

European carmakers are struggling amid historic EV shift

European carmakers are struggling with competing interests. Volvo's about-turn on electric vehicles is an example of how many are now downplaying their EV commitments amid demand and profitability uncertainty. But short-term decisions won't change the overall direction of EVs



Volvo is the latest car maker to voice concerns over EV demand

Competition from new entrants grows, but short-term reality prevails

The European car industry is facing challenging times in keeping up with the historic transition to electric vehicles, while competition from new entrants like BYD mounts. It's fair to say that short-term interests are heavily influencing the course.

You can perhaps see that in the latest news from Volvo. It announced on Thursday that it's U-turned on its heavily promoted targets to produce only electric vehicles by 2030 as demand slows.

The shift to EVs is a non-linear journey with many uncertainties, as we have seen over the last couple of years. But it's increasingly putting European carmakers under pressure while total new

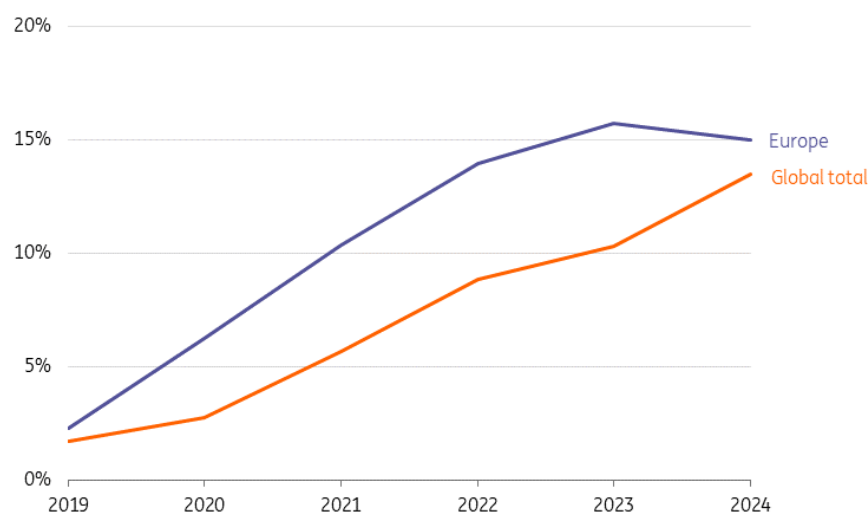
car sales fail to return to pre-pandemic levels in their home markets. Volkswagen's CEO, Oliver Blume, sees the [competitive environment becoming tougher](#) and emphasises the importance of focusing on production costs and competitiveness as the group's global market share has started to erode with the uptake of EVs.

At the same time, Volkswagen, as well as several other European carmakers, including Ford and Mercedes, have announced plans to push back earlier targets to phase out sales of internal combustion engines (ICE-)vehicles in Europe. This is remarkable, so what's going on? Well, there are a number of considerations behind this:

- Due to production costs and severe competition, margins on BEVs are still poor and much lower than on plug-in hybrids, PHEVs, conventional hybrids HEVs or petrol cars. Pushing too hard would hurt profitability in the short run.
- Demand for EVs is currently stagnating in Europe as middle-class drivers are hesitant to make the shift, and lease and rental companies struggle with low residual values.
- The European EV supply chain still needs time to develop, while lower lithium-ion battery prices, and Chinese levels dropping below \$100 per kWh challenging new local facilities. Meanwhile, carmakers still depend on China, which entails risks.
- Carmakers made their ICE phase-out pledges prior to the final decision by the European Union and UK to enforce 2035 as the deadline to make the shift. This gave manufacturers more spare time compared to the initial proposal (2030).
- Carmakers also seek flexibility in the current uncertain (fiscal support and trade) policy environment, with government changes potentially having a significant impact.

Electrification temporarily decelerates in Europe, but continues globally

Share of electric vehicles (BEV*) in total new car registrations per region



Source: BNEF, ACEA, ING Research *forecast

EV product shift still requires speed to avoid missing out on long-term performance

Amid all the short-term interests and uncertainties, carmakers realise they can't afford to miss out on EVs, and the direction of travel remains clear. The EU is not expected to soften its CO₂ targets for production either. This means EV investment programmes and new model development still require speed.

The decision to temporise the shift is very much intended to maintain profitability and preserve flexibility in a highly uncertain environment. Western EV sales are slowing for several reasons, but this is a temporary development. The direction of travel has not changed, and investments in the makeover of product portfolios still need to continue to secure long-term positions in the market over the next decade.

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