

## Talking point

### Diesel share in EU declined in 2015, but only slightly

April 7, 2016

Last year, the proportion of diesel cars among new car registrations in the EU-15 dropped by 1.5 percentage points to just over 52%. This was the fourth decline in a row. The fall in the diesel share was especially pronounced in France, where the government wants to reduce the tax advantage for diesel over petrol. By contrast, in Germany the diesel share increased slightly last year, due among other things to the large number of commercial car registrations. We expect a further decline in the diesel share in the European car market over the next few years. The higher costs for diesel technology play a role here. However, for high-mileage drivers in particular, the lower consumption and long range of diesel cars as well as lower fuel prices remain convincing sales arguments. Therefore, provided governments do not introduce any serious surcharges for diesel cars, the diesel share of the European car market is unlikely to crash.

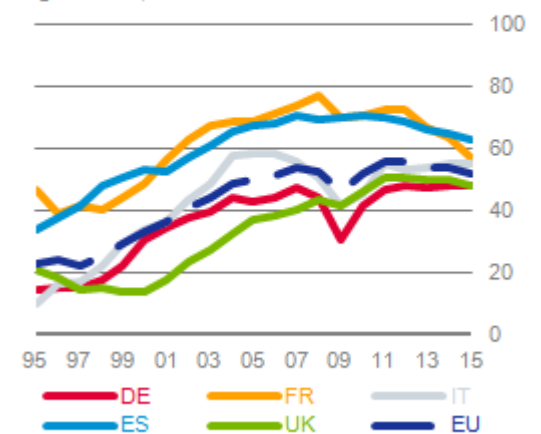
The proportion of diesel cars among new car registrations in the EU-15 fell by 1.5 percentage points to 52.2% in 2015. This was the fourth decline in a row. In 2011, the market share of diesel cars peaked at 56.1%. The diesel share in the EU-15 is still considerably larger than in the 1990s when diesels accounted for less than 30% of new car registrations. Europe remains the only (large) car market in the world in which diesel engines are so highly regarded by car buyers.

It is interesting to note the different trends in diesel shares in individual EU countries. In France, for example, the proportion of diesel cars among total new registrations fell by almost 7 percentage points in 2015 alone to "just" 57.2%. In 2008, diesels still accounted for as much as 77.3% of the new car market in France. This significant decline is partly due to plans by the French government to gradually reduce the current tax advantage which makes diesel cheaper at the pump than petrol. Moreover, there are increasing debates about banning diesel cars in certain French city centres (e.g. Paris). The declining share of diesel cars in France in recent years shows that merely announcing political measures (taxation and regulatory measures) has an impact on consumers' purchasing decisions. Obviously, the longevity of cars is an important factor for buyers in this context.

By contrast, in Germany the share of diesels in total new car registrations rose by 0.2 percentage points in 2015 to 48%, which is only slightly less than its historical peak. One reason for this growth is probably the (further) rise in the share of commercial new car registrations in Germany in 2015, which reached a new high of 65.8%. Diesels are generally more popular with commercial car buyers than with private drivers, partly because, on average, commercially used vehicles clock up higher annual mileage. Therefore, diesel cars' lower fuel consumption and the fact that diesel is cheaper than petrol make them particularly attractive. These advantages can more than offset the higher acquisition costs and vehicle taxes for diesel cars.

#### Diesel share in the EU declined slightly in 2015

Share of diesel cars in new passenger car registrations, %



Source: VDA



In four EU-15 states, the share of diesels among new car registrations increased in 2015 (Italy, the Netherlands and Austria as well as Germany), while in all the other countries there was a decline. The "dieselgate" affair concerning Volkswagen cars that were fitted with defeat devices probably contributed to the declining diesel share last year. However, the impact is fairly limited. First, the decline in the diesel share in 2015 was not unusually steep, indicating that there were other major contributing factors. Second, the affair only became public in September 2015. The impact on new registration statistics is thus limited by the fact that a certain amount of time elapses between ordering a new car and it being delivered. Ultimately, only a few customers are likely to have attempted to cancel orders for diesel cars which they made before the affair became public.

In the next few years, we expect a further decline in the diesel share in the European car market. Costs are an issue here as manufacturers and suppliers will have to invest even more in diesel technology if they are to meet stricter vehicle emissions limits, while testing is also set to become more representative of on-road conditions. As a result, production costs and purchase prices for diesels are likely to increase more sharply than those for cars with other propulsion technologies. Thus, all things being equal, diesel cars will become less attractive to customers.

At the same time, it is obviously very much in the interests of the automotive industry to cut harmful emissions by diesel cars. This is the only way to ensure ongoing political acceptance for diesel technology. Also, given their lower consumption and lower specific CO<sub>2</sub> emissions, diesels remain extremely important for car makers in achieving their CO<sub>2</sub> fleet targets. The main focus for the average car buyer will be their own budget and personal requirements for a car. For high-mileage drivers, in particular, the lower fuel consumption and long range of diesel cars as well as lower diesel prices (in most European countries) continue to be convincing sales arguments. Interestingly, in recent months diesel prices at filling stations (in Germany) have fallen more sharply than petrol prices. Therefore, provided governments do not introduce any serious surcharges for diesel cars (in the short term), the diesel share of the European car market is unlikely to crash.

Original in German: April 4, 2016

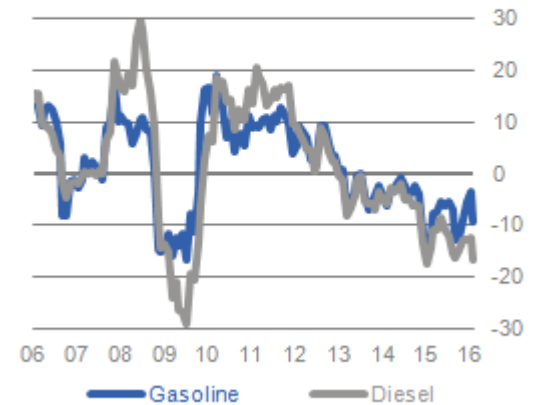


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## Diesel price has declined faster than price of gasoline

Gasoline and diesel price at service stations in Germany, % yoy



Source: Federal Statistical Office

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