

Trucks and Bus World Forum 2009 – White book

According to specialists, on the macroeconomic level, global growth for 2009 is likely to be between -2.5%, and -10% to -12% for industrial production. European growth is even more affected, being negative -4.4% in 2009, -4.3% in 2010, and -1.3% in 2011. When it comes to the Truck business, manufacturers expect a 40% to 60% decrease in sales in 2009, with no concrete sign of recovery in 2010. The impact of the crisis on the Trucks & Bus industry is particularly strong compared to other industries for two reasons :

- First, when GDP decreases, a drop in exchange of goods is always a lot stronger. This is a consequence of the crisis that is well known to economists, and can thus explain the decrease in transportation of goods, and the drop in sales of trucks (overcapacity).
- Second, fleet operators renewed their vehicles prior to the crisis, and increased their fleet to match the growing demand at that time. In fact, 2007 and the beginning of 2008 were very big years for manufacturers, which even had difficulties in catching up with the demand. As such, the first effect (drop in the need for transportation) is worsened by the fact that operators do not currently need to replace old trucks or increase capacity.

The 2009 Truck and Bus World Forum, which took place in Lyon on the 11th and 12th of May, was an opportunity to bring together a huge panel of people (around 300), from research and development, manufacturers (OEMs), fleet operators, infrastructure operators, public authorities.... Many discussions were held about the current economic situation, more specifically regarding the truck and bus organization, but also about the future that can be expected in this industry, regarding all aspects (manufacturing, cities organization, concentration...). The two main topics were basically:

- Anticipation of future behaviors given social demography evolutions, bringing about the emergence of new needs (both on transportation of goods and people)
- Analysis of the changes in the industries and their impacts on players

Therefore, given the current economical situation, it seemed important initially to work on short-term actions answering the question: what is the best way of getting through the crisis? The levers identified to prepare the recovery, and particularly technological shifts to best adapt to environmental requirements, will be discussed in the second part of the study.

1 Going through the crisis?

In 2008, the players of the Trucks and Buses industry were already aware of a slow-down in their sector. In fact, a year ago, the main stake for OEMs was to be able to deliver, given very long production delays. In less than six months during 2008, the market has completely changed, and companies are now facing problems of over-capacity. In this context, three main

levers to work on have been identified in order to survive the current collapse of the market: cost control, stimulus, and investment.

These levers not only concern manufacturers themselves, but all companies working for them as suppliers, and fleet/infrastructure operators.

Optimizing cost / benefit ratios of strategic investment

For many years now, public authorities and manufacturers have worked together on reducing pollution coming from trucks and buses. A new step on this program is to be taken during the autumn of 2009, with the new Euro VI standard.

However, through discussion, it appeared that this new standard is not considered as a priority for the moment by several players. In fact, manufacturers have to find a balance between spending huge amounts of money

to finalize this project (the estimated amount is around €6 billion), and saving employment. Another aspect of these new standards will be the rise in buying prices of trucks, estimated at between €4000 and 12000 per unit. Will fleet operators, facing a decrease in demand for transportation, be able to pay this premium for new vehicles?

Moreover, in a period when export can be considered as an action to stabilize the order books (especially in

emerging countries, where the growth rate is still advantageous compared to global recession), the Euro VI standard might lead to the establishment of strong entry barriers and therefore to protectionism. Actually, considering the great distortions between countries in terms of environmental regulations, the following situations could be expected: in one case, vehicles are too expensive to be affordable for some countries (due to a high level of technology), in the other case, vehicles manufactured locally do not fit the specifications with targeted countries (Europe for example).

Taking into consideration the current situation, some manufacturers proposed to postpone the application of

these standards. The corresponding amounts could thus be invested in other projects that could save money and preserve cash. Other stakeholders underlined that power train technology issues and CO₂ and pollutant emission reduction should not only be a competitive task, but rather a collaborative one, so as to benefit from synergies in gathering complementary skills. Legislators need to take part in these collaborative programs so as to set up homogeneous and targeted guidelines.

In addition, cost-saving programs also need to be implemented in the sector, so as to consolidate cash flows and ensure the short-term survival of Trucks and Bus companies (manufacturers and OEMs as well).

Stimulating the right profitability levers to comply with pollution stakes

Once cash is preserved, the second action that needs to be taken during the recession period relies on the boost in demand, especially by stimulating new projects. For example, it appears important that governments and public authorities encourage investments in training (eco-driving for example), help investments in less energy-consuming technologies, or favor a change in legislation (longer trucks, aerodynamics...).

Moreover, instead of applying strict and costly Euro VI standards, an alternative way to set up environmental

actions that have a positive impact on manufacturers' turnover is to launch park renewal policies. In fact, it is proven that less than 25% of trucks and buses today are compliant with Euro IV or Euro V standards, and around 20% are prior to Euro II. As a consequence, the idea was raised to launch programs to help fleet operators finance their new vehicles. This will both concur in reducing pollution and supporting the whole industry by stimulating demand.

Developing strategic investment based on a systemic approach

As mentioned above, it is vital for governments to sustain investment, so as to counter the current slow-down in demand that will most likely lead to a consolidation of the sector (and especially Tier 1 and Tier 2 suppliers). The challenge is to balance the current slow-down and the risk of having huge effects of undercapacity after the crisis; Companies and public authorities had significant transportation needs prior to the crisis, and always will have. Moreover, public authorities can invest their money in new, innovative programs, such as modular infrastructures, or electric vehicles (mainly for transportation of people). Global

analyses are on their way to compare and understand how to design more efficient transportation networks, for both people and goods. This will help fight against pollution, congestion, noise... For instance, congestion costs are estimated at 1.1% of GDP.

One example of a financing program is the Eurovignette. This project should allow taxes relating to transportation of goods using European roads to be homogenized. The goal is then to use the money collected to develop other means of transportation, such as sea or rail, and to promote multi-modal transportation.

Beyond the crisis: matching profitable business models and global stakes

However long the crisis lasts, it remains important for the Trucks & Bus industry to get prepared for the recovery, in order to be ready to face the coming increase in demand. Moreover, this crisis can be a springboard to find new business models. Main factors at stake are urbanization, pollution, road safety, globalization and the necessary change in mentalities.

- **Urbanization:** it is common to consider that a country is “developed” once half of its inhabitants lives in a city. This is an increasing phenomenon, as we now estimate that 60% of people live in a city, and that cities are generating 80% of GDP. Such a development of cities raises the question of accessibility and leads to the emergence of new urban transportation concepts. For example, urbanization has already led to innovative solutions, such as high-level services buses. In this field, another issue identified deals with delivery of goods: the bigger the city, the more goods needs to be delivered, causing considerable negative impacts in terms of congestion, pollution, noise... This led to the emergence of the concept of city hubs, along with a “remaining kilometer” local distribution network.
- **Pollution:** due to the rising concentration of greenhouse gases having negative impact on atmosphere quality, new solutions to consume less without altering vehicle performances are needed. From a pragmatic viewpoint, in the coming 20 years, diesel engines will remain the core technology for power trucks, even though the current developments of bio fuels, new additives, or new hybrid motorizations, will gradually in the years to come bring new technological solutions enabling us to expect an optimistic future. We cannot expect all pollution reduction to come out of technology, which means we will have to work on alternative successful business models and changes in behaviors (how to sell a costly innovation? at the right price? to the right markets...).

- **Road Safety:** technological levers are currently analyzed in order to improve road safety. Improvements have to be made both on vehicles, through on-board electronic devices for instance, and on its environment, i.e. the road itself. As a consequence, both OEMs and infrastructure conceivers / construction companies have to work on the subject.
- **Change in behaviors:** it is important, in order to fulfill ecological goals set by global summits, to change our mentalities. The Trucks and Bus industry, the operators and infrastructure owners as well, need to re-think the way we transport people and goods. It has been said during the conferences that at least half of the objectives in terms of pollution are to be achieved not through technology, but through behavioral changes.

In order to face these three issues, different concepts are worth considering in more depth:

Impacting the right levers for the best cost/benefit ratios

All the stakeholders need to clearly identify sources of potential gains to further reduce pollution emissions, and solve congestion problems. They will then decide together which lever is to be emphasized, having in mind the best cost/benefit ratio of strategies chosen.

The idea that public authorities should put in place tax-saving programs for investments in eco-driving, in less energy consuming developments (aerodynamics...), fleet renewal, and financing innovation has been mentioned.

Optimizing intelligent goods distribution

It seems important to re-invent inter-modal transport. Speeches held were an opportunity to discuss inter-modal systems throughout Europe, using rail, sea and road. Using different modes of transport is not necessarily more time-consuming than using a single mode of transport, and is often less costly and energy-intensive. But once again, public authorities have a role to play, in order to favor the development of new rail lines, new national and international transportation axes, for example by adapting the legislation in place. The key word here is optimization: given the

development of urbanization, it appears important to bring about innovative and profitable solutions to be able to deliver goods into the core of the city, in time, and generate the least inconvenience possible. Finally, the improvement of IT solutions must thus be considered as a real improvement lever.

One of the keys is also to homogenize standards so as to design more efficient hubs.

Setting up more attractive public transportation systems

During this forum, public authorities' speeches were focused on promoting public transportation rather than penalizing car users. One main issue for the future may be to finance public transportation operators so as to make them more financially independent. Once again, infrastructure improvement was mentioned as a

lever to optimize accessibility of public transport networks. Public authorities also have to make all efforts to make public transport more and more attractive regarding safety issues and passenger security, accessibility, information, and comfort.

Favoring more integrated transport systems

Nowadays, the transport of goods and of passengers is frequently considered as two different businesses. However, opportunities can be seized in consolidating these two activities, in order to optimize the use of equipment by ensuring both delivery of goods and passenger transportation in the same vehicle - utopia or challenge? This could surely help reduce urbanization stakes: congestion, pollution, noise, costs...

Nevertheless, this will not only require huge investments in infrastructures innovation, (such as re-thinking of train/bus stations, creation of inter-modal structures...) but also a change in behaviors.

In conclusion, it appears that all the players of the buses and trucks industry are to make a joint effort to get through the current crisis, and they may be helped

by the legislators. Moreover, the current economic context should be used to put in place tomorrow's business models, sustainable from both an economical and ecological point of view. Speaking about pollution, it is also important to realize that ecological objectives will not be achieved through technology only, and that there is a need for changes in behavior. Finally, it is only through a systemic, global approach, and an objective analysis of transportation systems, that players will be able to identify where savings (both in money and in pollution) are to be made. One key success factor of the programs mentioned above is a global coordination between the players involved in the Truck and Bus sectors: manufacturers, operators, infrastructure owners, legislators, public authorities and global governance organizations (such as G8 or G20).

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