4. Jobs and social aspects

4.1 Between 2002 and 2007 employment rose steadily in the powered two-wheeler industry, to 150 000 jobs in the EU in 2007. It is interesting to note that, between 2004 and 2006, employment in the industry rose by 4 % in the EU, as against a fall of 3 % in manufacturing industry in general and a fall of 5 % in the automotive sector. This is evidence of the sector's dynamic nature and innovation, buoyed up in difficult circumstances by rising demand for vehicles for either urban mobility or leisure.

4.2 25 000 of these jobs are directly related to powered two-wheeler production, located principally in Italy, Spain, France, the United Kingdom, Germany, Austria and the Netherlands. The seasonal nature of the powered two-wheeler market (concentrated in spring and summer) causes production peaks at certain times of year, during which manufacturers also take on seasonal workers. There is a demand in that respect for greater flexibility to meet temporary demand from the market.

4.3 20 000 of these jobs are in the components sector, located mainly in Italy, Spain, France, the UK, Germany, the Netherlands and Hungary.

4.4 105 000 of these jobs are in the sales and after-sales assistance sectors. By their very nature they are located throughout the EU, although Italy, Germany, France, the UK, Spain, the Netherlands, Greece, Belgium and Sweden employ 92 % of the workforce.

5. The current economic situation and international trends

5.1 The above data is evidence that the powered two-wheeler industry has been very dynamic in recent years, with an expanding European market which amounted to over 2.7 million vehicles in 2007. (The number of vehicles in circulation in the EU is estimated at around 34 million.) However, the crisis which has struck the EU in the last two years caused the 2008 market to shrink by 7.4 % compared to 2007. In particular, sales were down a hefty 34 % during the first quarter of 2008 on the same period in 2007. This negative trend was confirmed in the first quarter of 2009, when powered two-wheeler sales were down 37 % on the same period in 2008. Provisional data for 2009 confirm the negative market trend, with overall figures down 21 % on 2008 and 25 % on 2007.

5.2 The effects of the crisis can be seen throughout the sector. For manufacturers, the fall in sales, in addition to impacting heavily on revenue, has caused a fall in production in order to manage overstocks. This fall has, in turn, resulted in cuts in working hours, halts in production and less use of seasonal labour, causing short- and medium-term industrial plans to be revised. In some cases up to 25 % of staff have had to be permanently laid off. The courts have had to take over administration of some small-medium manufacturers' businesses, which are currently being sold; others have even closed down their activities. These developments herald other restructuring, although it is difficult to predict effects on the socio-economic fabric in terms of possible relocation to outside Europe.

5.3 Component suppliers, faced with falling demand from manufacturers, are also having to cut production, with an impact on jobs. Some have had to terminate their business activities and it is estimated that, at present, around 10 % of the industry's suppliers are in danger of bankruptcy. This situation is generating additional costs for manufacturers as well, who have to make unforeseen investments to support component suppliers or find others, even developing new pressures for aluminium or plastic parts where supplies are no longer available. As things stand, orders, and sales revenue, have fallen by about 40 %. Not infrequently, many manufacturers turn to suppliers from South-East Asia in order to remain competitive.
5.4 The distribution and after-sales assistance sector, owing partly to the fact that businesses (SMEs and family businesses) are smaller, is heavily affected by the crisis and the fall in activity. For instance, in Spain the number of sales outlets fell by 25% in 2008, leading to more than 6,000 job losses. If this trend continues, it is estimated that around 25% of businesses and dealers and 60% of agents will close down in Spain over 2009 and 2010. The effects of the crisis on the distribution network are generating additional costs for manufacturers as well, which have to sustain the network in order to keep product outlets open and to be in a position to benefit from economic recovery, whenever that may be.

5.5 The EESC fears that if policies to support the sector are not developed without delay, there may be further, substantial job losses over the course of 2010. Moreover, to help maintain employment levels in the sector, 'social dialogue' needs to be developed, encouraging lifelong learning and worker specialisation, including at university level, while, at the same time, helping to reduce insecure employment.

5.6 Medium-term measures to bolster demand for powered two-wheelers have thus far been isolated and inadequate. Unlike the situation in the automotive sector, only Italy lost no time in providing a scrappage incentive, the effects of which were positive for the Italian, and therefore European market as well, encouraging the most heavily polluting vehicles to be taken out of circulation. Italy moved from an initial situation, in the first two months of 2009, of market decline of around 35% to a positive situation for scooters with low cylinder capacity, which benefited from a EUR 500 contribution for scrappage of obsolete vehicles, while motorcycles and mopeds are still in a negative situation with an overall decline of over 20%. Despite adopting a powered-two-wheeler scrappage incentive scheme in July, which had been promised for months, Spain has yet to implement it, in actual fact giving consumers further reason to wait and therefore further slowing down purchases. (Between January and August 2009 moped sales were down by 52% and motorcycle sales were down by 43% on the same period in 2008.) This example shows the clear importance of a European regulatory framework which encourages stability on national markets, helping to increase consumer confidence.

5.7 Measures to bolster demand certainly benefit users but they do not necessarily resolve the issue of component suppliers or the European powered two-wheeler industry. In Italy, for example, the flat-rate EUR 500 contribution dramatically improved the situation of small 125 and 150 cc scooters imported from Taiwan and priced at between EUR 1,500 and 2,000, and, to a lesser extent, higher-priced European products, but it did not serve to sustain demand for medium-sized powered two-wheelers priced at between EUR 6,000 and EUR 8,000. European component suppliers did not benefit at all as they do not supply Asian producers. In order to benefit the industry as a whole, measures are needed to support demand, ensuring a contribution which grows at the same rate as the prices of the vehicles in question, in particular for those incorporating advanced solutions reducing environmental impact and advanced safety systems.

5.8 There is an urgent need to make access to funding easier for EU businesses operating in the sector so that they can bear the additional costs generated by the crisis and continue to invest in research, development and innovation (manufacturers and component suppliers together), to remain competitive, focusing on quality and innovation to produce increasingly environmentally-friendly, safe vehicles.

6. The industry’s future prospects: challenges and opportunities

6.1 Should the negative results of the first half of the year be confirmed for the whole of 2009, the entire sector will see its credit capacity reduced by banks in 2010. Even if recovery is just round the corner, the industry’s capacity for investment and research and development will be diminished, with adverse medium-term effects making businesses more insecure, with potential further implications in terms of jobs.

6.2 In the last decade, from the introduction of the Euro 1 standard in 1999 to the standards applied now, the industry has achieved a major reduction in pollutant emissions of around 90% for CO and HC and over 50% for NOx. Encouraging results have been achieved in the area of sound pollution; the industry as a whole (including consumer associations) is still working on further improvements, which can be achieved on road by using only type-approved exhausts and more environmentally-friendly driving styles. The industry has made innovations in the area of safety, with a series of advance braking systems which are gradually being fitted on the different types of powered two-wheelers, as well as on new structures such as three- and four-wheeled motorcycles.

6.3 The Commission is drafting a proposal for a regulation on powered two-wheelers, due to be issued in early 2010. Although progress must continue on environmental and safety issues, in the current economic climate it is essential to avoid disruptive change and take into account the real capacities of the sector and the size of its operators. As regards the new Euro standards, it is necessary to propose goals which the industry will be able to achieve, phasing in targets in a way which respects the timeframes imposed by design, production and the market. The regulation should favour an approach which enables the industry to capitalise on its capacity for innovation, giving it a degree of flexibility which takes into account the economic climate and the wide range of products (in terms of the market and technical properties), in particular as regards fitting advanced braking systems. The industry has already put proposals on environmental and safety aspects to the Commission, to this end.
6.4 ‘Traditional’ manufacturers are exposed, and will increasingly be so, especially in the current economic climate, to low-cost-low-quality competition principally from South-East Asia, particularly when it comes to powered two-wheelers with low or medium cylinder capacity, for which margins are smaller. Inquiries have revealed that these imported products often fail to comply with European type approval requirements, jeopardising consumer safety and placing the environment at risk. Tests performed on samples of Chinese powered two-wheelers imported into the EU recorded non-compliances leading to braking distances of up to 35% longer than, and polluting emissions up to 20 times above EU type approval requirements. There are also issues related to forgery of European vehicles or vehicle parts by manufacturers from emerging economies, as well as falsification of certificates of conformity by commercial companies importing non-compliant vehicles into the EU. In a segment of the EU market which is very price-sensitive, to ensure a level playing field greater oversight is needed in respect of type approval and the markets, with ‘conformity of production’ inspections by the competent authorities and/or technical control services of vehicles being sold, to verify their type conformity and respect for intellectual property.

6.5 ‘Traditional’ manufacturers are, on the other hand, rewarded by the consumer for product quality, design and degree of innovation and safety. This is true of top-of-the-range vehicles with small or medium cylinder capacity and, in particular, of vehicles with high cylinder capacity, which have high added value and stand out because of the technical solutions adopted and where brand is important. These products are worst affected in the current economic situation. Any increase in production of technologically-advanced vehicles – such as hybrid or electric vehicles, which are starting to appear on the market – will depend to a large extent on support from the public sector and therefore on capacity to find a way out of the current crisis.

6.6 Free trade agreements warrant particular attention, to ensure that liberalisation of customs duty between the EU and the countries of South-East Asia benefits both parties, with the removal as well of non-tariff barriers (such as the ban on circulation in China of powered two-wheelers with cylinder capacity over 250 cc), which cause European exporters serious problems.

6.7 To address current challenges, as in the past European manufacturers must pursue restructuring, mergers and acquisitions and build further cooperation which will maximise the possible synergies.

6.8 The survival of European component suppliers is essential to preserve the specific nature of distinctive European production, recognised by users as exclusive. In other words, repetition of what has happened in the cycling industry, for example, must be avoided – there, suppliers of key components such as frames have disappeared, with the result that Europe is now dependent on China to be able to assemble bicycles.

6.9 European component suppliers cannot cope with price competition and have of necessity to focus on innovation, developing joint design between manufacturers to achieve economies of scale – where possible – in a genuine partnership which keeps orders flowing between manufacturers and suppliers of top-of-the-range products.

6.10 A similar approach to CARS 21 is needed, specific to the powered two wheeler industry as a whole, to respond to these challenges as effectively as possible and to bolster the industry’s competitiveness and jobs.

6.11 FP7 research funds can contribute to the achievement of these goals, favouring businesses which produce in Europe and use the European production chain. To this end, a dedicated research platform for the powered two-wheeler industry could make a key contribution – particularly where SMEs are concerned – through participation in consortia to establish research priorities, as is the case in the automotive industry.

6.12 The Commission has recently presented an Action Plan on Urban Mobility, the various goals of which include improving traffic flow, which is something powered two-wheelers do by their very nature. The powered two-wheeler industry has been made vulnerable by the crisis but it will benefit in the long term from the growing needs for alternative, low-emission vehicles ensuring more sustainable mobility, in particular in towns, provided that the current economic problems can be surmounted in the medium term before it is too late to repair the damage.


The President
of the European Economic and Social Committee
Mario SEPPI