

Meeting with Michelin

18 September 2018

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Decarbonisation of Transport and everything beyond ETS

**Scene setter:**

- Michelin, one of the major global producers of tyres, requested a meeting to discuss decarbonisation of transport and in particular issues not related to ETS such as new tyre legislation.
- You will meet [REDACTED] the Michelin group, who [REDACTED].
- Michelin is probably the most "premium" (and expensive) of all major tyre manufacturers, focusing on the production of high quality tyres with low rolling resistance and high energy efficiency..
- Michelin therefore has an interest that relevant EC legislation gives an appropriate recognition to even small improvements of the tyre quality, i.e. in regulatory discussions they advocate demanding requirements and accurate consideration of tyre properties (instead of simplified global approaches).

**Objectives:**

- Listen to Michelin's views on the Commission proposals, the current state of play of the inter-institutional negotiations and the long-term approach to de-carbonisation.
- Request info about Michelin's decarbonisation actions on international level, in particular in the context of the Transport Decarbonisation Alliance.
- Request info about Michelin's intentions for the Movin'On summit taking place in June 2019 in Montreal, which brings authorities and industries committed to durable transport together
- Get support from Michelin for convincing national governments (in particular the French) of the importance of adopting the pending road transport CLIMA files (cars & vans and HDV CO2 standards) still under this EP mandate, even though this will require a substantial effort on national level.

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Contact points CLIMA.C4 :

[REDACTED]

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## Line to take

### CO<sub>2</sub> standards for cars and vans

- The Commission proposal strikes a balance between three main objectives that were considered together: (i) environmental objectives; (ii) savings for consumers; (iii) employment.
- The intermediate 2025 target is crucial to ensure that investments already kick-start now, while the 2030 target gives stability and long-term direction to keep up these investments.
- We see quite diverging views emerging in the European Parliament as well as in the Council. We note that many, including in particular the Parliament's ENVI Committee are calling for more environmental ambition.
- It is essential that an ambitious but realistic proposal is adopted during the current legislative term. We must not lose time so that the sector can contribute fully to the achievement of our Paris commitments and that we provide certainty for the manufacturers and suppliers concerned.

Specifically for the tyre industry:

- While acknowledging that the first and most important characteristic of a tyre is its safety in all driving and

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environmental conditions, low rolling resistance tyres can have a measurable positive impact on CO2 emissions.

- The Tyre industry should continue innovating in order to design tyres that can be, at the same time, safe, durable and fuel efficient.
- The Commission keeps monitoring this process and is always open to consider solutions that can help achieve the overall CO2 targets for the Light Duty Vehicles.
- We count on your constructive contribution to this process.

## **CO<sub>2</sub> standards for HDVs**

- The Commission's proposal for EU-wide CO<sub>2</sub> standards for HDVs is another crucial step towards reducing greenhouse gas emissions from the road transport sector.
- The binding 2025 target of 15% reduction reflects the application of technologies, which are mature and deployed, while the aspirational 2030 target of 30% reduction takes account of technologies that need further development.
- The implementation rate of low rolling resistance tyres currently is limited and the single most important existing technology that can contribute to the 2025 reduction target with about 6% alone.
- An early review in 2022 will allow to exploit data available by then to set a binding 2030 target and to expand the scope to other HDV categories, such as buses and coaches, smaller lorries and trailers.
- The incentives for zero- and low-emission heavy-duty vehicles (ZEV/LEV) in the form of "super-credits" are set in a way that will foster innovation and ensure faster deployment of these technologies on the market.
- Penalties to ensure compliance were set by adapting the approach followed in the case of cars and vans to the larger

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lifetime mileage and payload characteristics of lorries. The marginal cost of technologies was taken into account.

- Finally, it is essential that also this Regulation is adopted during the current legislative term and we count on your support.

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## **Tyre Labelling Regulation**

- The Commission's proposal for the revision of the tyre labelling will improve transparency on the fuel efficiency of tyres sold in the aftermarket.
- Incentives for improving fuel efficiency of aftermarket tyres from the Tyre Labelling Regulation and of factory tyres from the vehicle CO2 Regulations complement each other.
- The Commission counts on Michelin to improve also the fuel efficiency of aftermarket tyres further.

## Defensive points

### CO<sub>2</sub> emission standards for cars and vans

**The Commission proposed a 30% emission reduction target in 2030. Why?**

- The proposed 30% reduction target is ambitious and realistic. It is the result of a robust and thorough impact assessment. A 30% reduction target provides benefits for the environment, for consumers and for employment:
  - A 30% target will help Member States in meeting their 2030 targets for the non-ETS sectors under the **Effort Sharing Regulation**. It will deliver emission reductions in road transport in line with its cost-effective potential, while leaving space for additional policies, in particular for trucks.
  - A 30% target will bring economic benefits for all **consumers**. The increase in upfront cost to purchase more efficient vehicles is outweighed by increasing fuel savings. For new cars, the net savings over the vehicle's lifetime are up to around €600 when bought in 2025 and up to about €1500 in 2030. The user of a second hand vehicle will benefit as much as the owner of a new car.
  - The overall impact on **employment** of a 30% target is positive, as it allows a smooth transition to low- and zero-emission vehicles. More than 80% of the new vehicles will still have an internal combustion engine in 2030. Plug-in hybrid vehicles are also incentivised by the new crediting system. These vehicles have a higher labour intensity as they have both a classical internal combustion engine and an electric engine. This approach will ensure sufficient time for the re-skilling and up-skilling of workers in the current automotive supply chain.

**CO<sub>2</sub> emission standards for lorries****Is the 15% emission reduction target by 2025 realistic? Does it lead to a disproportionate burden for HDV manufacturers?**

- The proposed 15% target does not overburden manufacturers. It strikes the right balance and is realistic. It is based on a solid impact assessment, which looks in particular at the economic impacts.
- First, the 15% target is based on the deployment of readily available cost-effective technologies, which are currently not widely implemented due to the existing market barriers. These technologies would bring about 15 to 20% CO<sub>2</sub> emission savings in 2025 compared to 2019. Therefore, no new technologies that are not yet on the market are necessary to meet the proposed 2025 target.
- Second, the additional technology costs for meeting the target are very limited. The additional costs for the purchaser of an average new vehicle are estimated at about € 1 800 in 2025. This represents 1.6% of the average purchase price estimated at € 110 000.
- Third, these upfront costs will be outweighed by the large fuel savings, estimated at around € 25 000 in the first five years of use for a new lorry bought in 2025 and up to about € 55 000 in the first five years of use for a new lorry bought in 2030.
- Fourth, flexibilities have been introduced so that manufacturers can cost-effectively meet the target.
  - Banking and borrowing have been introduced to take account of long production cycles, including a reward for early action.
  - Full flexibility is provided to manufacturers to balance emissions between the different groups of vehicles within their portfolio.
  - Vocational vehicles, such as garbage trucks and construction vehicles are exempted from the target.

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## **BACKGROUND**

### **1. Handling of tyres for determining CO2 emissions of cars & vans (WLTP) and Michelin's position**

In WLTP the calculation of CO2 for each individual vehicle registered and put on the market is based on the Interpolation Method. This consists in calculating the WLTP cycle energy (based on the individual vehicle's mass, aerodynamic resistance and rolling resistance of the tyres mounted on the vehicle) and obtaining the CO2 value from the Interpolation Line between Vehicle High and Vehicle Low of the Interpolation family to which the individual vehicle belongs.

The rolling resistance of the tyres mounted on the individual vehicle is assumed to be equal to the Rolling Resistance Coefficient (RRC) corresponding to the rolling resistance class to which the tyres belong (for ex. Class A, or B, etc.).

All the tyre manufacturers were satisfied with this approach, apart from Michelin, which was proposing to use the actual value of the Rolling Resistance of the tyres mounted on the individual vehicle at registration, claiming the using the RRC of the rolling resistance class would have not incentivised tyre manufacturer to improve their product quality.

It is probable that Michelin will bring up this issue again.

### **2. Handling of tyres for determining CO2 emissions of HDVs**

Regulation (EU) 2017/2400 specifies rules for the determination of the CO2 emissions and fuel consumption of new heavy duty vehicles to be sold, registered or put into service in the Union. The CO2 emissions determination shall be performed by the vehicle manufacturers using a simulation software provided by the Commission.

The simulation tool uses the CO2 emissions related properties of the components as input that have a significant impact on the CO2 emissions. The relevant input data include the engine fuel efficiency map, vehicle weight, aerodynamic drag coefficient multiplied by the frontal area of the vehicle ( $C_{dxA}$ ), moments of inertia from the vehicle including standardised bodies or trailers, the specifications of the gear boxes,

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efficiency of the auxiliaries and the exact (contrary to the WLTP where only approximate tyre rolling resistance classes are used!) tyre rolling resistance coefficients (RRC).

Low rolling resistance tyres are readily available on the market and could be implemented across the whole fleet but their current market penetration is limited. The implementation rate of the low rolling resistance tyres in 2016 was 43% while their possible cumulative net savings during the first five years of use is 5,9% with a 1,91% additional technology cost.

### **3. Tyre labelling Regulation**

The EU tyre labelling system aims to provide information to consumers on the rolling resistance, wet grip performance and external rolling noise of tyres to influence their purchasing decisions. As tyres can make a 20-30 % difference in a vehicle's fuel consumption, their performance has a significant impact on the fuel efficiency and emissions of vehicles.

The new COM(2018)296 proposal on the labelling of tyres with respect to fuel efficiency and other essential parameters and repealing Regulation (EC) No 1222/2009 aims to strengthen the rules and make the regulation more effective. It means better visibility of the stickers, strengthened market surveillance and broader range of performance parameters to be included.

Re-treaded tyres are out of scope of the current regulation. Labelling those tyres would bring substantial energy savings due to their big role on the heavy duty tyre market. Suitable testing method for re-treaded tyres has to be developed in the future. Currently, stickers are required for cars (C1 tyres) and vans (C2 tyres) but not for heavy duty vehicles (C3 tyres). Including C3 tyres fully in the scope of the labelling is in line with the CO2 standards for heavy-duty vehicles.

The estimated impacts of the new regulation are: increased turnover for business of € 9 billion per year by 2030, 129 PJ annual fuel / 10 Mt annual CO2-eq savings by 2030, decreased noise emissions and fewer accidents.

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### 3. Cars/Vans proposal - State of play in Council and European Parliament

#### Timetable

Date	Event
2-4/10	EP Plenary vote
9/10	ENVI Council – General Approach

#### European Parliament

The ENVI Committee report from rapporteur MEP Dalli (S&D / MT) was adopted on 10 September 2018, with S&D, ALDE, Greens-EFA, EFDD and GUE/NGL voting in favour and EPP and ECR against. The report increases the overall environmental ambition level compared to the Commission proposal. The main amendments voted are the following:

- Targets for cars and vans (% emission reduction compared to 2021):
  - 2025 : -20%
  - 2030: -45%
- Incentives for zero and low-emission vehicles (ZLEV):
  - two-way credit system (bonus/malus) with benchmark levels of 20% in 2025, 40% in 2030 and a “grace” in 2025 for manufacturers reaching at least 98% of the benchmark
- Real-world emissions and compliance
  - Compliance to be measured from 2023 on by means of a real-world CO<sub>2</sub> emissions test to be developed by the Commission. Until this test becomes applicable, compliance shall be measured on the basis of data from fuel consumption meters.
  - A “not-to-exceed limit” will be set for each manufacturer in 2021 as a percentage difference between that data and the WLTP emissions. Where a manufacturer’s emissions exceed the limit, its target will be adjusted.
- WLTP inflation
  - Starting point for the future targets shall be based on WLTP-measured emissions and not on WLTP-declared emissions.
- Life-cycle analysis
  - From 2025 on, manufacturers shall report the lifecycle CO<sub>2</sub> emissions of their vehicles using a methodology to be developed by the Commission.
  - By end 2026, the Commission shall submit a report with an analysis of options for possible regulatory measures.

#### Council

Progress in the Working Party has been limited on the main political issues, i.e. the target levels and timing and the incentive for low and zero emission vehicles.

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A group of MS (NL, FI, BE, LU, FR, PT, IE, SE, SI) would be in favour of more ambition than in the Commission proposal. Only 3 MS explicitly called for less ambitious targets, i.e. CZ, SK and HU. ES has expressed support for the Commission proposal.

On the ZEV/LEV incentive, MS were less outspoken, with only a few MS calling for adding a 'malus' to the crediting system.

DE did not express a position, neither on the target levels, nor on the ZEV/LEV mechanism.

#### 4. HDV proposal - State of play in Council and European Parliament

##### Timetable

Date	Event
18/10	EP ENVI vote
Tbd	EP Plenary vote

##### European Parliament

Bas Eickhout (Greens/NL) was appointed as Rapporteur in the ENVI Committee. An exchange of views on its draft report took place in ENVI on 29 August. He showed commitment to have the file adopted within this term, and possibly agreed under the Austrian Presidency.

The Rapporteur proposes to raise the level of ambition to 20% in 2025 and 45% in 2030. He proposes to replace the super-credits with ZLEV mandatory minimum shares of 10% for 2025 and 35% in 2030, excluding buses. Buses would have to comply with a share of 100% by 2030. He proposes also to make the banking and borrowing scheme more stringent, by adding the possibility to accumulate debits since 2019 instead of from 2025, de facto setting the 2019 baseline emission level as a first target.

S&D as well as ALDE shadow rapporteurs will also propose to raise the level of ambition, plus a benchmark system instead of super-credits.

EPP shadow will not propose changes to the level of ambition, but will ask to weaken the super-credits.

Vote in ENVI is scheduled for 18 October.

##### Council

The Commissioner has presented the Proposal at the 25 June Environment Council. Discussions on the Impact Assessment and Proposal at the Working Party Environment (WPE) are ongoing. Member States broadly support the proposal and recognise its importance. No Member State has yet a detailed position, even though there seems to be common agreement that the level of ambition could be raised. The Austrian Presidency will aim for a General Approach in the autumn, but discussions

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are ongoing to try to reach an agreement between the co-legislators already by December.