

New CO2 emission regulations in Europe: the perfect storm?

- The most pressing threat ahead of Europe's car industry is not Brexit or potential U.S. tariffs. It's the EU's own regulations for limiting carbon dioxide (CO2) emissions.
- The emissions targets could potentially cause an adverse scenario for the car industry by creating industrial, financial and commercial challenges in parallel.
- Carmakers' partial adaptation strategy will only enable them to fulfill 30% of their obligations: it's time for policy makers and consumers to get involved.

Paris, May 26th 2019 – The most pressing threat ahead of Europe's car industry is not Brexit or potential U.S. tariffs. It's the EU's own regulations for limiting carbon dioxide (CO2) emissions.

On April 15th 2019, after several rounds of meetings, representatives of the European Commission, **the European Council and the European Parliament agreed¹ on reducing the average CO2 emissions from new passenger cars by -15% in 2025, and by -37.5% in 2030**, to achieve the international objectives set out in the COP21/Paris Agreement. Tougher than the original proposals (-30% by 2030), these new targets are the most ambitious in the world and more than what carmakers expected.

A new report from Euler Hermes shows that this could cause an adverse situation for Europe's car industry by posing a three-pronged challenge:

First, an **industrial challenge** since such targets will require a drastic adjustment in the powertrain mix in favor of alternatively powered vehicles (APVs), notably electric vehicles (EVs). The study shows that the market share of new APVs should exceed 25% to comply with the European regulations – regardless of the combinations of gasoline and diesel car market shares.

Second, a **financial challenge**: Based on 2018 figures, the total amount of penalties could reach EUR30bn for our panel of global car makers most involved in the European market, none of which have met the 2021 CO2 target yet. This amount represents almost 18% of their combined EBITDA and almost half (45%) of their combined net profits registered in 2018 (EUR67bn). To add to this, the adjustment in powertrain mix required to meet the target will imply a significant increase in production costs (+7% by 2020 on average for the compliant combination of powertrain mix).

Last, a **commercial challenge**: a full pass through of the extra costs of production to customers would lead to a decline of -9% in car sales by the end of 2020, and -18% by 2025. This would cost -0.1 pp of both French and German GDP growth in both 2019 and 2020, and put 160,000 jobs at risk. In addition, growing competition by EV manufacturers would add downside pressure on turnovers and margins.

Car makers will do their best to avoid this perfect storm by using accrued financial buffers and reducing costs, tapping into "super credits", entering partnership agreements called "pools" and consolidating further. This partial adaptation strategy will only enable them to fulfill **30%** of their obligations. As a result, by the end of 2020, we expect a **+2.6% increase in average car prices**; a -

¹ https://ec.europa.eu/clima/news/clean-mobility-new-co2-emission-standards-cars-and-vans-adopted_en

3.1% decline in new car registrations; a loss of EUR2.9bn in car sales; 60,000 jobs to be at risk and an almost certainty that car makers will fail to comply with the CO2 targets.

“As the European auto industry accounts for 13% of manufacturing production and 13.3mn direct and indirect jobs, consumers and authorities will have to chip in”, said Maxime Lemerle, Head of Sector and Insolvency Research.

[You can find the full study here.](#)

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