ABRUZZO AUTOMOTIVE OBSERVATORY
II Edition – 2023

ABSTRACT

The first edition of the Abruzzo Automotive Observatory was released in 2019 and provided a thorough state-of-the-art overview of the automotive sector in Abruzzo. In 2023, we published an update that considers the extraordinary new dynamics arising globally (the Covid emergency, the invasion of Ukraine, the energy and economic crisis, etc.).
The “automotive industry” in Abruzzo was again mapped and surveyed through a questionnaire that focused on 7 thematic areas with 90 questions: company description, innovation, digitization, business and market, inter - organizational, skills requirements, inbound-outbound logistics.

76 companies were contacted; 29 responded, representing 77% of the reference turnover (6,127,506,246.00 €), and 61% of employees (12,757). Both values demonstrate the representativeness of the sample and thus that the Observatory’s data is deemed reliable and representing the ecosystem.

Below is the general analysis of the results.

World – Europe – Italy Scenario

The first section of the Observatory addresses the automotive context at the global, European, and national level.
We observe a contraction both in demand and in vehicle production in 2020. It started growing again in 2022 with difficulties due to re-known supply chain issues. In general, the motor vehicles sector was more impacted than that of commercial vehicles.

Compared to global demand for motor vehicles in the decade 2009/18, sales increased from 65.6 million in 2009 to around 96 million in 2018/19. Due to unfortunate and unexpected recent happenings (Covid emergency War, energy crisis, economic headwinds etc.) data gradually worsened. The world production of motor vehicles took a hit stemming the pandemic and the containment measures implemented by governments worldwide, which caused a severe slowdown in automotive productivity hat collapsed in 2020. Volumes started growing again in 2021/22.
Such a global outlook compromised the health automotive market and caused a significant drop between 2019 and 2020, followed by a progressive recovery.
Trends are similar in Italy: after a 2019 substantially in line with the previous year, Covid emergency in 2020 caused an exceptional contraction in 2020. As for the automotive industry trade, the import of new motor vehicles was growing in value at the end of 2021 (+7.6% compared to January/December 2020), thanks to increasing imports of new cars but - mostly - thanks to import of industrial vehicles, which increase to +25.2%. In the same period, imports and exports of components were also growing. With respect to production, ANFIA reports – after surveying manufacturers – a growth of domestic production of motor vehicles from 2014 to 2017, and a slow decline starting in 2018. 2020 data was naturally influenced by the Covid-emergency: production almost stopped during the lockdown, followed by a timid attempt to recover in the following months. A slight growth, compared to the volumes of the previous year, was recorded in 2021. Figures were still below the pre-Covid targets.

Focus Motorcycles and LCV

Abruzzo plays a role in the Automotive supply chain and leads in the light commercial vehicles ("LCV") and two-wheelers sectors.

For LCVs, the FCA Italy Plant in Atessa (formerly Sevel), part of Stellantis Group produces "Ducato", the best-selling light commercial vehicle in Europe. Since its debut in 1981, Ducato evolved to meet the growing and ever-changing needs of its customers and got awarded as "Best base for motorhomes". Today, three motorhomes on four sold in Europe are built on a Ducato base. At the end of 2022, more than 7 million vehicles were produced in Atessa. The product (under the brands FIAT, Peugeot, Citroen, Opel and now also Toyota) is in highly wanted and demand exceeds the current production capacity. In 2021, around 260,000 vehicles were produced (equals to 12% of European production and 90% of Italian production). In 2022, despite production was cut by 23% due to component shortages - equal to around 206,000 vehicles – still remained around 12% of the total production in Europe.

Speaking of two-wheelers, the reference is to Honda Italia Industriale, founded in 1971 in Atessa - the only one Honda manufacturing site in Europe for two-wheelers. After the crisis faced about a 10 years ago, the plant has grown in terms of productivity and employment. In 2021, it produced around 88,000 motorcycles; in 2022 about 111,000. Honda recently committed to hire around 110 additional employees.

The automotive industry – development

The electric transition in Europe

The automotive sector will go through a profound transformation. Internal combustion vehicles should be banned in Europe from 2035 as part of the "Fit for 55" package of the European Green Deal to fight climate change, decarbonize Europe and achieve climate neutrality.

Some European countries, including Italy and Germany, are promoting solutions which, rather than slowing down the development of electric vehicles, do not exclude the contribution of other technologies. The European Commission found an agreement with Germany for the use of synthetic fuels called "E-fuel". Nevertheless, the Commission is committed to assess progresses in 2026. Meanwhile, research into electric vehicles will continue towards more efficient energy management systems, more cars, higher mileages and more manageable costs.

Incentives for the transition are becoming indispensable.

The new production systems

New electric vehicles will be simpler and have fewer components. The plants will be increasingly automatic to reduce manufacturing and electrification costs.

New kills and a diverse employment strategy, which aim to rationalize staffing, are therefore necessary. It is equally essential to focus and enhance complementary activities.

Automotive: development engine of Abruzzo

The Abruzzo region has an industrialization rate of 27%, which is higher than the national average and aligned with that of Northern regions. Annual turnover of the automotive industry reaches 7/8 billion, employs 22-23,000 employees and exports account for almost 48% of the region's total export figures. Automotive is the backbone of the economy and a benefits the whole region despite being localized is the province of Chieti. The Val di Sangro, known as the Automotive & Mechatronic Valley, gives home to the Automotive Innovation Pole, a network of globalized companies and public organizations - Large industry, Small and Medium-sized enterprises, Universities and Research Centers - operating in the automotive and mechanical sector of car industry, subcontracting, components, engineering.

<u>Strengths and weaknesses of the Abruzzo System</u>

The working group, set up by the Department of Economic Development of the Abruzzo Region and gathering representatives of entrepreneurs, employees, service providers, education and training orgs provided an overview of the ecosystem's strengths and weaknesses.

High-level skills of the employees and large businesses' technologies, as well as adaptability as flexibility compared to many of our competitors, are undoubtful strengths.

Weaknesses include:
• infrastructures, roads in particular (maintenance and signage);
• logistics, to be improved especially with the operation of the railway (upgrading of the Saletti-Fossacesia platform);
• territorial services, related costs and water management;
• energy costs and frequent micro-interruptions in the supply;
• connectivity;
• local taxation, eg. IMU;
• research and experimental development, especially for SMEs;
• updating of skills (upskilling and reskilling);
• digital transformation;
• the average attendance of employees;

Issues deriving at the national and European level, especially for State aid to large companies, are to be considered.

Protection and enhancement of such ecosystem requires a holistic assessment of all converging issues and a each market, societal and industry player's commitment towards progress. Lack of intervention may jeopardize such activities.

<u>The challenges</u>

Understanding how to best value businesses, employees and skills is paramount to grow our leadership in specialized in commercial vehicles and scooters, both in Italy and in Europe.

A new strategy shall be designed to attract business investments both upstream and downstream. Therefore, companies that supply components (electric motors, battery assembly, charging stations and miscellaneous) and companies that deal with fittings (e.g. 70% of motorhomes are on a Ducato base) should be involved and engaged.

Abruzzo could host a Circular Economy Hub for light commercial vehicles and motorcycles. The initiative shall concern activities designed to increase production sustainability: regeneration of components and vehicle reconditioning.

Beyond the system components, we know we can rely on a strong industry culture which builds upon cooperation and pursuing a common goal synergically. As Henry Ford once said *"Coming together is a beginning, staying together is progress, and working together is success."*

Analysis and results

The second section of the 2023 Automotive Observatory assesses the automotive sector and businesses in Abruzzo.

The sector includes quite diverse types of enterprises considering the specific geography and its characteristics (a smaller region of Central-Southern Europe): small and medium-sized enterprises side with many large enterprises, as usual for this sector.

Among all, FCA Italy Atessa Plant (formerly Sevel) and Honda Italia Industriale are the largest. The automotive industry throve around them and resulted into an ecosystem of, predominantly, subcontractors that manufacture components and semi-finished products to customer specifications, or components and/or parts designed and produced by them (or together with the customer) or even complete systems or modules (not parts of) for motor vehicles. These are mostly 1st or 2nd level suppliers, whose customers are car manufacturers or first level suppliers.

The 2023 Automotive Observatory addresses:

a. Innovation trends

The 2023 Observatory explored new areas such as innovating product development and/or productivity process (already adopted or to be adopted). Eight out of 10 companies invested in R&D on new technologies by participating in projects focusing mostly on new materials and electric engines and powertrains. Industries, in most cases (77%), launched new or significantly improved products which were either: 1) developed in-house; 2) developed together with other institutions, for example following the implementation of partnership and projects financed by European (ERDF) and national (FSC) funds.
The Observatory finds that companies develop technologically new (or significantly improved) production processes either in-house or in collaboration with others through the projects mentioned above.
The Observatory looked at obstacles to innovation too. SMEs face difficulties to manage the business process because of a lack of competent staff and information on both markets and technologies, as well as issues faced in identifying partners and partnership opportunities.

b. Digitalization trends

The Observatory explored digitalization and notes that companies adopted innovative solutions in the areas of production, quality, design and engineering, but they plan to adopt them in the future also for logistics, supply chains and human resources. In general, data show a significant improvement compared to 2019.
In further details, it is interesting to note: if companies were to adopt - or intend to do so in the near future - innovative solutions from an Industry 4.0 perspective, 79% would request incentives. Companies explained the main risks and constraints hindering the launch of projects in the Industry 4.0 space as the scarcity of internal resources, the corporate culture and owning the right competence to understand opportunities.

c. Exports in foreign markets

As far as the market is concerned, companies are entering foreign markets (as naturally, with certain difficulties) and exports are mostly directed towards Germany.
Stellantis Group is clearly the most important costumer (as FCA Italy Atessa Plant, the largest European plant for the production of light commercial vehicles, is located in Abruzzo) and this trend is confirmed by the data concerning destination of the goods/services: companies indicated the LCVs in vast majority (which represent 87% of the final goods, if we consider the companies replying to the survey on the basis of turnover). Also in this case, results depend on the presence of the ex-Sevel in the area.

d. Skills

The Observatory addresses the issue of skills needed, especially the qualification and reconversion of existing skills. Businesses show solid employment prospects for the immediate future, both with respect to new hires in

Italy and - with a percentage of 90% - to qualification and reconversion. However, they seem to be struggling to find qualified personnel, especially in: Research and Development, Maintenance of machinery and plants.
Scenarios are slightly different when certain areas of industrial skills are concerned, such as: Machinery and plant maintenance; Research and Development, Production and Assembly; Quality of products and processes.
Regardless of the difficulties faced when hunting suitable candidates, businesses indicated the following as most sought or needed skills: soft skills; manufacturing, asset and product management; research and development, innovation, design and project.

e. inbound and outbound logistics

The last section of the Observatory - included as an appendix in the 2019 edition – concerns inbound and outbound logistics. Overall, circulation of goods to and from companies in Abruzzo is significant and clearly depends on Ducato and Honda being present in the area.
The challenge, and opportunity thereof, is a progressive and substantial shift from road to rail transport for economic and environmental reasons. Companies are already moving in this direction but a decisive intervention shall amplify the trend, and should entail an increase of number of tracks for the transport of goods in Val di Sangro. Currently some trains must reach the interport of Manoppello thus causing a cost increase on the last mile on the road. An expansion of the Saletti platform and of the Fossacesia train station is planned, but it is essential to complete the works within the next two years to achieve a satisfactory outcome.

Conclusions

In general, despite the - inevitable - consequences due to the disruption of the global economic and structural outlook, companies in Abruzzo resisted and continue to look at the future with moderate optimism (80%). The Automotive sector is of paramount importance and holds solid opportunities for Abruzzo. The presence of FCA Italy and Honda Italia Industriale have a weight at national and European level which drives all related industries and other companies. Abruzzo is space where research and innovation are increasingly needed and where very positive signals concern digitalization, incentives and industry 4.0. Awareness over importance of skills -qualification and reconversion - is quickly spreading.
The ecosystem faces issues, but it is certainly not in a crisis. Data do not justify the alarmism which has been recently perpetuated, and which should be addressed to preempt reputation issues for both the ecosystem and the Region, as well as a drop of citizens' trust.