

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.](#)

Press contact

EULER HERMES GROUP




Jean-Baptiste Mounier
+33 (0)1 84 11 51 14
jean-baptiste.mounier@eulerhermes.com

FOOTPRINT CONSULTANTS

Cécile Jacquet
+33 (0)1 80 48 14 80
cjacquet@footprintconsultants.fr

Quentin Giudicelli
+33 (0)1 80 48 14 80
qgiudicelli@footprintconsultants.fr

Social media

-  Follow us on Twitter [@eulerhermes](https://twitter.com/eulerhermes)
-  Follow us on LinkedIn [Euler Hermes](https://www.linkedin.com/company/eulerhermes)
-  Follow us on YouTube [eulerhermes](https://www.youtube.com/eulerhermes)

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of surety, collections, structured trade credit and political risk. Our proprietary intelligence network analyses daily changes in corporate solvency representing 92% of global GDP. We give companies the confidence to trade, and be paid. We compensate your company in the event of a bad debt, but more importantly, we help you avoid bad debt in the first place. Whenever we provide trade credit insurance or other finance solutions, our priority is predictive protection. But, when the unexpected arrives, our AA credit rating means we have the resources, backed by Allianz to provide compensation to maintain your business. Headquartered in Paris, Euler Hermes is present in 52 countries with 6,000 employees. In 2017, our consolidated turnover was €2.6 billion and insured global business transactions represented €894 billion in exposure.

For more information, please visit: eulerhermes.com

We predict trade and credit risk today, so companies can have confidence in tomorrow.



Cautionary note regarding forward-looking statements: The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements. Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.