



# Diesel - prematurely written off?

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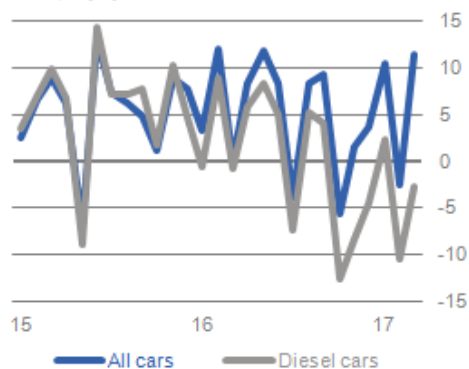
The diesel scandal and political uncertainty surrounding future regulation are the main reasons why the proportion of vehicle registrations accounted for by diesel cars has slumped recently in Germany and most other EU countries. If the automotive industry wants to continue to rely on diesel technology, it needs to regain credibility and get to grips with the issue of emissions – including in real-world driving conditions. If it doesn't manage to do this, lawmakers are likely to progressively tighten the regulatory framework for diesel cars. However, should the industry succeed in bringing to market clean diesel cars at affordable prices, these cars would remain the most economical option for a large proportion of motorists – at least until alternative drive technologies become competitive from the customer perspective. This would make current proclamations of the death of diesel somewhat premature.

Public proclamations of the impending demise of diesel are getting louder and louder. The primary reasons for this are the 'dieselgate' scandal and the fact that emissions produced by diesel cars in real-world driving conditions often far exceed the official values that were measured on the test stand. Diesel's image as a dirty fuel has been reinforced in parts of the population in recent months. Environmental NGOs, in particular, are engaging in a media offensive against diesel cars, presenting it as anachronistic technology in light of the automotive industry's incipient efforts to electrify the drive train. What's more, politicians are publicly discussing the imposition of new restrictions on diesel cars, so far without any concrete outcome. This is causing uncertainty among car buyers.

The impact of this uncertainty is already being felt. Although the proportion of all new car registrations in Germany accounted for by diesel cars fell by 'only' around 2 percentage points to reach 45.8% in 2016, i.e. the first year after the diesel scandal came to light, the pace of the decline has quickened since the beginning of this year. In the first quarter of 2017, diesel's share of the new car market was 42.7%, compared with 47.3% in the first quarter of 2016. The proportion of diesel registrations in Germany peaked at 48.1% in 2012. Similar slumps have been observed in most other EU countries recently; in the EU-15, diesels accounted for 49.9% of registrations in 2016, well below the record of 56.1% from 2011. Thus, the waning popularity is not a purely German phenomenon. However, it should be noted that diesel's market share had already begun to fall even before the diesel scandal.

## Sales of diesel cars have also fallen in absolute terms recently

New car registrations in Germany on a monthly basis, % yoy



Source: KBA

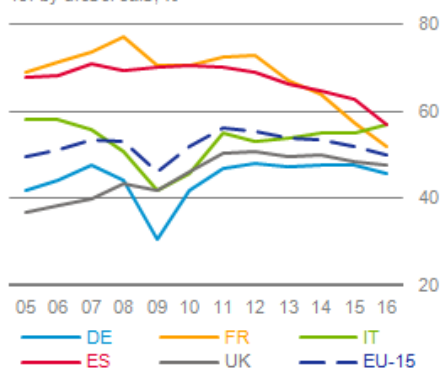


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Whether and how quickly diesel cars will continue to lose market share in Europe depends on a number of factors, including whether the automotive industry manages to get to grips with the emissions problem, not just on the test stand, but also in real-world driving conditions and without ramping up the costs too much. After all, the problem is not with diesel fuel itself, but rather with the still very high levels of local emissions, and in particular nitrogen oxide. In terms of climate protection, the diesel car – which keeps fuel consumption low through its efficient combustion method – actually offers advantages over petrol cars and produces fewer CO<sub>2</sub> emissions. It was this smaller carbon footprint that led the European car manufacturers to focus heavily on diesel in recent years. The more diesels they sell as a percentage of total registrations, the easier it is for them to comply with CO<sub>2</sub> emission limits for newly registered cars in the EU. To retain this advantage, the automotive industry is currently working on reducing the emission levels of diesel cars both on the test stand and in real-world conditions.

### Diesel market share falling in many EU countries

Proportion of all new car registrations accounted for by diesel cars, %



Source: ACEA

The industry should be able to develop technology to solve the emissions problem. But it's also clear that these technologies will lead to higher costs and therefore to higher purchase prices for diesel cars. These additional costs will probably only be recouped (quickly enough) by people who drive a lot of miles. From today's perspective, there are plenty of indications that diesels' market share in the small and compact car class will continue to fall, no matter what happens. This is because average annual mileages for these vehicles are lower than for those in the mid-range and luxury segments, which are often used for business purposes or as company cars.

### Political indecisiveness is counter-productive

A particularly important factor in the future of diesel cars is state regulation. From a political standpoint, discussions about a 'blue badge' (restricting certain diesel cars from protected zones), a higher tax rate on diesel fuel or even regional bans on certain diesel vehicles are understandable given the loss of trust in how clean diesel cars are. However, such discussions are extremely damaging and counter-productive when they don't lead to any firm decision and instead hang over the diesel car segment for months on end like the sword of Damocles. Private individuals, who usually use a car over a number of years, justifiably want to know whether they will still be allowed to drive their diesel car in five or ten years' time without any restrictions. The onus here is on politicians to communicate, as soon as possible, what form any future regulation will take. A mishmash of regional regulations should be avoided. And because cars have a long lifetime, it would make to sense to have sufficiently long lead times and transitional periods. People have a legitimate expectation that they should be able to use the car they have bought and this expectation needs to be taken into consideration not least because of social reasons.



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In summary, if the automotive industry wants to continue to rely on diesel technology in the medium- and long-term, it needs to regain credibility and get to grips with emissions – including in real-world driving conditions. If it doesn't manage to do this, lawmakers are likely to progressively tighten the regulatory framework for diesel cars. Customers' confidence in diesel would also be hit, causing the segment's market share to fall quickly and substantially. However, should the industry succeed in bringing to market clean diesel cars at affordable prices, these cars would remain the most economical option for a large proportion of motorists – indeed at least until alternative drive technologies become competitive from the customer perspective. Unless policy is being driven by ideology there would, after all, be little reason to regulate clean diesel cars (in comparison to petrol cars) more strictly than today. This would make current proclamations of the impending demise of diesel somewhat premature. In the longer term, of course, cars will eventually need to get by without fossil fuels if the vision of carbon-free driving is to become reality.

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