Matrix was founded on one core principle – to do great work for our clients. We call it The Matrix Principle. This principle is based on the belief that our clients deserve to be advised by highly skilled, passionate, and independent investment bankers who have an intense desire to fully understand the client’s specific goals and work diligently to achieve them. After thirty years of building client relationships and advising on more than 300 engagements, we can truly say that our bankers have remained committed to, and guided by, The Matrix Principle.
Global Trends Can Affect Your Business, But Probably Not for a Very Long Time

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Global headlines have many scratching the heads at one end of the spectrum and absolutely panicking on the other end. And there is good reason. Think about these headlines:

“France to ban sales of petrol and diesel cars by 2040” – The Guardian
“UK plans to ban sale of new petrol and diesel cars by 2040” – The Financial Times
“China wants to ban gas and diesel cars” – CNN Money
“California Considers Following China with Combustion-Engine Car Ban” – Bloomberg News
“Volvo to Go all Electric Starting in 2019” – The Atlantic
“GM Is Going All Electric, Will Ditch Gas- and Diesel-Powered Cars” – NBC News

It would be easy to hit the panic button, and there is reason to be alert to the changing dynamics of the mobility sector. The pressure exerted by governments on the industry to reduce emissions – particularly carbon emissions – is extreme. In a recent paper published by the Fuels Institute - “Global Initiatives: Assessing Current and Future Global Initiatives on Fuels and Vehicles” – we take a close look at the trends driving change throughout the world.

This report, written by Tammy Klein of Future Fuel Strategies, is a comprehensive assessment of international, national, and local regulatory initiatives that seek to shape the future structure of the transportation sector. Here are some top level findings:

- Almost 60 countries have developed or will be developing biofuels programs, such as blend mandates and fiscal incentives.
- More than 40 countries have implemented or plan to implement mandatory GHG emission/fuel economy standards.
- More than 20 cities and/or countries have taken actions to ban or limit the use of internal combustion engines.
- At least 13 countries have programs to support zero emission vehicle markets.
- The vast majority of countries have mandated a reduction in the sulfur content of diesel fuels and implemented light duty vehicle emissions reduction programs.

The momentum is growing throughout the developed economies of the world. Combined with headlines like those above, many are asking – “What is going to happen in my markets?” But details are important and headlines alone cannot provide enough insight to put developments into perspective.

For example, both France and the U.K. seem to exempt hybrids from their bans – which means that internal combustion engines paired with a battery propulsion system and running on liquid fuels will remain viable even after implementation of the proposed programs. Further, these two markets combined do not wield much influence over the global auto market – they combined for less than 5% of global light duty vehicle sales in 2016. Plus, the 2040 time frame leaves a lot of room for policy evolution – how frequently will these countries change leadership in the next 23 years?
China, however, is another issue all together. In 2016, China accounted for more than 30% of global light duty vehicle sales. Should this country actually transition from internal combustion engines to electric drivetrains, the automobile manufacturing industry might be financially compelled to accelerate the production of EVs not just for China but for other markets as well. And, China has much greater influence over its market than do other countries and it is highly unlikely that China will experience regime change, meaning that we should pay careful attention to their efforts.

Events overseas are important to monitor. As the world’s countries consider how to address transport-related issues, they will look to other nations for examples of regulations that might work for their markets. NACS has a philosophy regarding global engagement – there are no unique issues, but at any given time nations are in different stages of an issue’s lifecycle.

The Fuels Institute looks at global regulatory initiatives and trends because they can be good indicators of where the market may be heading. It is clear from “Global Initiatives” that biofuels programs remain the most popular tool for nations to address their transport-related issues, but as these come under attack, governments are looking at alternatives. Clearly, not every initiative will address each issue – but as we prepare to welcome nearly 2 billion more people by 2040, the pressure to take action is mounting.

Of course, not all factors affect all markets equally. Population growth will not be consistent across the globe. Africa’s population is projected to double by 2050 while Europe may contract by nearly 5%. Will these population shifts have a major impact on where cars are sold? Will the distribution of light duty vehicle sales look different in 2050 compared with 2016? Will Africa be the growth market of the future, and if so, will the regulatory initiatives of more developed economies find homes within the African continent or will they evolve along more traditional lines of mobility?

These are factors that will help shape the future of the transportation market. In order to prepare for tomorrow, we have to look beyond our own walls. By understanding the motivations behind and implications of regulatory initiatives throughout the world, we are better able to anticipate what might happen tomorrow. But at the same time, panic may not be warranted – the U.S. market is different in terms of policy development (it is unlikely Washington would ban internal combustion engines without a dramatic shift in political sentiment) and the time it takes to turn over the market is lengthy.

Several months ago, I developed the following chart to demonstrate the anticipated pace of market conversion. The graph plots the fleet turnover percentage each year if every vehicle sold January 1, 2017, were equipped with something new (i.e., a blinking orange light on the dash). I share this to demonstrate that should the U.S. government announce a ban on internal combustion engines effective in 2040, (discounting the market share of legacy electric vehicles) it would take another seven years before non-ICE’s represented more than 50% of the market. So, if the 2040 target was announced this year (and assuming consistent enforcement and compliance), it would at least 25 years before 50% of the fleet stopped using liquid fuels. And I would argue that any such policy would likely exempt hybrids, which still use liquid fuels.
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The future will be shaped by the complex relationship between governments and markets. Governments can set targets and enforce mandates, but the market still has to evolve and that takes time. The pressures between market reality and government policy will continue to battle over the years and the possible outcome is far from certain. In order to prepare one’s business to take advantage of potential opportunities, it is critical to be aware of global trends, even when they seem so far removed from your daily operations. They are very likely to have a heavy influence over the structure of your markets in the future – but when that future arrives remains a significant matter of debate.

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is Executive Director of The Fuels Institute, a non-profit, independent think tank founded and managed by NACS, the association for convenience and fuel retailing. Drawing diverse stakeholders from the vehicle and fuels industries, the Institute encourages multi-industry collaboration and produces credible, independent analytical reports to better inform business leaders and policymakers about opportunities and challenges in the vehicles and fuels markets.