EDMOND DE ROTHSCHILD

"WHAT DISTINGUISHES POLITICS FROM SCIENCE AND IMPATIENT YOUNG PEOPLE, IS THAT POLITICS IS WHAT'S POSSIBLE"

A significant portion of the EUR54 billion plan committed by Germany concerns electric vehicles, which is not neutral given the status of the auto sector in the German economy.

This "climate plan" confirms the trends seen in France, the UK and the Netherlands with subsidies favouring pure electric models over hybrid. But Germany is not focusing as much on the system of penalties for the highest-polluting models.

For German manufacturers, this announcement can be read from two angles:

- **The shift to electric has been formally decided**, the German government will not back a calling into question of the European emissions rules.
- **The government is ready to support this transition**.

Germany wants to create a domestic electric vehicle market. The subsidies for electric models will support manufacturers' margins. Furthermore, the rapid penetration of electric vehicles should automatically reduce the pressure on conventional fossil fuel models as the European regulation imposes a limit on average emissions. German consumers still remain to be convinced that Volkswagen's ID.3, the production of which will begin in November, is the new people's car.

"*What distinguishes politics from science and impatient young people, is that politics is what's possible*", stated Angela Merkel, a step ahead of her critics. With this plan, the German government seems to want to make the switch to electric of its auto industry possible. It is unthinkable that such a decision could have been made without extensive consulting with the industry players and their validation of this transition.

An unmistakeable sign, last week, Daimler announced it was putting an end to its R&D on internal combustion engines.

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In detail:

Angela Merkel, under pressure from the Social Democratic Party of Germany (SPD) and the Greens (strong support from over 20% of the German electoral base in the last European elections), announced a EUR54 billion Climate plan up to 2023 (up to 100 billion between now and 2030). This plan, which still has to be validated by the Bundestag, must enable Germany to fulfil its greenhouse gas emissions by 55% between now and 2030 vs. their 1990 level.

Significant measures were expected given Germany's failure to meet its 2020 commitment of a 40% reduction (only 30% achieved).

The main measure concerns electric vehicles: Germany thus targets 10 million electric vehicles (pure and hybrid) by 2030, i.e. 15% of the current base (the most optimistic forecast was for 7 million by 2030). To measure the effort to be made: this target implies close to 1 million new vehicles on the road per year (i.e. 30% of annual sales). In 2018, electric vehicles represented less than 2% of annual sales.

Note that the German plan is in line with the figures announced one year earlier by Volkswagen, targeting 25% of its 2025 sales in BEVs (battery electric vehicles).

In order to support the development of electric technology, the plan also provides for the installation of a million charging stations and measures granting aid to purchase (tax exemptions and subsidies).

The German Chancellor also announced the implementation of an emissions quota exchange system - similar to the European ETS[1] - covering transport and heating. The initial price of €10/t CO2e will rise to €20 in 2022 and €35 in 2025. It could then vary between €35 and €60 afterwards. This tax would strengthen the competitiveness of electric vehicles compared to conventional vehicles for professional fleets, but the price is too low to really impact individual consumers.

Most analysts agree that the current plan is insufficient to achieve Germany's 2030 targets and the reactions of politicians outside the country point in the same direction.

In 2018, vehicles sold in Europe emitted 120g/km of CO2 on average. To achieve the European objective of 95g/km of CO2 in 2021, manufacturers do not have very much leverage: 1/ increase the electric portion of the mix[2], 2/ reduce the emissions of the fossil fuel models or 3/ encourage the sale of hybrid models and discourage that of the conventional models with the highest emissions.

These three options will all have a negative impact on manufacturers' margins, which are already at a low (negative margins on electric vehicles and declining margins on internal combustion engine models due to regulation).

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[1] European Union Emission Trading Scheme – EU ETS is a carbon dioxide (carbon gas or "CO2") emissions rights mechanism implemented in the European Union as part of the EU's ratification of the Kyoto protocol.
[2] The energy mix is the breakdown of the different sources of primary energy consumed in a given geographical region

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