

EUROPE IS SAVING ITS CAR INDUSTRY. FOR CHINA.

Europe can protect its factories, jobs and production
and still lose ownership of the system that runs them

MANUFACTURING

EMPLOYMENT

CAR

MATEUSZ CHRZANOWSKI

SYSTEM OF SYSTEMS ARCHITECT

INDUSTRIAL ARCHITECTURE / STRATEGIC MARKET ARCHITECTURE





THE ARGUMENT'S ARCHITECTURE

A long-form systems analysis of cost, competition, manufacturing and control.

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Central question

"The question is whether those factories will still belong to European carmakers."

ACT 01

COST SYSTEMS

Complexity, price and the economics of the product

OPENING / INDUSTRIAL ARCHITECTURE

Europe Is Saving Its Car Industry. For China.

Europe may preserve its automotive factories, its workers and even its most famous car brands. But who will own the industrial systems behind them?

At the Paris Motor Show in October 2026, Europe's automotive executives were once again discussing the need for stronger political protection against Chinese competition. Volkswagen, Stellantis and Renault were among the manufacturers calling for measures to defend European automotive production, employment and industrial competitiveness.

I find the timing fascinating.

For nearly two decades, Chinese manufacturers have been developing technologies, acquiring companies, building production capacity and designing increasingly sophisticated industrial systems. Geely acquired Volvo Cars in 2010. BYD developed extensive capabilities in batteries, electronics, powertrains and integrated vehicle manufacturing. SAIC and Chery expanded their product portfolios and international ambitions. None of this happened secretly, and none of it appeared overnight.

Now Europe's established automotive groups are discovering that the companies they watched develop for all those years

can manufacture increasingly competitive vehicles for considerably less money.

And their response is to ask politicians for protection.

A tariff can make an imported Chinese car more expensive. It cannot make a Volkswagen cheaper to manufacture or create a more efficient European automotive factory. Those problems exist inside the industrial systems operated by manufacturers themselves, and no customs regulation will redesign those systems on their behalf.

“A tariff can make an imported Chinese car more expensive. It cannot make a Volkswagen cheaper to manufacture or create a more efficient European automotive factory.”

Yet European manufacturers are not responding to the changing market in the same way.

BMW, Mercedes-Benz and Renault have been investing in new product and manufacturing architectures. Volkswagen is restructuring an industrial system whose fundamental operating economics have become increasingly difficult to sustain. And Stellantis is developing an altogether more complicated network of technological, commercial and manufacturing relationships with Chinese automotive groups.

These are different strategies, with different objectives and potentially very different consequences.

Meanwhile, Chinese manufacturers are preparing to move increasing amounts of their production into Europe itself. They can bring their engineering, production systems and industrial knowledge while establishing factories that employ European

workers and manufacture vehicles inside the European Union.

Europe may succeed in protecting automotive manufacturing. It may even end up with better factories.

The question is whether those factories will still belong to European carmakers.

01

Volkswagen's 2,600 Seat Variants Explain More Than Its Executives Might Like

Volkswagen knows how to manufacture excellent vehicles. It has engineering capabilities, valuable brands, experienced people, technology, capital and one of the most extensive industrial infrastructures in the world. The idea that the company has simply forgotten how to build cars is absurd.

Its problem is the cost of the industrial architecture through which those cars are developed, manufactured and delivered.

In August 2026, Volkswagen Group CEO Oliver Blume acknowledged that Brand Group Progressive alone offered more than 2,600 seat variants. That figure came from Volkswagen's own chief executive, not from an external analyst attempting to embarrass the company.

More than 2,600 variants of vehicle seats.

COMPLEXITY EXPRESSED AS A PRODUCT CATALOGUE

2,600+

SEAT VARIANTS

A seat is not a particularly exotic part of a modern automobile. It is a mature product whose basic function has been understood for decades. Yet Volkswagen has managed to create thousands of combinations

involving structures, upholstery, electric adjustment, heating, ventilation, control modules, trim specifications and model-specific configurations.

I analysed the economics of that complexity using automotive supplier information, production volumes and the industrial consequences of maintaining such an extensive range of variants.

My calculation showed that Volkswagen could install electrically adjustable, heated and ventilated seats upholstered in Nappa leather as standard across the analysed production scope, and still spend less money than it does maintaining the existing system of 2,600 variants.

The customer receives better seats. The manufacturer spends less money. Both outcomes are achieved through the same architectural decision.

This is the kind of result that becomes possible when a company stops looking at the purchasing price of an individual component and starts calculating the cost of the entire system required to use that component.

Every variant creates relationships across engineering, suppliers, purchasing, documentation, production planning, logistics, assembly, software, quality control and spare-parts operations. When those relationships multiply across thousands of configurations, several vehicle platforms and millions of cars, the company must maintain an enormous organisational and physical infrastructure simply to manage its own product catalogue.

Standardisation changes the economics of that infrastructure. Larger production volumes for fewer seat configurations improve purchasing conditions and manufacturing repeatability, while reducing the complexity of stock management, sequencing, technical documentation and assembly. The more expensive physical seat becomes cheaper at the level that actually matters: the total cost of providing that seat to the customer.

Volkswagen could therefore sell better-equipped vehicles while reducing manufacturing cost. Yet it has spent decades using optional equipment and complex configurations as part of its commercial model.

Customers were attracted by an advertised starting price and then moved through a configurator filled with equipment packages, additional features and combinations in which selecting one option often required purchasing another. The final vehicle could cost substantially more than the one that had initially attracted the customer.

This complexity was part of its commercial model. It increased transaction values, but the company also had to maintain the production system required to deliver every possible combination.

Volkswagen managed to build an industrial architecture in which selling less equipment can cost more than providing better equipment to everyone.

That is not German engineering at its finest. It is a very expensive way of organising a product.

The electric Volkswagen ID.3 Pure offers another illustration of how this architecture reaches the customer.

In one European market, the model was offered at a promotional price equivalent to approximately €29,700. That appears attractive until the equipment is examined. The entry-level car has a 52 kWh battery, steel wheels, relatively modest standard equipment and 7.2 kW AC charging. Features that customers increasingly expect from a modern electric car still require additional spending.

An electric Omoda E5 was available in the same market for approximately €27,500 on promotion, with a larger 61 kWh battery, 11 kW AC charging, aluminium wheels and significantly richer standard equipment.

Once the ID.3 was configured with aluminium wheels, keyless access, a reversing camera and a reasonable comfort

package, its price approached €33,900. Volkswagen had moved from being approximately €2,200 more expensive to more than €6,400 more expensive than the Omoda.

RETAIL COMPARISON IN THE MARKET ANALYSED

€33,900

CONFIGURED VOLKSWAGEN
ID.3

€27,500

PROMOTIONAL OMODA E5

And the Volkswagen still had the smaller battery.

This is not a problem that can be solved by explaining to customers how valuable the badge is. Nor does it disappear when Volkswagen introduces a larger promotional discount.

A discount does not eliminate the cost of an inefficient industrial system. It transfers that cost from the customer's invoice to the manufacturer's margin.

Volkswagen can continue reducing prices until the vehicle becomes competitive in the showroom, but the financial consequences of its production architecture remain inside the company. The manufacturer is then left selling the car at a lower margin while maintaining the same expensive structure responsible for producing it.

That is how an industrial problem becomes a profitability problem. And eventually, when enough customers choose competitors, it becomes a problem of factory utilisation, employment, suppliers and the future of the enterprise itself.

02

Chinese Cars Are No Longer Products Customers Must Learn to Tolerate

The industrial problem would be less urgent if Chinese vehicles were still the inferior products that European customers were

expected to tolerate in exchange for lower prices.

They are not.

I was previously unconvinced by MG. My assessment of the brand was not favourable, particularly in terms of quality and product refinement. After examining recent comparative tests, including demanding evaluations of the MGS6 EV, I changed my assessment because the vehicles performed considerably better than I had expected.

The tests were conducted by experienced automotive journalists with extensive performance-driving experience. Their evaluations included demanding road conditions, suspension behaviour, electronic assistance systems, driving dynamics and comfort.

In one comparison, the MGS6 EV absorbed certain road disturbances better than the substantially more expensive Volvo EX90, itself a product of Chinese-owned Volvo Cars. The Volvo remained far quieter, with cabin-noise measurements of approximately 62 dB compared with 71 dB for the MG. That is a significant difference in refinement.

But the fact that a much less expensive MG could outperform a luxury Volvo in individual suspension assessments shows how far the engineering of these vehicles has progressed.

The comparison also exposes a problem in how modern assistance systems are sometimes assessed.

Drivers accustomed to circuit driving often expect a car to tolerate aggressive inputs, deliberate changes in vehicle attitude and operation close to the limits of grip. Electronic interventions designed to protect ordinary road users can interfere with that style of driving.

Those systems are not designed primarily for circuit use. They are designed for normal roads, ordinary customers and situations in which intervention is

preferable to allowing the driver to continue towards a loss of control.

A particularly interesting example came from a comparison involving a Chinese vehicle and a Cupra on a demanding gravel course resembling a rally stage.

An experienced, internationally recognised professional rally driver evaluated the cars in conditions requiring precise control on a low-grip surface. His assessment of the Chinese vehicle was notably positive. He found it composed and reassuring, acknowledged that its safety systems required the driver to adapt to their intervention and appreciated the vehicle's behaviour in circumstances where stability and predictability matter.

That assessment is significant because a professional rally driver understands vehicle dynamics under demanding conditions without confusing a road car's safety priorities with the requirements of a competition vehicle.

A track-oriented Porsche 911 can allow the driver to reduce electronic intervention substantially because the car is operating in an environment where the driver's objective and the acceptable risk are fundamentally different.

Judging the safety systems of a family SUV by how little they interfere with driving at the limit on a closed circuit mistakes the intended function of the product.

MG's progress extends across more than one model, and it is taking place alongside the development of other Chinese manufacturers. Chery is building the Omoda and Jaecoo ranges. Geely is developing Zeekr and Lynk & Co while owning Volvo Cars. BYD has established exceptional capabilities in electrification, batteries and integrated production, and its higher-end brands are targeting customers who would previously have considered established European luxury manufacturers almost automatically.

Chinese manufacturers now compete in mainstream, premium and luxury vehicles.

They are developing commercial vehicles, advanced powertrains and sophisticated electronic systems.

That changes the entire competitive relationship.

03

The Denza N9 Is an Almost Absurd Demonstration of Chinese Engineering

Consider the Denza N9, a six-seat luxury SUV measuring more than 5.25 metres in length and weighing over three tonnes.

It is a vehicle the size of a medium-sized holiday cottage, yet it accelerates from 0 to 100 km/h in less than four seconds.

Its braking performance is equally remarkable. In different tests, the Denza N9 and the most powerful Volvo XC90 T8, from Chinese-owned Volvo Cars, achieve comparable stopping distances. Some measurements place them at approximately 36 metres, while another comparison recorded 55 metres for the Denza and 58 metres for the Volvo.

Regardless of which results we examine, the conclusion remains the same. The Denza delivers braking performance comparable to, and in some tests better than, a considerably smaller, shorter and almost one-tonne-lighter premium SUV.

It is an extraordinary combination of dimensions, mass and dynamic capability.

And performance is only one part of the vehicle.

The N9 offers sophisticated suspension technology, a powerful multi-motor hybrid powertrain, LiDAR, an extensive network of cameras and sensors, luxurious interior equipment and electrically operated doors that can physically close their open panels in response to voice commands.

Its interface is available in Polish, and its voice assistant understands spoken Polish and responds in Polish.

Now consider the price.

A Denza N9 Superior is already available through private import in Poland for approximately €98,000, including transport, taxes, customs duties and the necessary formalities.



In the same market, ordinary Mercedes-Benz GLS models, excluding AMG and Maybach, are offered at prices ranging from approximately €126,000 to €214,000.

The Mercedes costs between €28,000 and €116,000 more.

These are not comparisons involving an AMG performance model or a Maybach. They concern ordinary GLS configurations, whose prices vary enormously according to equipment and specification.

Attempting to identify one exactly equivalent GLS configuration misses the point. The Denza is already an exceptionally well-equipped luxury SUV whose technology, performance and comfort place it firmly in competition with established European premium manufacturers.

A European customer can therefore pay tens of thousands of euros more for a competing luxury SUV without automatically receiving a more advanced or better-equipped vehicle.

And there is another important detail. The approximately €98,000 Denza is available through an independent importer, not through an established official European distribution network.

Private import often carries a more expensive commercial structure than a manufacturer's own distribution operation. An independent importer purchases the vehicle, arranges transportation and

compliance, finances the transaction and earns a margin on relatively small volumes. A manufacturer controls its own export pricing, distribution strategy and the margins it chooses to accept when entering a new market.

If Denza eventually introduces the N9 officially in Europe at, say, €95,000, that would represent an extremely attractive price for such an extraordinary vehicle.

At that level, Mercedes-Benz would face a competitor offering a genuinely comparable luxury proposition while undercutting many ordinary GLS configurations by tens of thousands of euros.

But Mercedes is already doing something about its own industrial system.

04

Competition Is Not the Problem. An Uncompetitive Industrial System Is.

Mercedes-Benz has begun changing the industrial and technological foundations of its product range. The new electric CLA demonstrates how far the company has progressed in efficiency, battery technology and electrical architecture. With its 800-volt system and a WLTP range of up to 792 kilometres in the CLA 250+, Mercedes has developed a product that competes through technology and efficiency rather than historical reputation alone.

The new GLC represents another part of that transformation. Mercedes is rebuilding its products progressively rather than attempting to replace its entire portfolio at once.

The GLS has not yet undergone the same fundamental transformation. When it does, its cost structure and pricing position may change substantially.

Consider a scenario in which Mercedes reduces the GLS's retail price by 20%. A vehicle currently offered at approximately

€126,000 would cost around €100,800, bringing it remarkably close to the Denza N9.

We would then have two genuinely competitive luxury SUVs: one offering spectacular Chinese technology, performance and equipment, the other combining advanced European engineering with the established elegance and character of Mercedes-Benz.

Customers could choose whichever vehicle they preferred without having to justify an enormous difference in price.

That is how automotive competition is supposed to work.

Denza and Yangwang are not going to take Mercedes-Benz's market away simply by introducing technologically impressive cars. Mercedes has the brand, engineering capabilities, customer relationships and increasingly the industrial strategy required to compete with them.

BMW is moving in the right direction as well. Its Neue Klasse architecture represents a significant transformation of vehicle technology and manufacturing, while the current market already demonstrates how competitive some BMW models can become.

A reasonably equipped BMW 3 Series can increasingly appear at prices close to those of well-equipped mainstream European cars. The same applies to certain BMW 5 Series configurations when compared with models such as the Volkswagen Passat or Škoda Superb.

This creates a particularly uncomfortable situation for Volkswagen.

A customer considering a well-equipped Passat or Superb can discover that the price difference to a BMW is considerably smaller than the difference between the brands' historical market positions would suggest.

BMW retains its engineering reputation, design, driving characteristics and premium identity. Volkswagen cannot make

a Passat into a BMW simply by increasing the equipment level.

The difference in perceived value becomes another instrument of competition.

BMW's new factory in Debrecen, Hungary, opened in September 2025, is another example of the direction the company has taken. Designed around the Neue Klasse and BMW's iFACTORY principles, the facility incorporates digital manufacturing processes, integrated logistics, on-site high-voltage battery assembly and an industrial layout developed around the requirements of a new generation of vehicles.

BMW did not simply select a cheaper labour location and reproduce an old German factory. It designed a different manufacturing environment.

Renault is progressing through a different route. The group has long understood the value of manufacturing in Romania through Dacia, while Renault 5 E-Tech and the ElectriCity industrial cluster demonstrate efforts to integrate electric-vehicle production, battery supply and manufacturing processes more efficiently.

These manufacturers have not completed every aspect of their transformation. They are, however, treating competitiveness as a problem involving the product, technology and industrial architecture.

The results will not necessarily be identical. A premium manufacturer may retain pricing power that allows a more expensive production structure. A mass-market manufacturer has much less room to manoeuvre.

But the ability to respond through engineering, production architecture and better products is what makes competition economically sustainable.

Chinese manufacturers entering the European automotive market is not the problem. The problem begins when an established manufacturer no longer possesses the industrial architecture required to compete with them.

ACT 02

CUSTOMER REALITY

Quality, value and the speed of improvement

05

Europe's Neglect of Central and Eastern Europe

The Denza's Polish-language functionality exposes another weakness in the European automotive industry's commercial approach: its treatment of Central and Eastern Europe.

Volkswagen, Škoda, Stellantis and other European manufacturers have been selling cars throughout the region for decades. Their voice-control systems support major Western European languages, yet Polish-speaking customers have frequently been expected to operate those systems in another language.

Even Apple's Siri has spent years without full Polish-language support.

Meanwhile, a Chinese luxury SUV can communicate with a Polish driver in Polish.

It may appear to be a minor detail beside battery technology or vehicle performance. Commercially, however, it reveals a familiar attitude towards markets that European manufacturers have spent decades treating as secondary.

Central and Eastern Europe is not an insignificant collection of peripheral economies. It represents a substantial and increasingly prosperous part of the European market, with millions of potential customers, expanding purchasing power and considerable industrial capabilities.

European automotive manufacturers have extensive commercial and industrial relationships across the region. They sell

vehicles, maintain distribution networks, employ workers and purchase enormous quantities of components from businesses operating in these countries.

Yet the treatment of those customers has frequently lagged behind the consideration given to Western European markets.

The contradiction is particularly striking because Central and Eastern Europe is also an important manufacturing base for the European automotive industry. Vehicles, components, electronics, electrical systems and other automotive products are manufactured throughout the region, contributing directly to the revenues and industrial capacity of the same manufacturers whose vehicles do not always offer customers the same linguistic functionality available elsewhere.

A Polish worker can manufacture components for a European car whose voice assistant does not understand Polish.

And a Chinese manufacturer can enter the market with a vehicle that does.

That is not a technological inevitability. It is a consequence of decisions about which customers and markets deserve attention.

The economic importance of Central and Eastern Europe extends far beyond its attractiveness as a lower-cost production location. The region possesses highly developed manufacturing capabilities, industrial infrastructure, engineering expertise and increasingly important consumer markets.

European manufacturers should stop treating Central and Eastern Europe merely as a convenient place to manufacture components and sell additional vehicles.

It is an important part of Europe's industrial and commercial future, and its customers have every reason to expect products designed to serve them properly.

06

Customers Are Beginning to Compare Cars Instead of Reputations

Consider the owner of a Volvo XC60 Ultra, from the Chinese-owned Swedish brand, who also purchased an electric Omoda E5 for approximately €27,500.

The Volvo is a well-equipped premium vehicle. The Omoda is considerably less expensive. Yet the Omoda proved comfortable, practical and pleasant enough that it became the preferred vehicle for everyday journeys.

The owner did not need to replace the Volvo or make a financial compromise. Both cars were available, and the less expensive one simply performed the required function extremely well.

Another example concerns a Jaecoo 7. Its interior quality and comfort impressed a passenger sufficiently that the car felt comparable to substantially more expensive vehicles. Its owner was enthusiastic about the product, while another Volvo XC60 owner began considering a Jaecoo as a replacement when his leasing agreement ends.

These experiences illustrate what happens when a customer stops considering a Chinese vehicle as an inferior alternative and begins evaluating it as a genuinely competitive product.

The purchasing decision changes. The customer compares comfort, equipment, materials, technology, driving experience and the money required to obtain them. When the Chinese vehicle performs well enough, the established badge has to justify the difference in price.

And increasingly, it cannot.

This is not limited to Volvo. Chinese vehicles are attracting customers who

previously bought Volkswagen, Mercedes-Benz and other established European brands. The pressure exists across different market segments, even though the products involved do not always compete at the same level.

For now, the commercial consequence is clear: Chinese manufacturers have reached a level of product quality at which the question increasingly changes from why their cars are so inexpensive to why established European cars cost so much more.

When a manufacturer loses the ability to justify a substantial price premium, it cannot recover that advantage through advertising alone.

It must offer better value or change the cost of delivering its product.

07

The Industrial System Determines How Quickly the Product Improves

There is another advantage that receives less attention than retail prices and battery specifications: the speed at which manufacturers turn operating experience into product improvements.

Established European manufacturers have traditionally organised major changes around relatively long development cycles, new generations, facelifts and model-year updates. Technical corrections occur throughout a vehicle's production life, but the broader engineering and commercial system is built around these larger milestones.

Chinese manufacturers increasingly demonstrate a faster cycle in which information gathered from testing, customer use, production and quality systems can be converted into component, software, calibration and process improvements within much shorter periods.

The car produced in October can be materially better than the one produced in January, even though the model name has not changed.

This is not simply a software-update strategy. Vehicle manufacturing depends on physical components, engineering decisions, supplier specifications, production equipment and validation. Improving those elements continuously requires an industrial system capable of introducing change without creating disproportionate disruption elsewhere.

Here the connection to Volkswagen's 2,600 seat variants becomes particularly important.

Every unnecessary configuration increases the number of dependencies affected by a change. Engineering must understand which components can be modified, which configurations are compatible, which suppliers are involved and how the change affects production and service.

The manufacturer is not merely paying more to manage complexity. It is consuming its own ability to improve.

A company operating with a simpler, more integrated architecture can implement changes across fewer configurations, often in larger production volumes, with less organisational friction.

Over several years, the cumulative difference becomes substantial.

A manufacturer that completes more useful engineering cycles does not simply improve faster. It accumulates operational knowledge faster, exposes weaknesses earlier and can introduce the results into production before competitors have completed their next major development programme.

A company with a highly complex inherited architecture may have excellent engineers and still move slowly because too much of their work is consumed by managing the existing system.

This is precisely why rebuilding the industrial architecture matters more than adding another cost-cutting programme.

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The architecture determines both what the company spends and how quickly it can become better.

ACT 03

INDUSTRIAL RECONFIGURATION

Factories, partnerships and production architecture

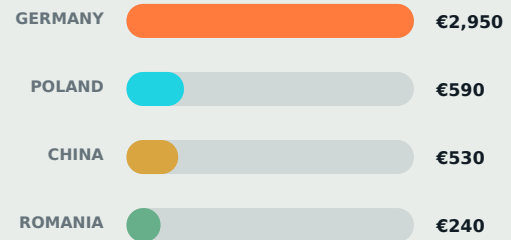
08

Europe Is Not Automatically an Expensive Place to Manufacture Cars

The argument that Chinese manufacturers are competitive primarily because Chinese labour is cheaper becomes considerably less convincing when European manufacturing locations are compared with one another.

Oliver Wyman's automotive labour-cost analysis provides a useful comparison. Converted into approximate euro equivalents, average labour costs per manufactured vehicle were around €2,950 in Germany, €590 in Poland, €530 in China and €240 in Romania.

LABOUR COST PER MANUFACTURED VEHICLE



Approximate euro equivalents cited in the article.

These are labour costs per finished vehicle, not hourly salaries. They reflect both labour rates and the time required to manufacture a car.

Romania was cheaper than China. Poland was only approximately €60 more expensive per vehicle.

The difference between Germany and Romania was approximately €2,710 per car in labour costs alone.

Multiply that difference by hundreds of thousands of vehicles annually, before calculating energy, property, logistics, infrastructure and the cost of maintaining the existing industrial architecture.

There is no serious reason to assume that a new factory built in Romania, Poland or another appropriate European location must inherit the cost structure of Volkswagen's historical German operations.

Nor is there any reason to treat the original investment in an old factory as a permanent obligation to manufacture the next generation of vehicles there.

A factory exists to generate value through production. It is not a monument to previous investment decisions.

These differences in European industrial conditions create substantial opportunities. The relevant question is not simply where labour is cheapest, but where an entire production system can be designed and operated at the lowest sustainable cost.

And that question becomes particularly interesting when a manufacturer already possesses factories, distribution networks

and access to technologies developed by several different automotive groups.

09

Stellantis May Be Building an Industrial System That Can Survive Its Own Brands

Stellantis possesses an extraordinary portfolio of brands, manufacturing facilities, engineering expertise and distribution networks. It has also experienced serious financial difficulties, including substantial losses and pressure on its European operations.

Judging the group only by those difficulties, however, would miss something important.

The industrial and commercial strategy now emerging from Stellantis is considerably more interesting than a conventional restructuring programme.

The company has been expanding relationships with Chinese automotive manufacturers in ways that connect investment, technology, component sourcing, development, distribution and vehicle production. Taken together, these arrangements suggest an industrial architecture in which Stellantis can maintain its European manufacturing capacity and commercial position without depending entirely on the future success of each individual brand in its portfolio.

Consider Leapmotor.

In 2023, Stellantis acquired approximately 21% of the Chinese manufacturer and established Leapmotor International, a joint venture in which Stellantis holds 51% and Leapmotor 49%. The new business obtained rights to distribute and manufacture Leapmotor vehicles outside Greater China, combining Chinese vehicle technology with Stellantis' international sales, service and industrial capabilities.

The relationship has now progressed beyond distribution.

On 16 October 2026, Stellantis and Leapmotor officially inaugurated production of the Leapmotor B10 at the Stellantis factory in Zaragoza, Spain. Three days later, they announced plans to produce the Leapmotor B05 at the same facility.

LEAPMOTOR / STELLANTIS INDUSTRIAL SEQUENCE

2023

21% STAKE +
INTERNATIONAL JV

16 OCT 2026

B10 PRODUCTION IN
ZARAGOZA

Meanwhile, the partners are considering an additional production line for a new electric Opel C-SUV, potentially beginning in 2028. That vehicle would benefit from components supplied through the Leapmotor industrial ecosystem, making the Chinese partnership part of the cost structure of a European-brand product.

The arrangement is remarkable because the manufacturing relationship works in both directions.

Stellantis can produce Chinese-brand vehicles inside its European industrial network while using Chinese components and technologies to make vehicles bearing its own European brands more competitive.

The partners are also planning further production at the Villaverde factory in Madrid, with the possibility of transferring the facility to the Spanish subsidiary of Leapmotor International. Stellantis would maintain a controlling interest in that joint venture while expanding the industrial activities conducted through it.

Now consider Dongfeng.

The relationship between Stellantis and Dongfeng extends back decades. Through Dongfeng Peugeot Citroën Automobile, the two groups have maintained a joint manufacturing presence in China.

In May 2026, they announced a new stage of that cooperation. Their plans include manufacturing new electric Peugeot and Jeep models at the joint venture's factory in Wuhan, with production intended for both the Chinese market and export.

This is not merely a European manufacturer licensing a foreign company to assemble vehicles for local customers. It is an arrangement through which European brands can become part of a Chinese manufacturing and component ecosystem serving international markets.

And the relationship is expanding in the opposite direction.

Stellantis and Dongfeng announced their intention to establish a European joint venture, controlled 51% by Stellantis and 49% by Dongfeng. The planned operation would combine sales, distribution, purchasing, engineering and potential manufacturing activities, including the distribution of Dongfeng's premium Voyah vehicles and the possibility of manufacturing Dongfeng models at Stellantis' Rennes factory in France.

The proposed European joint venture has not yet reached the same operational stage as Leapmotor production in Zaragoza. Nevertheless, the direction of the intended industrial relationship is clear.

Stellantis is developing arrangements through which European brands can be manufactured in China, Chinese brands can be manufactured in Europe, and both sides can exchange technologies, components, engineering capabilities and production capacity.

The company's FaSTLANe 2030 strategy adds another part of the picture.

With more than €60 billion in planned investment over five years, the group intends to simplify the management of its brand portfolio, strengthen common vehicle architectures and concentrate a substantial proportion of production on a smaller number of global platforms. By 2030, it

aims to manufacture half its annual global vehicle volume on three global platforms.

These decisions point towards a company attempting to reorganise the industrial relationships between its brands, technology, factories and markets.

And here is the particularly interesting consequence.

The survival of Stellantis as an industrial group may no longer depend on the survival of every brand it currently owns.

Imagine a European Stellantis factory that manufactures Opel vehicles today. Over time, its production mix could incorporate Leapmotor models, vehicles developed with Dongfeng or entirely new products based on shared technologies.

The critical industrial assets would not necessarily disappear when the product portfolio changed.

The factory could continue operating. Its employees could continue manufacturing vehicles. Its suppliers could continue receiving orders. The group's distribution networks, engineering capabilities and industrial infrastructure could remain economically productive.

Some historical brands might grow. Others might contract or eventually disappear. New brands could enter the system.

But the manufacturing architecture would be capable of adapting.

That is a fundamentally different understanding of industrial resilience.

A factory whose economic future depends on a single historical brand must defend that brand's market position to protect its own production volumes. A factory integrated into a broader industrial network can potentially manufacture vehicles from several brands, using different technology partnerships and component sources as market conditions change.

The industrial system becomes more important than the permanence of its original product catalogue.

Stellantis could therefore retain a substantial European industrial presence even if the balance of brands within its portfolio changes considerably.

Its partnership structures also offer a way to participate economically in the expansion of Chinese manufacturers rather than treating their European growth exclusively as a threat.

A Leapmotor sold in Europe through Leapmotor International contributes to a business controlled by Stellantis. A Leapmotor manufactured in Zaragoza contributes to the utilisation of European industrial infrastructure. A future Opel developed using Leapmotor components could benefit from lower costs made possible by the Chinese manufacturer's supply chain.

The same principle could apply to Dongfeng and its planned European activities.

The more extensively such relationships are integrated into Stellantis' operations, the less straightforward it becomes to classify a vehicle as an entirely European or entirely Chinese industrial product.

The brand, ownership structure, manufacturing site, component supply chain and product architecture may all belong to different parts of the same international network.

Stellantis may be building a future in which it does not have to choose between European and Chinese automotive growth. It can participate in both.

Whether every announced project will be completed, and whether the entire strategy will operate as coherently as its individual elements suggest, remains to be established through execution. But the industrial logic is visible.

It is a promising architecture for protecting the group against changes in technology, consumer preferences and the competitive position of individual brands.

And Stellantis already has extensive European industrial resources that could benefit from such an approach.

10

Upper Silesia: An Industrial Opportunity Already Within Reach

I have previously presented a possible direction for Fiat in Fiat Could Be Europe's Answer to Chinese Cars — If Stellantis Lets Fiat Become Fiat Again.

Fiat is an extraordinary industrial asset. It has a history of manufacturing practical, attractive and accessible vehicles for ordinary European customers. It has a recognised identity, an emotional connection with several generations of drivers and a natural position in the mass market.

My proposal was to rebuild a coherent Fiat range rather than leave the brand concentrated around a limited collection of small cars and crossovers.

Fiat 500, Fiat 600, Grande Panda, Tipo, Renova and Grande Croma would create a product structure extending from urban mobility through compact and middle-class family vehicles to a larger practical SUV. The range would use disciplined standardisation, a limited number of equipment versions, shared components, simplified powertrains and consistent manufacturing logic.

That approach would allow Fiat to compete with Chinese brands through useful, attractive European vehicles manufactured at an appropriate cost.

The industrial possibilities within Stellantis extend well beyond an individual brand.

Consider its two manufacturing facilities in Upper Silesia: the former Fiat factory in Tychy and the Opel plant in Gliwice.

These are not facilities separated by hundreds of kilometres. They operate

within the same industrial region, surrounded by an established network of automotive suppliers, engineering businesses, manufacturing companies and logistics infrastructure.

Stellantis could treat them as components of a single production architecture rather than simply as two separate factories belonging to the same corporation.

A redesigned industrial system could coordinate component production, purchasing, material flows, logistics, energy and digital operations across both sites. Electric heavy-duty trucks could provide regular transport between the factories, operating according to production schedules and actual material requirements rather than traditional, fragmented delivery arrangements.

Gliwice offers interesting opportunities for developing additional industrial infrastructure, including facilities for suppliers and component manufacturing. Tychy operates in a more constrained physical environment, but its existing manufacturing capabilities and location within the regional industrial network remain valuable.

The wider Silesian region offers something considerably more important than an established network of automotive subcontractors.

It has enormous industrial capacity.

A company does not have to be manufacturing automotive components today to possess the engineering expertise, machinery, production capabilities and industrial organisation required to manufacture them tomorrow.

Silesia has manufacturers experienced in metalworking, machining, fabrication, industrial equipment, automation, electrical systems and numerous other production disciplines. Those capabilities can be adapted to the requirements of automotive component manufacturing.

Stellantis would not be limited to its existing automotive suppliers. It could build

a much broader production network by integrating companies already operating across the region, including manufacturers capable of adapting their production to the requirements of the automotive industry.

A new industrial campus does not have to occupy one uninterrupted plot of land to operate as an integrated production system.

The architecture can be distributed across several locations, provided that the relationships between them are designed properly. Transport, production scheduling, inventory, component availability and energy can be coordinated through a common digital environment.

That is precisely the distinction between owning multiple factories and operating them as a deliberately designed industrial system.

Stellantis could rebuild selected parts of its existing Polish operations, develop additional supplier capacity in appropriate locations, reorganise the relationships between facilities and integrate them into a production architecture designed to reduce total operating cost.

It would not necessarily be the same physical arrangement as an entirely new greenfield complex. But it could become a substantially more efficient industrial system by taking advantage of assets the company already possesses.

And the broader relationships with Leapmotor and Dongfeng could make such an architecture even more interesting.

The facilities would not necessarily have to be designed around Fiat, Opel or any other single brand. They could be integrated into a manufacturing network capable of producing vehicles using technologies, components and platforms drawn from several parts of the Stellantis industrial ecosystem.

In such a model, the economic purpose of a factory is to manufacture competitive products. Which badge appears on the finished vehicle becomes a commercial

decision within a wider industrial architecture.

Upper Silesia offers an attractive opportunity for extending that system through its industrial capabilities, supplier networks and existing automotive manufacturing infrastructure.

The opportunity exists. Its value is not diminished by Stellantis' developing relationships with Chinese manufacturers. Those partnerships could make the proposed integration more useful.

And that is why I regard Stellantis' emerging industrial direction as particularly interesting.

Rather than depending exclusively on the recovery of every traditional European brand, the group may be constructing a production and commercial system capable of adapting to whatever brands, technologies and products remain competitive.

It is an architecture that could preserve industrial capacity and European market presence even through substantial changes to the group's portfolio.

11

Volkswagen Needs a New Industrial Architecture, Not Another Restructuring Programme

Volkswagen faces its own structural challenge.

I understand what Volkswagen is attempting to protect. Its brands possess extraordinary histories, strong European identities and substantial industrial capabilities. Preserving those brands and their European industrial foundations is a legitimate strategic objective.

My disagreement concerns the method.

The company's German production base is tied to an industrial environment with high labour costs, expensive infrastructure, substantial operating expenses and limited opportunities for large-scale physical expansion around established factories.

A modern automotive manufacturing campus is not merely an assembly hall. If the objective is to integrate suppliers, component production, logistics, energy, battery manufacturing and vehicle assembly, the required land can extend across hundreds of hectares.

Finding another 300 hectares beside a historic German factory is hardly a realistic industrial strategy. Much of the surrounding infrastructure is already developed, land is expensive, and existing road networks, rail connections, buildings and urban development limit the possibility of creating an entirely new physical production system around an old facility.

Even if the existing factory were completely optimised internally, it would still operate within the economic conditions of its location.

This is why I proposed a different direction in Volkswagen 2 — I Would Start With Škoda.

The existing industrial system continues manufacturing vehicles and generating revenue while a new manufacturing system is designed and built. The old system finances the development of the new one. Once the new complex becomes operational, production migrates according to the economics, capacity and operational requirements of the transformation.

The proposed investment scale is approximately €10 billion for a highly integrated automotive complex, including vehicle manufacturing, battery production, supplier infrastructure, logistics, energy systems and the necessary technological environment.

Ten billion euros is not an impossible investment for Volkswagen. The group operates on a scale at which projects of this

magnitude are financially conceivable. It has substantial assets, access to capital and continuing commercial operations capable of supporting industrial investment.

The question is what the company chooses to build with that money.

A new assembly plant located in a cheaper country is only part of the answer. The economic advantage becomes much greater when the manufacturer designs the complete production system.

A properly planned automotive campus can place major suppliers directly beside the principal manufacturing facility, potentially in two organised rows of supplier operations connected to the production system through dedicated material-flow infrastructure.

Suppliers can operate in facilities prepared for their production requirements, while internal transport, elevated connections, automated material movement and sequencing systems replace a substantial proportion of conventional interfactory logistics.

The entire complex can operate through a shared digital environment coordinating orders, production schedules, component availability, manufacturing status, quality information and material requirements.

Its energy infrastructure can include dedicated generation, storage, distribution and management systems designed around the actual operating requirements of the campus.

This is a systems-of-systems architecture: multiple independently operated industrial organisations working through a deliberately designed common structure.

The supplier relationship is particularly important.

An automotive manufacturer does not have to own every factory producing its components. It can create an industrial environment in which suppliers operate their own facilities while gaining access to shared infrastructure, predictable

production volumes and radically shorter material routes.

If the manufacturer provides a prepared industrial site and eliminates substantial logistics costs, the economic advantage can be shared between the vehicle producer and the supplier.

The supplier receives an attractive production environment and a more efficient route to its customer. The vehicle manufacturer receives lower component costs, shorter delivery times and greater control over the flow of materials. Both companies benefit because the architecture reduces the total cost of their combined operations.

That is not conventional purchasing optimisation, where one company attempts to reduce its costs by forcing another company to accept a lower margin.

It is architectural optimisation: removing costs that neither party needs to incur.

Less transport means fewer vehicles moving materials between distant facilities. Shorter delivery routes change inventory requirements, reduce intermediate storage and allow production to be coordinated more closely with actual assembly demand.

The same logic extends to energy, maintenance, shared infrastructure, quality systems and the digital exchange of production information.

At sufficient scale, the result is not a collection of factories located near one another. It is a single, integrated industrial environment designed to manufacture vehicles at a substantially lower total cost.

Volkswagen has the resources to pursue that approach.

The company is already investing in restructuring and modernising its existing factories. Those investments may improve the performance of individual facilities, but they do not automatically eliminate the economic limitations of the wider manufacturing architecture.

Preserving Volkswagen's European identity does not require preserving the cost structure of its historical factories.

The company can retain its brands, engineering capabilities and European ownership while manufacturing future vehicles through a fundamentally different production system.

That would be a more effective way to secure the future it wants to protect.

12

The Real Danger Begins When Chinese Manufacturers Build Inside Europe

The European Union has imposed substantial countervailing duties on battery-electric vehicles imported from China.

For SAIC, the additional duty is 35.3%, on top of the standard 10% customs duty, creating a combined duty rate of 45.3% on the applicable customs value.

This makes the MG example particularly interesting.

Consider the MGS6 EV at a European price of approximately €46,700.

Now apply a pricing exercise based on the change in the duty burden. With a duty level of only 15% rather than 45.3%, the calculated price becomes €36,961.46.

Take the next step.

Assume MG establishes European production and manufacturing becomes 20% more expensive than in China. The completed vehicle no longer carries the import duty applicable to a Chinese-manufactured finished car.

Using the same price model, the resulting price is €38,568.48.

MGS6 EV MANUFACTURING-LOCATION MODEL

€46,700

EUROPEAN PRICE

€38,568

MODELLED EU PRODUCTION

That is €8,131.52 less than the original €46,700, a reduction of approximately 17.4%, even after allowing for a 20% increase in the manufacturing-cost base.

Look at what this means for the competitive position of the vehicle.

The MGS6 EV is already a well-equipped, technically competent electric SUV. At approximately €46,700 it can compete on product quality, comfort and equipment. At €38,568.48, the same class of vehicle becomes an extraordinarily dangerous competitor for European manufacturers.

And the entire change comes from the economics of where the car is manufactured.

The European Union can increase the price of imported Chinese vehicles through customs duties. But when Chinese manufacturers move production into the European Union, those duties on Chinese-origin finished vehicles no longer apply to the qualifying European-made product.

The manufacturer retains its technology, product architecture, industrial knowledge and manufacturing methods while moving production closer to European customers.

If the new facility is designed properly, the company can also integrate suppliers, components, batteries, logistics and energy into the manufacturing environment, avoiding the historical costs carried by established European competitors.

A Chinese manufacturer does not have to build a traditional European factory merely because the factory is located in Europe.

“

It can build a Chinese-designed industrial system on European territory.

Now consider a separate manufacturing-cost model.

Assume that a vehicle costs €20,000 to manufacture in China. An integrated European greenfield increases the cost to €22,000. An established European manufacturer produces a comparable vehicle for €28,000 through its legacy industrial system.

The greenfield manufacturer has an advantage of €6,000 per vehicle despite manufacturing inside the European Union.

At a production volume of 675,000 vehicles annually, that represents €4.05 billion in annual manufacturing-cost difference between the two industrial systems.

The advantage can support lower prices, better standard equipment, stronger commercial incentives, investment in development or higher profitability. The company can distribute that economic value according to the market position it wants to achieve.

The established European manufacturer cannot remove the difference by asking politicians to increase duties on vehicles that are no longer imported from China.

BYD has established its Hungarian manufacturing project. Chery and EBRO have developed an industrial relationship in Barcelona. MG has pursued plans for European manufacturing. Leapmotor has already begun production in Zaragoza through its partnership with Stellantis.

A manufacturing policy designed to encourage local production can therefore make European territory increasingly attractive to Chinese automotive groups.

That may be excellent news for European industrial employment.

Whether it is good news for an established European manufacturer depends increasingly on how that manufacturer is connected to the new industrial system.

13

Four Integrated Factories Could Destabilise the Entire European Market

My Volkswagen 2 architecture uses a production model of three assembly lines manufacturing 900 vehicles per day each, operating across 250 production days annually.

That provides an output of 675,000 vehicles per year from one integrated automotive complex.

Now imagine BYD constructing four such facilities in Europe.

The combined production capacity would be 2.7 million vehicles annually.

FOUR-FACTORY SCALE EFFECT

675K

VEHICLES / ONE COMPLEX

2.7M

VEHICLES / FOUR COMPLEXES

€12BN

POTENTIAL PRICE CAPACITY

Assume BYD chooses to sacrifice approximately €4,450 of margin per vehicle to accelerate market penetration. At the full annual volume, that creates approximately €12 billion of potential price reductions.

The company does not need to lose money manufacturing those vehicles. It can allocate part of the financial advantage provided by its industrial architecture to a deliberate commercial offensive.

And it does not have to distribute those reductions evenly across its model range.

It can concentrate pricing pressure on the vehicles responsible for the greatest share

of established European manufacturers' sales, target strategically valuable fleet contracts, offer better equipment at the same price or strengthen financing and leasing conditions.

The immediate consequence is reduced profitability for any competitor attempting to match the offer.

A manufacturer that refuses to match the price begins losing volume. Lower production volumes increase the fixed manufacturing cost allocated to each vehicle, particularly in factories designed to operate at a much higher capacity.

The cost position deteriorates just as the manufacturer needs greater price flexibility.

Reduced volumes also affect suppliers. Smaller orders weaken purchasing leverage, reduce factory utilisation throughout the supply chain and can make previously economical operations unprofitable.

Meanwhile, the manufacturer gaining market share fills its new factories, distributes fixed costs across larger volumes and strengthens its relationships with suppliers.

The competitive advantage begins reinforcing itself.

One industrial system gains volume and becomes more efficient. The other loses volume and becomes more expensive.

The consequences then spread into residual values, leasing contracts, dealer inventories, fleet renewal programmes and the entire economic environment in which vehicles are purchased and financed.

An automotive manufacturer cannot isolate itself from those relationships. Its commercial position depends on the financial behaviour of the wider market.

Now add the other Chinese manufacturers. SAIC is expanding MG. Chery is developing Omoda and Jaecoo. Geely combines brands such as Chinese-owned Volvo Cars, Zeekr and Lynk & Co. BYD operates Denza and

Yangwang at higher market levels while also developing commercial vehicles and industrial transport solutions.

They do not need to coordinate their strategies.

One group can attack the mass market, another can pursue premium customers, another can take fleet contracts and another can challenge European manufacturers in commercial transport.

The combined effect is pressure across multiple profitable segments of the European automotive industry.

Manufacturers whose industrial costs remain high would not be defending themselves against one Chinese model or one discount campaign. They would be attempting to defend production systems whose economics are increasingly uncompetitive against several capable manufacturing networks operating simultaneously.

At that point, restructuring costs and cutting employment are consequences of the problem. They are not a solution to its underlying cause.

But the European companies that participate in those manufacturing networks through technology, ownership or joint ventures may occupy a substantially different position.

They can potentially benefit from market growth that would otherwise appear only as a threat.

14

Europe Is Already Dependent on the Industrial Capabilities It Wants to Restrict

There is another contradiction in Europe's attempt to protect its automotive industry through trade barriers.

European manufacturers are already dependent on important parts of China's automotive and industrial ecosystem.

Audi and SAIC jointly developed the Advanced Digitized Platform used for the AUDI E5 Sportback, produced in Shanghai. Audi stated that the cooperation allowed it to shorten development time by approximately 30%.

Volkswagen has been cooperating with XPeng on vehicle technology and development for the Chinese market.

These arrangements demonstrate that even manufacturers determined to preserve their established identities recognise the technological and industrial value available through Chinese partnerships.

The relationships go further than vehicle development.

Battery cells, materials, electronics, rare-earth magnets and other critical industrial components create dependencies between European factories and supply chains in which China holds substantial influence.

The rare-earth export restrictions introduced in 2025 demonstrated how quickly supply constraints can affect manufacturing operations.

A factory can possess almost every component required to assemble a vehicle and still be unable to complete it because one critical element is unavailable.

That is how industrial systems work. Their output depends on the availability and coordination of the components required to complete the product, not on the percentage of the vehicle that happens to be physically assembled.

A tariff on a finished car does not eliminate the need for batteries, electronic systems, magnets or other components whose production and supply are concentrated elsewhere.

It does not create alternative manufacturing capacity or rebuild the industrial relationships on which European

carmakers depend. And it certainly does not make an expensive European factory more efficient.

Europe is attempting to control competition in the finished-vehicle market while remaining dependent on significant parts of the industrial infrastructure responsible for producing those vehicles.

That is not a coherent industrial architecture.

It is a trade-policy response to an industrial-design problem.

ACT 04

OWNERSHIP

Manufacturing can survive while control moves

15

Europe Needs More Industrial Capacity, Not Less Competition

I do not believe Europe's objective should be to prevent Chinese automotive manufacturers from building factories inside the European Union.

Quite the opposite.

Europe benefits when manufacturers invest in modern factories, employ workers, develop supplier networks and create productive industrial capacity within its borders. That remains true whether the shareholder is headquartered in Germany, France, China or somewhere else.

Chinese manufacturers establishing European factories can strengthen local economies, create employment and expand the continent's industrial capabilities.

European-owned manufacturers should compete with those factories through better products, more efficient manufacturing

systems and stronger industrial architectures. Some may also benefit through industrial partnerships that allow them to participate directly in the new production networks.

That is entirely achievable. BMW, Mercedes-Benz and Renault are demonstrating different approaches to technological and manufacturing transformation. Volkswagen possesses the resources to build a new industrial architecture. Stellantis is developing a wider network of partnerships that could enable its European factories and commercial operations to adapt to changing product portfolios.

But Europe must also address a constraint that determines whether this industrial expansion can succeed.

Energy.

Automotive campuses, battery gigafactories, component production, automated manufacturing and the wider industrial infrastructure required to support them need enormous quantities of reliable, competitively priced electricity.

The cost and availability of that energy are fundamental characteristics of the industrial system, not secondary operating expenses that can be considered after a factory has been designed.

Europe cannot seriously expect manufacturers to establish a new generation of energy-intensive industrial facilities while leaving them exposed to inadequate electricity infrastructure and uncompetitive energy costs.

If the continent wants more factories, more battery production, greater manufacturing integration and an expanding industrial base, it must create the energy infrastructure capable of supporting those ambitions.

That is not an argument for protecting inefficient automotive manufacturers from competition. It is an argument for building the industrial conditions in which efficient manufacturers can compete.

Europe should create the conditions for competitive manufacturing. It should not be expected to preserve uncompetitive industrial architectures simply because their owners are European.

But this also exposes a political distinction that European policymakers appear increasingly reluctant to confront.

16

European Manufacturing and European Ownership Are Two Different Objectives

Now consider what happens if the policies intended to protect European manufacturing succeed in attracting new automotive investments.

BYD builds factories in Europe. SAIC establishes European manufacturing operations. Chery expands local production. Other Chinese manufacturers follow.

These facilities employ European workers, purchase services from European businesses, operate within European infrastructure and manufacture vehicles for European customers.

From the perspective of local industrial employment, this is a success.

The factories create economic activity, generate tax revenue, support suppliers and contribute to the productive capacity of the European Union.

But their vehicles compete directly with those produced by traditional European automotive groups.

If they are more efficient, they can take market share from older factories, reduce demand for their output and accelerate the financial deterioration of the companies operating them.

European policymakers could therefore find themselves facing an extraordinary contradiction.

They will have encouraged automotive manufacturing inside the European Union, only to discover that the new factories are undermining the market position of historical companies they intended to protect.

What happens when a Chinese-owned factory in Hungary employs European workers while taking production volume away from a Volkswagen factory in Germany?

Which jobs are the politicians supposed to protect?

If the objective is to preserve European manufacturing employment, the Chinese-owned facility is contributing to that objective.

If the objective is to preserve the ownership and market position of Volkswagen, the same facility is a competitive threat.

“Those are two different political and industrial objectives.”

But the ownership question is becoming more complicated than a simple division between European and Chinese manufacturers.

A factory in Europe can manufacture a Chinese-brand vehicle under an arrangement controlled by a European automotive group. The vehicle's technological architecture may originate in China, while its European production, distribution and commercial operations are organised through a company in which European shareholders retain control.

The manufacturer can preserve European industrial employment and corporate participation without insisting that every product carry one of its traditional European badges.

Stellantis' emerging partnership network illustrates how such structures can develop.

Nevertheless, the distinction between European manufacturing and European ownership remains essential.

A vehicle may be assembled in Europe, its employees may be European and its suppliers may operate inside the Union, while important product technologies, investment decisions and long-term industrial priorities are controlled elsewhere.

Europe can retain physical manufacturing capacity while losing control over parts of the system responsible for producing its cars.

And there is nothing contradictory about those two things happening simultaneously.

17

The Badge May Remain European Long After the Company Stops Being European-Owned

Volvo provides an excellent illustration of how easily customers separate a vehicle's brand identity from its ownership structure.

Geely acquired Volvo Cars in 2010. The brand remains associated with Sweden, Scandinavian design, safety, comfort and European premium engineering. Customers continue purchasing Volvos because they appreciate the products and the reputation attached to the name.

I am considering a Volvo XC60 or XC90 for my own professional use. I regard both vehicles as suitable for the role I expect them to perform. Their comfort, design and character are attractive to me.

I am also fully aware that Volvo Cars belongs to a Chinese automotive group.

There is no problem with that. The origin of the shareholder does not prevent the product from being attractive.

But it raises a fascinating strategic question.

If a Chinese company can own one of Europe's most recognisable premium automotive brands while preserving its identity and market position, why should the same logic not eventually apply to other European manufacturers?

Imagine a Chinese automotive group acquiring an established European portfolio of brands, factories and distribution networks. Peugeot, Citroën, Fiat, Opel and Alfa Romeo offer an example of the kind of portfolio whose commercial identity and market recognition would be valuable to a potential purchaser.

Those brands would not necessarily disappear. Their continued existence could be one of the most valuable parts of the transaction.

A Chinese owner could introduce different technologies, production systems, product architectures and industrial processes while continuing to sell vehicles under familiar European names.

A customer could walk into a Peugeot dealership, explain that he would never purchase a Chinese car and proudly drive away in a Peugeot.

The Chinese shareholder would be delighted.

But an outright acquisition is not the only possible development.

A company can also retain its ownership while integrating foreign technologies and manufacturers into its industrial operations through joint ventures, shared production and distribution agreements.

Indeed, this is one of the particularly interesting possibilities created by Stellantis' existing and planned partnerships. Its European factories could manufacture vehicles from Chinese brands while Stellantis remains a participant in — and, in relevant joint ventures, a controlling shareholder of — the industrial and commercial operations concerned.

That approach might protect the economic value of the group even if its portfolio of European brands changes substantially.

The important distinction is between the identity displayed on the vehicle, the ownership of the company selling it and the control of the industrial system that manufactured it.

These are no longer necessarily the same thing.

Europe may continue to see Peugeot, Fiat, Opel, Alfa Romeo and other familiar names on its roads even if ownership structures, technologies and production relationships change dramatically.

Equally, a European-owned industrial group may continue operating European factories while producing vehicles whose brands originate in China.

**“The badges can survive.
The factories can survive.
The workers can continue
producing vehicles.”**

But the ownership of the industrial architecture — and the authority to decide its future — can move elsewhere, remain European or be divided between partners through increasingly complex arrangements.

That is what makes the future of Europe's automotive industry so much more complicated than the question of where a vehicle is assembled.

18

The Future Depends on the Industrial Architecture, Not the Age of the Badge

Volkswagen remains one of the world's largest automotive groups, with substantial

revenue, assets, engineering capabilities and access to capital.

Its profitability is under pressure, its operating margin is too low and the performance of important markets has deteriorated. But the company still possesses resources that many competitors could only dream of.

Its challenge is not the absence of experience or engineering knowledge. Nor is it a lack of European locations where vehicles can be manufactured at substantially lower cost than in Germany.

The fundamental decision concerns how Volkswagen intends to preserve the identity and industrial independence of its brands.

I believe the company is making that task unnecessarily difficult by concentrating too heavily on restructuring an inherited manufacturing system. A more competitive industrial architecture could be built without sacrificing the European identity Volkswagen wants to preserve.

Its current factories should continue operating where they generate value. They should contribute to financing the system that replaces them.

Their history is not a reason to perpetuate their cost structure.

The obligation of management is to secure the enterprise's future, not to preserve every factory that contributed to its past.

The situation elsewhere in the industry demonstrates that a different approach is possible.

Mercedes-Benz is developing new product architectures. BMW is connecting its Neue Klasse programme with industrial transformation. Renault has been integrating its products, manufacturing facilities and supply relationships around a more competitive production model.

Stellantis is pursuing an especially interesting direction through international partnerships and the possibility of making its factories useful to a changing

combination of European and Chinese brands.

Its financial difficulties remain real. The announced plans still have to be executed. But the underlying industrial logic offers the group a way to preserve manufacturing capacity and market access without depending on the continued success of every brand it owns.

A manufacturer whose factories can produce only yesterday's products must fight to preserve yesterday's markets.

A manufacturer whose industrial architecture can accommodate new technologies, brands and production relationships has a much wider range of options.

The future of an automotive company should not depend on protecting its historical product catalogue. It should depend on whether the industrial system behind that catalogue can remain competitive as the market changes.

Europe has the engineering capabilities, industrial expertise, capital and locations required to design such systems.

What it cannot afford is to confuse the survival of familiar badges with the survival of the industrial organisations responsible for producing them.

19

Europe in 2035

Imagine the European automotive industry in 2035.

Modern manufacturing campuses operate across Hungary, Romania, Poland, Spain and other European countries. Vehicle assembly is integrated with component production, suppliers, battery manufacturing, energy infrastructure, digital coordination and efficient internal logistics.

These facilities manufacture well-equipped, technically sophisticated vehicles at

internationally competitive costs. They employ European workers, support European suppliers and generate substantial industrial activity.

European automotive manufacturing has survived. Its infrastructure may even be more modern, efficient and competitive than it was a decade earlier.

But the ownership structures behind these factories have become much more complicated.

Some belong directly to Chinese automotive groups. Others are operated through international joint ventures. Some European manufacturers have retained control of their industrial infrastructure by integrating Chinese technologies and brands into their production networks.

Traditional European names remain on the roads, but their corporate ownership, engineering foundations and manufacturing relationships no longer necessarily resemble those that existed a decade earlier.

Some manufacturers have lost market share, reduced production volumes and struggled to compete with more efficient industrial architectures. Others have adapted successfully. Some familiar brands have disappeared, while new ones have entered the market.

European politicians point proudly to the modern factories and the employment they provide. They describe them as evidence that European automotive manufacturing has been protected.

And in one sense, they are right.

The factories are in Europe. The employees are European. The cars are manufactured locally.

Yet many of the industrial systems, technologies, investments and strategic decisions that determine the future of those factories are controlled by companies headquartered elsewhere.

Some European automotive groups have learned to participate in those international

systems. Others have spent too long trying to protect the industrial structures they inherited.

That is the distinction European policymakers must understand.

Protecting manufacturing capacity can create employment and industrial value. Protecting the historical owners of that capacity does not necessarily achieve the same objective.

And even when European manufacturing succeeds, European corporate ownership is not guaranteed to survive alongside it.

Europe has the capital, technology, workforce and industrial locations required to compete.

It does not have to lose control of its automotive industry.

But protecting the companies that created yesterday's industrial architecture will not create the manufacturing systems required for tomorrow.

Europe may ultimately have modern, highly efficient and competitive car factories.

“

**It's a shame they
might not be
European-owned.**



FINAL LINE / EUROPE IN 2035

Chrzanowski