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21st September 2018

VRA. “2019: The Year of the Used Van”

James Davis, Director of CV, Cox Automotive

*Never before in my 25 years in this industry
have so many factors lined up to influence
the fortunes of new and used vans*

Anacronym vs Initialism

Either Way A Winning Score!



DEFRA, ULEZ, LEZ, CAZ, CFULES, AQMA ZEZ, LEN, WLTP, RDE1, RDE2, RFL

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Order of Service

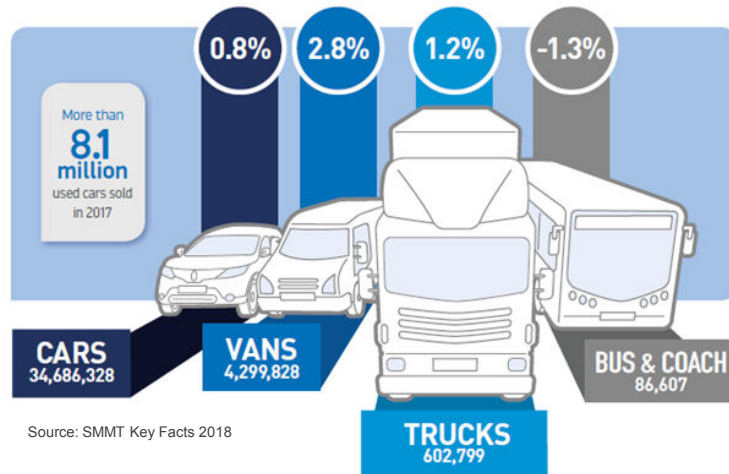
The Key Influences on the 2019 New and Used LCV Markets

- Setting The Scene – UK CVs, Where We Have Come From
- EU Registration Trends and Brexit
- Air Quality – Demonising Diesel
 - London Ultra Low Emission Zone
 - Clean Air Zones
 - Zero Emission Zones
- LCV - WLTP and RDE
- RFL Co2 Bandings
- Electrification
- 2019 “A Record Year For The Used Van”

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CV's in the UK

The Ageing Van Parc



- 64% growth in vans over 10 years of age in last 9 years:

• 2009	730k
• 2011	820k
• 2016	1.2m

- 30% of UK van parc over 10 years old
- Majority Euro 3 engine or older

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UK Plc

What a CV Marketplace!

- 5 million businesses in the UK, annual start-ups grown 49% 2011-2016:



Source: 'Start Up Britain'

- Infrastructure Projects, M-Way Barrier Projects, HS2, House Building,
- 30,000 new tradespeople needed per annum for next 5 years

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Historic Growth in Van Registrations

Dispelling The 'Polish Plumber' and 'Home Delivery' Urban Myths



RAC Foundation “The Implications of Internet Shopping on the Van Fleet and Traffic Activity” (2017)

- **“Growth in van registrations and congestion down to home delivery traffic”**
 - Vans used by ‘package and grocery e commerce’ operators **only represent 4%** of parc (c160,000)
 - Van registration growth **ACTUALLY** parallels the expansion of the UK service sector
- Last 20 years - 70% growth in van road miles (vs cars +12%, trucks +5.5%)



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Brexit and The UK Economy

UK Exports and EU New Van Market

	2016	2017	% Change
UK Commercial Vehicle manufacturing – 2016 vs 2017	Total	93,924	78,219
	Home	39,102	29,320
	Export	54,842	48,899
	% export	58.4%	62.5%

Source, SMMT

“I believe import tariffs could favour home assembled CV's as well as nearly new used vans”

EU New LCV Registrations By Country	2017 vs 2016	H1 2018
Spain	15.50%	11.60%
France	7.10%	5.00%
Germany	4.90%	5.00%
Italy	-3.40%	0.10%
UK	-3.40%	-2.30%
Total EU LCV Registrations	2.0m	1.06m

Source, ACEA

+5.3%
YoY



“I believe the ONLY factor that can destabilise the 2019 new and used CV markets is an economic cycle”

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Air Quality

The Demonising of Diesel.....Sky, Land, Water.....or Earth, Wind and Fire?

- Older diesels are the issue - 30% of UK Vans over 10 years of age
- Emissions Analytics' RWE testing of the latest Euro 6d-Temp diesel cars:
 - Average 71% less particulates than petrol equivalents
 - Average Nitrogen Oxide emissions from the cleanest diesels vs petrols - 48mg/km vs 36mg/km
- UK refrigerated truck/trailer engine emissions equivalent to c1.8 million Euro 6 cars (Jan 19 legislation will cover new build, average trailer first life is 10-15 years)
- Diesel is surely here for some time for CV - EV is not a one size fits all solution
- Marine, Plant/Equipment, Airplane, Wood Burners.... ,
- Putney High Street. Euro 6 truck - tailpipe emissions cleaner than the intake air. London Marathon saw NOX levels down 89% (Source: Kings College)

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Air Quality

The Facts ARE Compelling



9000+
LONDONERS

die early every year
because of air pollution



£3.7
BILLION

the cost of air pollution
to London's economy

Source: London Environment Strategy Report

Recent research from the University of Oxford and University of Bath:

- Pollution from older diesel vans has significant health damage costing £2.2 billion per annum to NHS and society
- UK vans drive 75 billion miles each year
- UK vans contribute 30% of road transport NOx emissions
- Vans 3 times more harmful to the UK's health

Source: Fleet News, 11/09/18

- [London Environment Strategy](#) May 2018.....452 pages!

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Ultra Low Emission Zone Rollout

The Most Far Reaching Emission Control Activity of any World Capital City



Central London ULEZ in 2019 (all vehicles)

			£12.50 per day
			£100 per day

2019 (Population 200k)

+CCZ moves to 24/7/365



London-wide ULEZ, as early as 2019, but possibly later (heavy vehicles)

			Up to £100 per day
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2020 (Population 9.1m)



Inner London ULEZ, as early as 2019, but possibly later (all vehicles)

			Up to £100 per day
			Up to £12.50 per day

2021 (Population 3.4m)

ULEZ standards: Petrol – Euro 4; Diesel – Euro 6/VI; Motorcycle and L-Cat – Euro

London population set to grow to 11.1m in 2050

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So What?

This is Going To Get Costly

Table 18: Estimated **daily average** number of vehicles that would not meet the ULEZ standards in inner and central London for different years of implementation

	Petrol car	Diesel car	Car TOTAL	Van	HGV	Coach	TOTAL
2019	45,000	140,000	180,000	56,000	5,000	1,600	250,000
2020	30,000	90,000	120,000	44,000	3,300	1,100	170,000
2021	24,000	77,000	100,000	36,000	2,700	800	140,000
2022	17,000	64,000	81,000	29,000	2,100	600	110,000
2023	11,000	51,000	62,000	23,000	1,600	400	87,000

Source: London ULEZ Consultation Outcome Report

2019 ULEZ Annualised (Inner and Central):

Van	20.4m journeys	£255,500,000
Truck	1.8m journeys	£22,500,000

30% of vans in UK Van Parc over 10 years of age....

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Two Typical ULEZ CV Operators

Keeping It Real From 8th April 2019

Convenience Shop:

- 1 van, 09 plate and Euro 5
- 2 visits per week to the wholesaler, 104 visits per annum
 - Daily CCZ Fee £11.50: £1,196
 - Daily ULEZ Van Fee £12.50: £1,300
- £2,496 (+109%)



Civil Engineering Company:

- 5 vans and 1 truck, all 13 plates and Euro 5
- Weekday visits to clients, 241 visits per vehicle per annum
 - Daily CCZ Fee £11.50: £16,629
 - Daily ULEZ Van Fee £12.50: £15,062
 - Daily ULEZ Truck Fee £100: £24,100
- £55,791 (+236%)



And then there is fuel duty.....

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London Ultra Low Emission Zone (ULEZ)

Keeping It Real From 8th April 2019

- Margins are too tight to operate non-compliant CVs sustainably. How will business react:
 - **Pay Up:** Add onto margin as a form of local sales tax
 - **Replace:** Buy new or used Euro 6 replacement or EV or PHEV, note re availability/suitability/affordability
 - **Revolutionise:** New ownership model, flexi-rental, van-share, new delivery services (eg Amazon's 20k US Sprinters)
- Euro 6 mandatory for trucks Sep 14 and vans Sep 15. Average first life of vans c5 years – severe lack of used Euro 6 product to satisfy demand

“So I just need a Euro 6 truck and van or Euro 4 car?” Well no, not exactly....

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London Calling

The Clash?

- Population set to grow from 8.7m to 11.1m by 2050
- *"This proposal, including the vehicles and area it applies to, charge levels and hours of operation, and discounts and exemptions or other restrictions, will be **developed in the next few years.**"*
Sadiq Khan, London Mayor, London Environmental Strategy, 2018
- Mayor's London Environmental Policy has brought forward previous target deadlines:
 - ~~2025~~ 2020: a series of 'Zero Emission Zones' across the capital
 - ~~2030~~ 2025: a 'Zero Emission Zone' in Central London
- Larger 'Zero Emission Zones' in Inner London by 2040
- London-wide 'Zero Emission Zone' by 2050
- Next few years? Really Mr Khan? Make that July 2018....

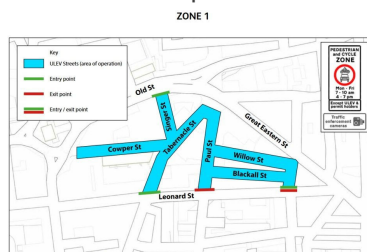


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Hackney and Islington "No Go Zones"

Aka City Fringe Ultra Low Emissions Streets aka Zero Emission Zones aka Low Emission Neighbourhood

- Local authority research - **50% of polluting traffic** around the City Fringe are **delivery vehicles**
- First of its kind in the UK, launched July 2018
- **Petrol and diesel banned 7am-10am and 4pm-7pm Monday to Friday**
- Only ULEVs and resident/business exemption permit holders permitted access
- **ULEV is classed as emitting less than 75g/km CO₂. And all vehicles must be pre-registered to enter**
- Those already on these roads prior to 7am and 4pm can exit without a PCN (£130)
- **Hackney & Islington CFULES:**



- **2019 LENSs to include the Barbican, Greenwich Town Centre, Ilford Garden Junction and Marylebone**
- **2019 Oxford ZEZ – street level too**

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Clean Air Zones?

The Famous 5: Birmingham, Leeds, Derby, Nottingham, Southampton

- **Birmingham.** Consultation closed. Proposed (uniquely) to mirror the London ULEZ scheme in terms of Euro 4 petrol and Euro 6 diesel standards as well as **including private cars and vans**. Proposed zone inside its Middle Ring Road, Middleway
- **Leeds.** Consultation closed. Proposed **private cars and vans excluded**. Proposed zone boundary reduced in size. Proposed **Daily penalty reduced to £50**. £12,500 per annum for weekday operation for a pre-Euro 6 truck or bus! Taxis will pay £12.50 per day; weekly advanced discounts
- **Derby.** Consultation closing. This Council is proposing to **avoid launching a CAZ**. It favours re-routing traffic away from pollution hotspots and creating incentives to replace older, more polluting vehicles with scrappage schemes and increase financial support for sustainable travel
- **Southampton.** Consultation closing. Proposed that private cars and vans are excluded. **Proposed zone is city centre....oh and the New Forest**. Proposed charge "up to £100 per day". Taxis up to £12.50 per day
- **Nottingham.** Consultation closed. This Council is proposing to **avoid launching a CAZ** through a combination of stricter emissions for taxis and modifying city buses,
- **Clear as mud for operators of large inter-urban regional corporate fleets.....**

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Meanwhile.....Coming To a City, Town, County or Country Near You

The 'Not-So-United' Kingdom

- **England:**
 - The Department for Environment, Food and Agriculture (DEFRA) set the LEZ standards/timetable/charges
 - **Apparently....**
 - 5 cities mandated to launch their CAZ by the end of 2019 (LS, B, DE, NG, SO)
 - **Significant differences appearing at recent consultation stage; 2 concluded they don't need one!**
 - Daily charge decision seemingly being made 'locally' post consultation, no co-ordination
 - **Final air quality plans to be submitted to DEFRA for approval in the next few weeks,**
 - In excess of **60** regional councils and authorities have to draw up CAZ strategies following a legal ruling
- **Scotland:**
 - 2018: Glasgow LEZ, 2 years earlier than planned. No daily fee, only PCN, £ being considered by council
 - **2020: LEZs to be rolled out in Edinburgh, Aberdeen and Dundee,**
 - 2023: Rollout of Air Quality Management Areas (AQMA's)
- **Wales:**
 - Designing and reviewing its national strategy, plan to launch a scheme

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LCV WLTP and RDE

The Year Ahead – September 2018 to 2019

- Outdated NEDC laboratory test has been replaced with the new Worldwide Harmonised Light Vehicle Test Procedure (WLTP) laboratory test; complemented by the Real Driving Emissions test:
 - **Car Derived Vans** fell into the current September 2017 to September 2018 car rollout schedule
 - From September 2018 all **new Light Commercial Vehicle models** will be subject to WLTP type approval and Real Driving Emissions (RDE) testing
 - From September 2019 **all new sales** of Light Commercial Vehicles will have received type approval under WLTP and all new registrations will be subject to RDE testing

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Source: DfT/ACEA

LCV WLTP and RDE – More Questions Than Answers

The Year Ahead – September 2018 to 2019

- *Will CV's have **more or less derivative and option configurations** than car cousins?*
- *Will OEM's limit **supply** as they resolve individual models and specifications? **Build time** issue.*
- *How will RDE address **payload** - CO2 relative to % of GVM for LCV – ie part vs full payload?*
- *What about **minibuses** – what % of total passenger capacity?*
- *Will **base vans** become the norm and **dealer fit/aftermarket accessories** (fitted post Whole Vehicle Type Approval) become the new norm? (ie demise of Specialist '**Turn Key**' OEM **Production Lines**?),*
- *Despite CO2 detail on the Certificate of Conformity (and V5) how will Government databases know what weight of accessories were fitted from new, **what has subsequently been added or removed** – eg: chassis cab repurposing in second life*

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LCV WLTP and RDE – More Questions Than Answers

The Year Ahead

- With cross badge LCV collaboration, common platforms and powertrains, surely OEM's should have **applied lessons learnt with car** WLTP/RDE implementation?
- Will the OEMs collaborate to motor through the LCV WLTP/RDE testing regimes ahead of the deadline? **LCV model lifecycles longer** than cars – and no Euro 7 engine/facelift models
- Post **Brexit tariff/production issues** and extended lead times – especially if **OEMs feed more profitable LHD CV** Euro markets?
- What about the new van registrations? Business confidence in the Post-Brexit landscape vs extensions vs new vans vs rolling out of Clean Air Zones,

2012: London LEZ launch.....innocent operator ignorance

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Co2 RFL Banding - LCV

It's Coming.....Consultation Closed July

- "Following our successful intervention to incentivise green taxis, we'll be helping the Great British white van driver go green with a **consultation on reduced VED rates** for the cleanest vans" **CG**
- It's not as simple as downsizing/incentivising to more fuel efficient models as with cars and taxis
- A commercial vehicle is bought for one thing only – its ability to carry a payload - volume vs weight
 - The nature of payload determines the size, shape and GVW
 - Van operators typically don't have a petrol, let alone EV, alternative – OEM range limited
 - Diesel currently suits the majority of first life operations, high average annual mileages,
 - WLTP/RDE will force manufacturers to address model specification efficiencies
- Double Jeopardy? Financially incentivising Euro 6 van and truck operators through CAZs **AND THEN** penalising Euro 6 operators through CFULES/ZEZ's/LEN's,
- LCV VED flat rate £250 (first year/bandings TBC) and viewed in the same light as fuel price; it's a running cost. Won't drive the wrong first life purchasing behaviour, different in subsequent lives.....and it's all inflationary.....

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The Electric Van

Consultation Time – Road To Zero

- The Government's intention to move 3.5t to 4.2 GVW for full electric vans is sensible despite O Licence, MOT and driver licensing issues
- Ironically second life SME and sole traders travel a low daily mileage in a small radius....
- Small first life take up; minimal supply. Due to price and durability the used OEM EV may be secondary leased, further starving wholesale
- “Clean Van Commitment” September 2018:
 - 16 of the UK's largest van fleet operators have **pledged £40 million in the next two years** buying electric vans
 - Fleets include Engie, Tesco, Anglian Water, Leeds City Council, Network Rail and Yorkshire Ambulance Service
 - These fleets will **buy more electric vans than UK registered in whole of 2016** (2,400)
 - Commitment to take on a **further 18,000 by 2028**. **Caveats: infrastructure and competitive pricing**
 - Aims include **reduction in transaction price** and **stimulating used EV market** in 4 to 6 years time

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2019 – A Record Year For The Used Van

A Personal Opinion

- **List prices higher** for cars, vans and trucks; more expensive to buy and fund
- Anecdotal feedback states **first life users are currently extending** replacement cycles due to business uncertainty. Constriction of wholesale de-fleet volumes plus additional ageing of parc (last seen 2008)
- I believe **Euro 6 vans will begin to make more significant premiums as early as Q4** this year; a limited vendor source - mainly daily rental – second life independent rental fleets purchasing too (end user value)
- I believe **Euro 5 values will soften in late 2020** and beyond (considering the age of these vans – pre September 2015 - there is minimal initial financial risk to the majority of first life asset owners). Used demand will be **inversely proportional to the coverage of air quality zones**
- Diesel will be with us for CV for some years to come; they key is **phased removal of pre-Euro 6**
- **Extensions will need to be pro-actively managed** in first life – eg council/public sector,
- **Ownership models**, logistics operations (downsizing, final mile) will be key focuses for ALL CV operators

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I Always Value Your Questions, Thoughts and Feedback

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Sector Focus: 4x4 Pick Up

Bringing It All Together

- Historic registration volumes have been growing and the popularity of this sector is clear
- There is logic to say, as in the 4x4 prestige car sectors, that first life buyers will wrap up first year RFL in funding; any subsequent years are largely inconsequential – care when it gets older/regulation change/short cycle ownership
- WLTP/RDE dependent on passenger/payload/accessory testing regime (load covers/liners, whistles and bells!)
- Aftermarket convertor growth using OEM base specs? As seen in panel van to camper sectors
- Considering the HMRC's current BIK focus for "executive" spec double cab pick-ups – when combined with WLTP/RDE for new or used pre-Euro 6 examples - how will this affect many SME and sole traders who dual purpose these vehicles for work and play?
- I believe extending car BIK rates to this LCV sector would be harmful. Further compounded by higher RFL rates and first year fee - and clearly WLTP/RDE

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