ACEA remarks on Light Commercial Vehicles (LCVs)

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The “Engine of Europe”

ACEA represents the whole European auto industry

- ⇨15 independent international companies / groups
- ⇨28 National Associations as associate members
- ⇨18.6 million vehicles produced per year

ACEA MEMBERS

BMW Group · DAF · DAIMLER · FIAT GROUP · Ford · GM · Jaguar · Land Rover

MAN · Porsche · PSA PEUGEOT CITROËN · Renault · SCANIA · TOYOTA · VOLKSWAGEN · VOLVO

The importance of the industry for the EU

Direct employment

- 2.2 million jobs
- 6.5% of total employment in EU manufacturing

Indirect employment

- 9.8 million jobs (>1.6 million at dealers alone)

Total employment

- 12 million jobs
- 6% of EU employed population (some countries > 10%)

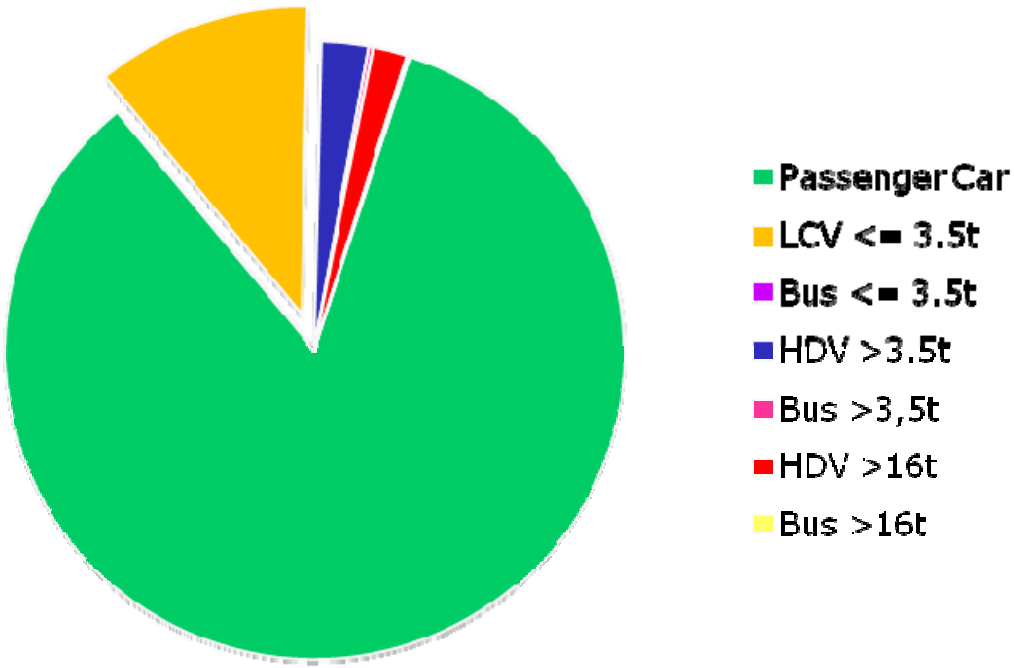
Turnover

- about 6.4% of EU GDP

R&D investment

- about 4% of turnover, twice as much as other industries in the manufacturing sector

LCVs in the overall European context



Source: www.acea.be

- 11% of all new vehicles in 2008 in Europe were LCVs
- LCVs are responsible for **less than 1,7%** * of man-made CO_2-emissions in Europe

* Total man-made CO2 emissions of 3.86Gt in 2004 (EU-25); according to Tremove V2.4: LDVs emitted 65Mt in 2005

⇨ Almost 85% of road vehicles are covered by the car CO2 regulation

Key elements of the LCV business

Key customers

- Fleets: Business-to-Business, leasing, rental
- Service sector businesses: Repair, delivery, etc.
- Small and medium enterprises

Key purchase considerations

- Business needs / utility requirements
- Operational cost & Capital Investment required (financing)
- Residual value

⇨ LCVs are **not an "emotional product"** and **not driven by fashion**

⇨ LCVs need to fulfil a **work function**

⇨ **High diversity** in customer needs

⇨ **No need to regulate CO2 emissions of LCVs**

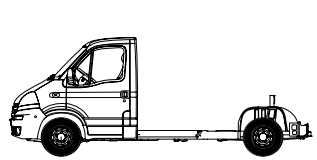
Copy & Paste exercise from cars would neglect key differences to LCVs

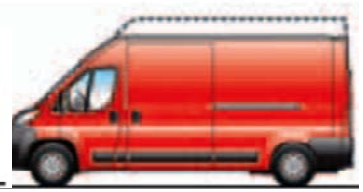
- Dedicated business needs
- Different design drivers (more info hereafter)
- Higher diversity of LCVs (more info hereafter)
- No “competition” between small and large vehicles
- Limited CO2-reduction potentials (more info hereafter)
- Different product cycles: PCs 5–7 years, LCVs >10 years (more info hereafter)
- Significant share of LCVs changed in configuration after leaving OEM plants (multi-stage vehicles)

⇨ Need for **comprehensive impact assessment**

Design drivers of LCVs

- **Robust construction & design**
- **Maximized cargo capacities** (load-volume, payload)
- Availability of **multiple vehicle configurations**, e.g. wheelbase, roof-heights, gross-vehicle-weights
- Affordable fuel economy technology to achieve overall **low cost of ownership**





LCVs and their specific needs

For max. Loading Volume of Crafter Kasten with 17m³…

CO_2 = 278 g/km

Class III

… or 2 T5 Kasten each with max. Loading Volume of 9,3m³

CO_2 = 436 g/km

217,8 g/km + 217,8 g/km

Class III

…6 Caddy Kasten each with max Loading Volume of 3,2m³

CO_2 = 982 g/km

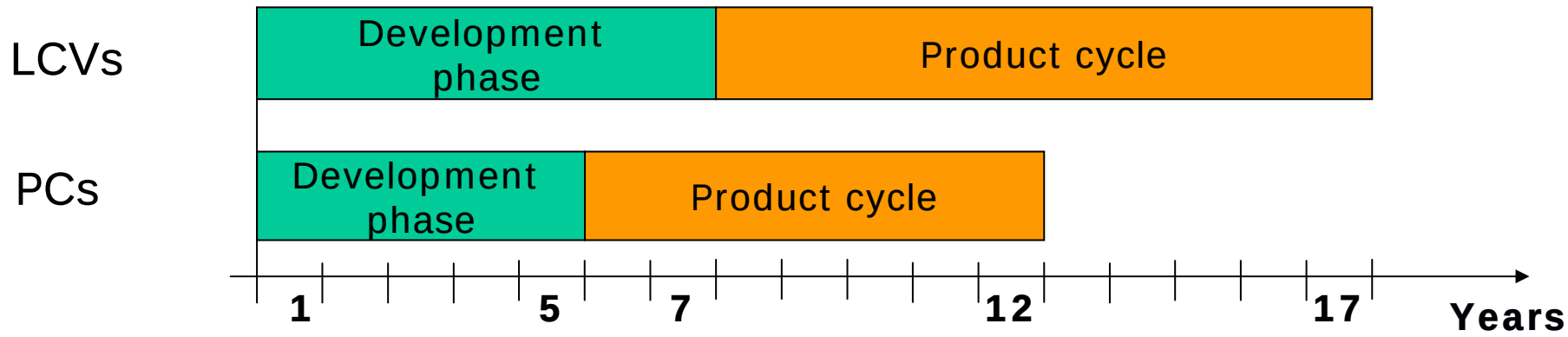
163,6 g/km +163,6 g/km + 163,6 g/km +163,6 g/km+ 163,6 g/km +163,6 g/km

Class II

⇨ **Specific needs require specific solutions**

Proposed CO2 target in 2012 does not consider lead-time needs

- Development phase about 7 years → additional requirements (durability, mileage, etc.) require **longer test times & more engineering work**
- Investments in platforms higher thus **longer pay-back time**
- Engineering and production capacities already allocated at manufacturer and supplier level



⇨ LCVs development and product cycles are longer than for PCs

⇨ **Almost all new vehicles in 2012 are defined**

⇨ Due to cash shortage and economic situation the current development time for LCVs will be longer

Limited CO2 saving potential compared to cars

- Diesel engine penetration already above 90%
  - **Euro 6** → extensive after-treatment system
  - **Cumulative costs** of legislation
- Load volume dictates aerodynamic/design
- Some technologies for cars not applicable / with lower CO2 reduction potential, example:
  - Engine down-sizing due to specific customer needs
- **Robustness needs** → no room for <u>unproven</u> technologies

⇨ Dramatic increase of vehicle price & CO2 abatement costs

Need for thorough impact assessment

- **Biofuels, GSI, LRRT & TPMS >10g/km** of comp. measures
- **CO2-red. for LCV more costly** than for passenger cars (p.72)
  - Different results to first impact assessment proves **weakness/ importance of data quality**
- LCV significance a lot higher than of other measures (Tyres, ..)
- **Thorough impact assessment** must clarify...
  - how to sufficiently consider the huge LCV-range
  - other aspects such as lead-time needed

⇨ Inadequate impact assessment puts **unnecessary additional burden on industry AND customers** and is **incompatible with CARS 21 principles**

Many assumptions by Consultant show weakness/complexity of data

- Data for assessment: incomplete and/or manually corrected
  - Consolidated database **for even one full calendar year not available** at the time of assessment
  - EU-18 instead of EU-27 (p.16)
  - In many cases **mass definition unknown** (p. 15)
  - No data for multi-stage vehicles (8% of market) (p.21)
  - N1-M1 allocation uncertain (p. 16)
- **Assumptions made impact the result**
  - Impact assessment (2006): 201g CO2/km in 2002
  - Assessment (2008): 203g CO2/km in 2007 (p. 18)

Proposed CO2 target of 175g/km in 2012 and tougher targets unfounded

- **CO2 fleet average for the past** not representative
- No consideration that **CO2 reduction for LCVs is more costly** than for passenger cars when proposing targets
- Proposed Community target of 175g/km (p. 50ff)
  - Average retail price increase **€ 1,650–2,000** (excl. tax)
- Tougher long term target with further cost increase and **technically not feasible** at all
- Assumption: pooling works (p. 50ff)
  - But OEMs already struggling with ambitious M1 target
  - How to treat differently OEMs having LCVs and those not in case of pooling M and N categories?

⇨ Cost-increase not recoverable, especially in the current LCV market environment

Main messages of EC Consultant study

- Study proves difficulties to collect data, many assumptions
- Technology options and costs not updated (p. 23)
- Compliance costs for LCVs higher than for cars (p.72)
  - Not less as assessed in last impact assessment
- Technical feasibility of 175 g/km Community target only possible if (p.40ff):
  - On-costs of €6000/vehicle on average for several OEMs
  - Thus 25-30% retail price increase, but on average 10% → indicating market distortions
  - Assuming AMI = 0 and high slope
  - Assuming pooling works
- Tougher long-term targets not feasible at all

⇨ **EC consultant study is <u>not at all</u> justifying the proposed EU LCV CO2 targets.**

Current economic situation of the automotive industry

Commercial vehicle sales

- 2008: 2.4 million (-9.0%)
- 4th quarter 2008: -24% (total Europe)
- January 2009: **-35.6%** (total Europe)

Comparison: passenger car sales in January 2009: **-27%**

Vehicle Production (world)

- 2007: 69 million
- 2008: 63 million
- 2009: 55 million

Forecast for cars **-25%**
1st quarter 2009:
(compared to 1st quarter 2008)

(Source: Global Insight)

⇨ The industry is trying **to react in a balanced manner**

⇨ Use of **flexibility mechanisms** but they will come to an end!

⇨ Goal: to get through the recession without long-term damage to competitiveness & minimising the closure of production sites

Avoidance of creating new economic burden in difficult times

- **Financing problems** increase pressure sustaining R&D budgets and investments
- Difficult economic situation impacts commercial vehicle **customers** as well (increasing cost pressure)
- Automobile industry is one of the **most regulated sectors** in the EU
- Be aware of **cumulative costs** of regulations

⇨ **Investments needed today** to comply with any new legislation in the future

⇨ Greening of vehicles is important but **cash shortage** requires to focus on the aspect with the biggest environmental leverage

⇨ OEMs forced to **focus resources on CO2 for cars**

Conclusions

- LCVs cover just 11% of all new vehicles in Europe / responsible for less than 1.7% of CO2 emissions
- Specific business needs → much higher diversity compared to cars
- Purchase considerations are **business driven**
- **Fuel efficiency is key in this market** (total cost of ownership) → strong incentive for industry to reduce fuel consumption
- A simple “copy & paste” exercise of passenger cars not appropriate
- Assessment by EC’s consultant proves weakness/complexity of data

⇨ **No need to regulate CO2 emissions of LCVs**

⇨ **No justification exists for overhasty actions** particular in the current economic situation

⇨ **Postponement** because **legislation not ready today**

Way forward

- **Limited industry's capabilities** due to difficult economic situation and CO2 passenger car legislation
- Commission communication, 25 February (p. 8, **agreed by all**)
  - Strict **respect of CARS 21** recommendations
  - EC to weigh up costs and benefits of any new legislation with a view to **avoid creating new economic burdens**
- The EC's approach denies alternative policies (Integrated Approach)
- Industry repeats its offer to the Commission **working together on database concerns and assumptions**
- Setting **realistic targets** with sufficient **lead-time**
- Consideration of **cumulative costs** of regulation

Correct legislation needs ...

1) Establishment of **robust database**

2) Comprehensive impact assessment