

VIEWPOINTS: BLACK SMOKE BILLOWS FROM GREEN CARS' BATTERIES

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It's "pedal to the metal" on German highways, and for all the hype about electric cars, petrol – and yes – diesel fumes are here to stay. But even electric vehicles are a lot less "green" than one might think, as long as batteries are drawing power from smokestack industries.

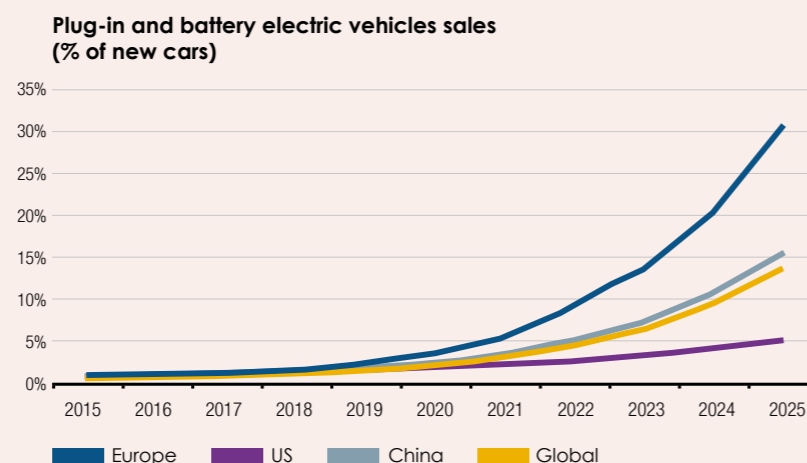
We know a thing or two about opportunities and dangers of storing energy. While burning smartphones are every telecoms executive's nightmare, the car industry is in high hopes of extending the reach of electric cars by new generations of powerful batteries. Headline-grabbing projects such as Tesla's factory built from scratch in the Nevada desert do their part to increase anticipation.

European car manufacturers were slow to jump on the bandwagon, but now have increased efforts to close the electric-mobility gap – from Volkswagen, badly affected by the still evolving scandal about cheating on diesel emissions, to Volvo, which has recently announced it will stop building fossil-fuel engines from 2019 onwards. Governments around the globe seem increasingly ready to support environment-friendly legislation with, for example, China announcing a minimum quota for electric cars. In America, the Trump administration's laissez-faire policy on climate change is contrasted by extremely stringent environment-protection laws in some US states.

Investors are also increasingly open to the new mobility trend. UBS analysts have recently upgraded their forecasts for electric car sales, now predicting a global share of 14% in 2015 versus currently less than 1% (see gray line in chart 1). Interestingly, demand in Europe is expected to exceed that in most other regions owing to EU carbon-emission regulation, higher fuel prices and higher car prices than elsewhere.

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Chart 1: Rising demand for electric cars, especially in Europe





Feel-good factor aside, can electric cars move mass market?

Obviously, the consumer will be the final arbiter. Tesla sightings may be on the rise, but whether electric cars will move mass market, adding price competitiveness and user-friendliness to the current lifestyle allure, remains uncertain. The uptake outside countries that subsidise electric cars such as the Netherlands and Norway has been rather disappointing so far. Some experts believe the cost of electric cars will come down to levels of petrol and diesel vehicles in about eight years' time, at the earliest. At the same time, the cost of regular cars may rise due to more stringent environmental regulation. But then again, conventional fuel-powered engines are

constantly being optimised. Turbo charging and downsizing is expected to increase their efficiency by some 30% and hybrid drives are making the engines less polluting.

Contrary to conventional wisdom, the ecological balance of electric cars isn't stellar. In fact, it can be even poor, depending on how you look at it. Electric cars are heavily on battery power – and charging those is currently anything but environment-friendly. A study commissioned by the German government shows that over a lifecycle, greenhouse-gas emissions of electric cars in Germany are on a similar level than diesel cars (see chart 2).

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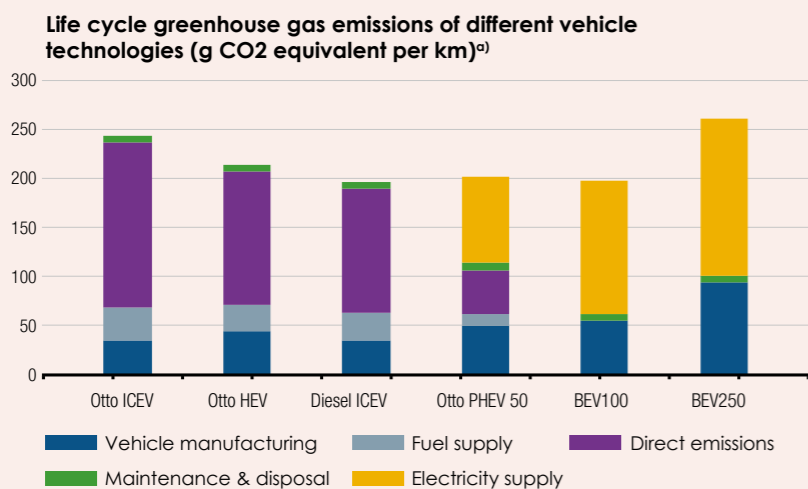
The balance is even worse when considering air pollutants. The reason for this is simple. In Germany, coal-powered plants account for a relatively high share of electric-energy production. The balance of “green” cars in countries such as China and the US, both heavily dependent on coal plants for electricity, is even grimmer. On the other hand, France and Switzerland look better owing to alternative sources of energy such as nuclear and hydro power. This situation will change once Germany succeeds in cranking up solar and wind-power production and build the necessary infrastructure. But that is still years away.

Some industry suppliers may disappear in the rear-view mirror

Betting on electric mobility is nothing for the faint-hearted given the high valuations of the sector. Holding on to traditional automotive stocks may also prove challenging. Alternatively, an investor may decide to cut losses by avoiding potential losers. While the big car companies may reinvent themselves as electric-car champions, midsized car-industry suppliers now heavily dependent on combustion engines may lose out. Among those, particularly producers of spark plugs, fuel supply, transmissions and motor gaskets may find it hard to wake up to the new reality.

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Chart 2: Ecological balance of electric cars in Germany average at best



a) Based upon today's conditions in Germany (lifetime mileage 168'000 km, German electricity generation fuel mix) ICEV :Combustion Engine; HEV: Hybrid Electric Vehicle; PHEV 50 : Plug-In Hybrid Electric Vehicle with 50km electrical range; BEV100/250 = Battery Electric Vehicle with 100/250 km range

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