



# In the Foothills of Europe's CO2 Mountain

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While full compliance with the next EU CO2 milestone will not be required until 2021, carmakers will need to ensure that 95% of their sales in 2020 fall below the so-called CO2 'limit value curve' set for them according to their vehicle mass profile. As we enter the second quarter of 2019, there is little time left for those manufacturers that remain ill-prepared to make the necessary adjustments to their 2020 offerings in order to avoid paying the hefty fines that would be levied for missing targets, even by a few grams of CO2/km.

Several options are available to those that are currently at risk of non-compliance. The first, and probably least desirable, is to fail to comply and pay fines. While this could be a less expensive option than forcing sales of low, or zero, CO2 emission vehicles on the market (thereby creating loss leaders), it carries the risk of reputational damage.

Another route that could – and we think will – be taken is pooling. For some manufacturers, this will be an attractive option, enabling them to comply as part of a larger group with a limit value curve based on the characteristics of the pooled group's car fleet. There are rules, mainly aimed at avoiding anti-competitiveness, by which 'poolees' have to comply. Any notifications of pooling agreements have to be made to the EU by the end of the year for which the pooled results are intended to be counted. So, manufacturers intending to pool results for 2020 would need to notify regulators of their plans by the end of that year. The list of pooling arrangements will subsequently be made public. For those that are close to their target, but still at risk of missing it, this strategy may be very effective and avoid the need for more costly action.

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Should that option fail to result in sufficient CO2 savings, the final method would be to alter the mix of vehicles and powertrains sold such that the fleet average CO2 figure falls within the required limit. Of course, all OEMs have been working for several (or many) years towards achieving their 2021 CO2 target and have spent vast sums developing low-emission vehicles and technologies to facilitate this. Unfortunately, car buyers/leasers in Europe have not uniformly co-operated with this strategy in the way that carmakers would have liked, preferring to buy vehicles that have pushed average CO2 emissions in the wrong direction in both 2017 and 2018. The decline of diesel car sales has amplified the problem significantly.

Traditionally, carmakers have been unwilling, or unable, to

risk revenues by offering low-carbon vehicles to the market at prices that almost guarantee sales. In the past, this has rarely been necessary and good brand management dictates that it is a really bad idea. As well as attacking profits, offering goods at below market value will inevitably damage the perception of the good in question. However, some OEMs may find themselves in a situation where such an action appears to be the lesser of two evils.

So, perhaps we should brace ourselves for some market distortion, starting from this year, as the scale of the problem (for those that have a problem) becomes fully apparent. We are already hearing that some low-volume, high-CO2 vehicles will be deleted from sale. This comes as little surprise and while it goes against the ethos of premium brands, in particular, that like to offer a variant for all tastes, it is a pragmatic approach. The flip side of this coin would be to forcefully promote the sale of cars with very low or zero tailpipe emissions. BEVs, falling into the latter category, are prime candidates. More will enter the market this year and several will be small vehicles that might be offered with highly attractive lease rates in order to stimulate demand.

As a forecaster, such special pricing actions are impossible to predict, but they could have a significant influence on this year's BEV sales in Europe. Our current pan-European figure for sales of this type of car is 300,000 units, up from 200,000 in 2018. This forecast is based on a balance of supply and demand factors. However, a concerted push from the supply side could result in significantly higher sales.

While this might be financially painful for those undertaking it, it is also an opportunity to prime the BEV market and increase familiarity with the technology a little faster than would otherwise happen. Those OEMs that take this route may benefit in the long term, becoming more quickly established in the mass BEV market and reaping the financial rewards when production costs fall over time. They will, however, have to be prepared to wait and will need deep enough pockets to ride out this period of potential turmoil.

