



2016 Top Markets Report **Automotive Parts** Country Case Study

Germany

Type: Large Market; Large Share

Germany ranks fifth on ITA’s list of top U.S. auto parts export markets. The German automotive market seems to have finally rebounded as the German economy has improved, and Europe, overall, is growing at modest levels. The TTIP is expected to breathe new life into vehicle sales and production. Hopefully, the TTIP will eliminate tariffs and significantly reduce the costs created by divergent regulations and standards, including costs for additional research and development, production of EU-specific lines, as well as testing and certification costs. In addition, both the United States and Europe are moving ahead with collaborative research and development of advanced technologies, which will improve the markets for fuel efficient vehicles and advanced automotive parts and technologies.

Original
Equipment
Rank

5

Aftermarket
Rank

10

Overview of the Automotive Parts Market in Germany

Despite a slow economic recovery, Germany continues to outperform other European markets. Suppliers have not been as impacted by the slowdown because they are often less reliant on the growth of a single company and generally enjoy a more global sales base. In fact, with nearly one dozen German auto plants scattered throughout the country, Germany hosts the largest concentration of the 47 OEM plants located throughout Europe. In the largest autos market in the EU, German vehicle and parts manufacturers directly employ more than 800,000 people with a further 3 million employed indirectly.

Volkswagen was the leader in sales in Germany for 2015 (685,000 units sold), followed by Mercedes (286,000), Audi (269,000), BMW (249,000), Ford

(225,000) and Opel (229,000). Particularly popular Ford models included the flagship Ford Mondeo and the Ford Kuga. Popular Opel models included the Astra, the compact SUV Mokka and the Opel Meriva.

Challenges and Barriers to Automotive Parts Exports

As the world’s largest exporter specializing in high-end manufactured goods and capital products, Germany has been particularly hard hit by the slowdown in both the G7 and emerging markets.

The barriers to trade that exist in Germany are similar to the barriers that suppliers face throughout Europe and the rest of the world. Lack of harmonization and convergence, lack of transparency of regulations and standards, and tariffs are the major barriers for doing business in Germany. These barriers, while surmountable, raise

Figure 1: 2015 Germany Automotive Market

Sales (units)	3,539,832
U.S. Auto Parts Exports to Germany	\$1,959,900,297
Total German Auto Parts Imports	\$93,242,367,905
Total Domestic Vehicle Production	5,739,900
Vehicles in Operation	47,816,579
U.S. Auto Parts Export Growth 2009-2015	+57%

the cost of doing business for U.S. automotive vehicle and parts suppliers.

Automotive regulatory standards issues are one of the trade-restricting non-tariff barriers (NTBs) for exports of both vehicles and parts into the EU. Conforming to two different standards is costly and time-consuming. According to the Auto Alliance, “a popular U.S. model a manufacturer wanted to sell in Europe required 100 unique parts, an additional \$42 million in design and development costs, incremental testing of 33 vehicle systems, and an additional 133 people to develop, all without any performance differences in terms of safety or emissions.” Achieving regulatory convergence reduces costs associated with the current regulatory inefficiencies, which thereby facilitates increased trade and competitiveness. An ambitious and comprehensive U.S.-EU agreement on regulatory convergence has been viewed as a unique opportunity to foster global harmonization.

Additionally, tariffs are a major cost driver for parts suppliers. Some automotive parts can have tariffs of 2 to 5 percent of total costs. Where there are low margins, tariff costs can result in missed business opportunities overseas. It is estimated that import duties on U.S.-EU trade in automotive parts amounted to \$783 million in 2013. Duties assessed on \$6.9 billion of U.S. exports of automotive parts into the EU equaled \$220 million (using estimated weighted average duty of 3.2%) in 2013. Tariff elimination is a key goal of the ongoing TTIP negotiations.

It is difficult for U.S. aftermarket parts companies to enter Germany’s market for various reasons: warranty concerns, a highly sophisticated market, as well as fierce global competition. These challenges represent high barriers for new-to-market (NTM) manufacturers and products, especially for product groups such as lubricants, additives, care products, and other aftermarket parts and accessories. NTM companies must commit to high investments in marketing and/or local sales staff in order to gain market share, which can only be achieved through displacement of competitors. Distributors and agents are very reluctant to take on new products and brands, unless the product’s unique selling proposition is strong and the foreign manufacturer shows commitment to invest in product development in Germany.

Opportunities for U.S. Companies

Due to Germany’s position as a leading automotive technology provider and its sophisticated market structure, selling into the automotive parts sub-sector is difficult. Broad market opportunities, however, exist for technological innovations and applications. Moreover, technological advances, historically the sole preserve of the vehicle manufacturer, are increasingly taking place at the supplier level. OEMs are accordingly differentiating themselves in terms of brand reputation and service.

Due to increasingly strict EU regulations and policy, especially regarding emission control, opportunities are arising as manufacturers and suppliers have to adapt to the regulatory requirements. Business opportunities exist especially in high-tech sectors, such as innovative materials and components, technology to increase fuel efficiency, alternative drive technology, new vehicle designs, and innovative (urban) mobility concepts.

German OEMs and tier-suppliers are still making considerable investments in the United States—for every new model that is manufactured in the NAFTA-region, OEMs will seek a number of local suppliers. The strategy for foreign suppliers is to source as much locally as possible (ideally 60 to 80 percent). German OEMs urge their existing partners to follow them to respective foreign manufacturing facilities—but that does not always work, especially not quickly. Accordingly, they will seek local suppliers in order to avoid higher costs and risks

associated with parts being shipped to foreign production sites (e.g., transportation, currency/exchange rates fluctuations, etc.).

In the long run, the best opportunities for U.S. automotive parts suppliers will come from the passage of the TTIP Agreement. The TTIP calls for an elimination of all tariffs on trade and a significant reduction in the cost of differences in regulations and standards by promoting greater compatibility, transparency and cooperation. It also seeks to establish rules of origin to ensure that preferential duty rates under the agreement with the European Union apply only to those eligible to receive such treatment and to define procedures to apply and enforce such rules. The TTIP offers significant benefits in terms of promoting U.S. international competitiveness, jobs and growth. According to an EU Economic Assessment report, the elimination of tariffs and 10 percent of U.S. and EU NTBs would result in increased exports of U.S. vehicles and parts into the EU by 207 percent. If 25 percent of those same NTBs are eliminated, U.S. exports would increase by 347 percent (based on 2027 projections). The impact of TTIP will be especially felt in Germany as the largest producer and exporter of automobiles in the EU.

Subsector Best Prospects

Demand for smaller and more energy-efficient mid-range passenger vehicles is growing. In Germany, demand for the small car, as well as the SUV segments, has grown significantly. An environment subsidy introduced in 2009 has facilitated a shift toward small and compact vehicles. A further decisive factor driving demand for smaller vehicles is energy efficiency. Fuel consumption and greenhouse gas emission levels play a pivotal role in auto purchasing behavior. Also, in the past, the type of car owned spoke volumes about its owner and his or her position in society. Today, cars are no longer the simple indicator of wealth and status that they once were. Societal trends in western societies including “downshifting” and increased environmental awareness are being reflected in new car ownership patterns. In the premium segment, “exclusivity” and “high performance” are giving way to sustainable and urban mobility as selling points. Auto parts that support these concepts should have an increased competitive position.

Alternative Drive Systems

In Germany, there is a major focus on improving internal combustion engine energy efficiency (i.e., downsized and turbo charged engines), developing alternative drive technologies (including electric, hybrid, clean diesel, compressed natural gas/liquefied petroleum gas and fuel cell cars), and adapting lightweight materials (such as carbon fiber parts – CFRP) and electronics. According to a McKinsey study, the overall market value for new vehicles with optimized combustion engines is set to reach between 280 and 300 billion Euros by 2020. Impressive developments have already been made in developing smaller, highly charged “homogeneous combustion” engines and dual clutch transmission (DCTs). Diesel has been the principal alternative to gasoline for light duty vehicles. A number of German manufacturers have made large investments in diesel technologies and have been focusing on advancing the global market for diesels going forward. Due in part to poor air quality, there had been growing political opposition to European public policy support for diesel technologies. Volkswagen's diesel emissions compliance scandal has largely sidelined those efforts globally. Demand for alternative drive systems is the result of increased environmental awareness, rising gas prices and more rigorous CO2 limits for new vehicles. Subsidies and incentives, such as exemptions from vehicle sales tax, free parking and other benefits, for vehicles with alternative systems are also important drivers of demand.

Vehicle Emissions

Fuel consumption and CO2 emission levels of European passenger cars are 95 g/km of CO2, phasing in with 100 percent compliance reached in 2021. The light-commercial vehicles are expected to reach 147 g/km of CO2 by 2020. Manufacturers are working to achieve large reductions through drive train-related measures, including micro-hybrid, vehicle architecture, advanced transmissions, efficient air-conditioning systems and tire-inflation control systems. At the same time, control of point emissions are requiring advanced emission control strategies and equipment, such as particle traps and urea systems, for diesel pollution. The stringency of these requirements is also expected to rise particularly as a result of the VW scandal. The combination of these tightening requirements is

increasing the push toward vehicle electrification technologies.

Electromobility

The German government has made more than one billion Euros in funding available as part of its initiative to put one million EVs on Germany's roads by 2020. The National Electromobility Development Plan has been drawn up to promote all aspects of electric driving, including the development of battery technology, grid integration and market acceptance of electric vehicles. Today, electric vehicle sales are still marginal, but it is the fastest growing vehicle segment. In response to its diesel emissions scandal, Volkswagen has turned its focus on expanding its line-up of electric drive vehicles and has promised 20 more electrified vehicles by 2020.

Biofuels

The German government introduced mandatory

blending quotas for biofuels with fossil fuels in 2007. Beyond these quotas, the German government has set a biofuels share by energy content target of 12 percent by 2020 – 7 percent above the stated EU target. This should create more opportunities for vehicle electronic control technologies, including sensors and modules to take better advantage of different fuel types.

Other Best Prospects

Opportunities exist in advanced vehicle technologies, including automotive semiconductors; innovative lighting technology (LED/laser, etc.); software, IT and Car-to-X communication technology; (smart) driving assistance and infotainment; (integrated) mobility services and concepts; range extender technology; and efficient and economical battery technology.